
The FROB concludes that the integration of Bankia and BMN is the most adequate strategy to optimise the recovery of State aid

Press release – 15 March 2017

- After taking note of all the studies and analyses performed in order to prepare for its future divestment process, **the FROB agreed that the merger of Bankia and Banco Mare Nostrum (BMN) is the best strategy to optimise the recovery of State aid.**
- This conclusion was thereby notified to these entities in order for them **to start their respective procedures to achieve this objective**, within the framework of the management and competences of their governing bodies and in strict compliance with the applicable national and EU regulations.

Background

At its meeting held on 28 September, in its reduced composition, the FROB resolved to implement the measures required to analyse the reorganisation of its investee credit institutions through the merger of Bankia and BMN, while at the same time exploring other possible alternatives to maximise their value and, therefore, optimise the capacity to recover State aid.

Two external advisers were hired to carry out this work. On 22 November, AFI, Consultores de las Administraciones Públicas, S.A., was awarded the contract to perform a general strategic analysis of the possible re-organisation of the two investee credit institutions and other possible divestment strategies.

On 19 January, Société Générale was awarded the contract as independent adviser to assess the existing market interest for BMN. The scope of this survey was to estimate the hypothetical value generated for the FROB from the divestment of its share in BMN, to compare it with a divestment strategy following the merger of companies, and to ultimately adopt the most suitable decision in terms of public interest.

At its meeting held on 8 March, in its reduced composition, the FROB's Governing Committee took note of Société Générale's conclusions once it had ended its work (see specific press release). The conclusions issued by Société Générale were used by AFI to perform its comparative analysis and to assess all the alternatives in order to ultimately recommend FROB the best strategy to optimise the recovery of State aid and to ensure a more efficient use of public resources.

Recommendation to the adviser on the most adequate divestment strategy.

In compliance with its mandated task, AFI performed a study of the different possible alternatives available to the FROB, within the legal framework applicable to its equity interests in credit institutions, in order to conclude which would be the most adequate strategy to optimise its capacity to recover State aid.

In particular, AFI performed the following work:

Firstly, a study of the FROB's capacity to recover aid through **the divestment of a single entity resulting from the merger of Bankia and BMN**. In this regard, AFI estimated the amount which would be obtained by FROB through the divestment of its equity interest in the entity resulting from the merger of Bankia and BMN, taking into account not only synergies and integration of operating costs, but other factors which might impact the value obtained by FROB for its equity interest, such as the discount applied to similar transactions due to the high volume of the equity interest to be divested.

Secondly, a study of the FROB's capacity to recover aid through the implementation of separate strategies for divesting **Bankia and BMN**. On this point, AFI considered the sale of Bankia through market placements and of BMN through a competitive auction process as viable divestment alternatives.

To assess the sale of Bankia, AFI took the average listing of recent months as a reference. For the individual divestment of BMN, to ensure a more objective process, the FROB hired Société Générale to assess market interest in the entity. The outcome of this study, specifically notified by FROB today (see press release) was used by AFI to complete its analysis.

Conclusion of the study

Lastly, AFI performed a comparative analysis in order to identify the best strategy to optimise the recovery of aid and ensure a more efficient use of public resources and on which to centre its conclusions and final recommendation. On the basis of all the studies performed, the expert considers that the best strategy to optimise the recovery of aid and ensure a more efficient use of public resources would be the initial integration of BMN into Bankia and the subsequent divestment through the placement on the market of shareholder packages at the most favourable moments, during the time period remaining until the current time limit (December 2019) is reached.

AFI's final recommendation is based mainly on quantitative considerations. In line with this quantitative analysis, **FROB's would achieve a higher value of 401 million euros, from integrating BMN and Bankia than from the respective individual sales of each company, which implies that the strategy of integration significantly increases value with regard to its alternative of selling individually..**

AFI's analysis also provided certain qualitative considerations such as, for example, that the operation would generate significant synergies that may be capitalised by the FROB in the part

corresponding to its equity interest, or the high geographical complementarity of the entities that would lead to an absence of distortions to competition.

FROB Governing Committee agreement

After taking note of all the work described above and acknowledging that FROB's technical services consider that conclusions reached are reasonable and adequately based, the FROB's Governing Committee, in its reduced composition, in its meeting held yesterday, agreed that the reorganisation of its investee credit institutions, through **the merger of Bankia and BMN, is the best strategy to comply with its mandate to optimise the recovery of State aid in its future divestment process.**

Likewise, the FROB notified this agreement to the entities in order for them to start their respective the procedures to achieve this objective, **within the framework of the management and competences of their governing bodies and in strict compliance with the applicable national and EU regulations.**