2018 PILLAR 3 DISCLOSURES REPORT

BFA TENEDORA DE ACCIONES S.A.U.

Institution: BFA Tenedora de Acciones, S.A.U.
Scope: BFA Group
Unit in charge: Corporate Risks Department
Report compliance and review: Global Risk Management Department
Date of approval by the Board of Directors: 04/25/2019

This document is a translation of an original text in Spanish. In case of any discrepancy between the English and the Spanish version, the Spanish version will prevail.

INDEX

INDEX OF TABLES

The amounts included in the tables in this report are presented, in a generalized manner, in millions of euros, so that all figures have been rounded. For this reason, the totals of certain tables may not coincide exactly with the arithmetic sum of the figures that precede them.

01.
INTRODUCTION AND GENERAL PROVISIONS

CHAPTER 1. INTRODUCTION AND GENERAL PROVISIONS

1.1 Executive summary

Last year witnessed the successful completion of the integration process with Banco Mare Nostrum (BMN) and the launch of the Group's Strategic Plan for the 2018-2020 horizon. The new Strategic Plan seeks to increase the Group's earnings by driving sales and commercial activity, while continuing to improve the quality of the balance sheet and ultimately paying more to shareholders.

The successful completion in record time of the merger with BMN has allowed the Bank to unlock value from two of the main drivers on which the Group's Strategic Plan is based, namely the potential for generating synergies and improving the Group's efficiency, meaning the cost-to-income ratio.

The Group has now unified its systems and commercial practices and reorganised the businesses and services for which Bankia and BMN had different agreements in effect. As a result, all customers from the BMN network can now enjoy all the advantages of being a Bankia customer and the process has also improved the quality of the service provided and with it the level of customer satisfaction.

The other two cornerstones of the Group's Strategic Plan ––increasing revenue through heavy sales of value-added products and making further efforts to reduce its non-productive assets–– have also had a notable impact on the Group's activity and performance in the period.

Non-performing loans (NPLs) were down 30.7% from the end of December 2018, while the NPL ratio shed 2.4 percentage points to reach 6.5% at the end of December 2018 (8.9% at December 2017). This positive performance is a direct product of the medium-low global risk profile the Group aims to achieve and then maintain. It is also down to the high quality of its assets and its ongoing efforts over recent years to entrench a risk culture across the Group, leading to lower NPL inflows, improved management of recoveries and recurring sales of non-performing asset portfolios. Highlights here included the agreement to sell a portfolio of assets to the Lone Star fund. The deal is slated for completion in the second quarter of 2019, whereupon the assets in question will be removed from the balance sheet. At 31 December 2018, this portfolio was recognised under "Non-Current assets and disposable groups classified as held for sale".

Profit in 2018 totalled EUR 521 million, up 22.6% on 2017. The increase was driven by the full integration of BMN's business, as well as the initial post-merger cost savings and the absence of the one-off staff costs incurred in 2017 arising from the integration. Also contributing positively was the 8.1% fall in operating costs (administrative expenses and depreciation and amortisation) in the year, thanks to the initial cost synergies unlocked from the merger with BMN and the efficiency measures implemented by the Group.

The Group maintained an organic capital generation model throughout 2018, enabling it to absorb negative regulatory impacts as and when they arise and other effects relating to the supervision of credit institutions, while also affording it levels of regulatory capital that are comfortably clear of the minimum levels required by regulators and supervisors. This has ultimately allowed the Group to pay out recurring and sustainable remuneration to Bankia shareholders in the form of a dividend.

This document provides exhaustive information on capital and risk management, as per the principles set out in the Entity's risk appetite framework. Information is at 31 December 2018 and the aim thereof is to offer transparent disclosures to agents in the market, in compliance with the reporting requirements established in banking regulations.

The information contained in this report must be read alongside other material information presented by the BFA Group in its consolidated financial statements (available on the Group's website).

Table 1. Relevant information of the Consolidated Annual Accounts of the Group

Amounts in millions of € and %

Indicator	2018	2017	Change
Common Equity Tier 1 – CET 1 %	13.43%	13.93%	(0.50) pp
Common Equity Tier 1 – CET 1	11,184	12,128	-7.78%
Total capital, %	16.43%	16.40%	+0.03 pp
Total capital	13,681	14,277	-4.17%
Risk-weighted assets	83,246	87,065	-4.39%
Of which, credit risk-weighted assets	*75,639*	*78,822*	-4.04%
Of which, market risk-weighted assets	*1,579*	*1,608*	-1.80%
Of which, operational risk-weighted assets	*6,028*	*6,635*	-9.15%
Leverage ratio	5.56%	5.73%	(0.17) pp
Profit for the year	521	425	22.59%
Profit attributable to Group	*250*	*282*	-11.35%
Profit attributable to minority interests	*271*	*143*	89.51%
Efficiency ratio [1]	55.5%	65.8%	(10.3) pp
ROE [2]	2.7%	3.1%	(0.4) pp
NPL ratio	6.5%	8.9%	(2.4) pp
Coverage ratio	54.7%	51.0%	+3.7 pp
LCR	174.00%	177.00%	(3.0) pp

1.2 Entity

Banco Financiero y de Ahorros, S.A. ("BFA") was incorporated on 3 December 2010 as the parent of an economic and consolidable group of credit institutions. This status derived from the signing in 2010 of an Integration Agreement to create a Contractual Group configured as an Institutional Protection Scheme (IPS) comprising the following savings banks: Caja de Ahorros y Monte de Piedad de Madrid, Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), Caja Insular de Ahorros de Canarias, Caja de Ahorros y Monte de Piedad de Ávila, Caixa d'Estalvis Laietana, Caja de Ahorros y Monte de Piedad de Segovia and Caja de Ahorros de la Rioja (jointly referred to as "the Savings Banks").

In this context, on 3 December 2010, BFA was incorporated as the Central Company of the IPS and parent of the Banco Financiero y de Ahorros Group ("the BFA Group" or "the Group"), comprising the Savings Banks and their subsidiaries.

BFA is the parent of the BFA Group, which includes Bankia, S.A. ("Bankia", "the Company" or "the Entity") and its subsidiaries. At 31 December 2018, the scope of consolidation encompasses 66 subsidiaries, associates and jointly controlled entities carrying out a variety of activities including insurance, asset management, lending, and real estate asset services, development and management.

BFA and Bankia have signed several contracts and agreements including the Service-level Agreement enabling BFA to properly manage its activity using Bankia's human and material resources to prevent duplications.

On 23 December 2014, the Bank of Spain notified BFA that it had approved its request to cease operating as a credit institution, effective from January 2015, which had been submitted pursuant to the commitments assumed by the Entity in its Restructuring Plan.

On 28 January 2015, BFA filed the deed amending its Bylaws to adopt the name BFA Tenedora de Acciones, S.A.U. For statistical reporting purposes, the Company received notification in April 2016 of its classification within the general government sector, since it acts as a public holding and not a financial institution.

BFA is Bankia's main shareholder. At 31 December 2018, BFA held 61.38% of the Entity's share capital (61.98%, considering the effect of treasury stock). Bankia's main shareholders are as follows, by investor type:

MAIN SHAREHOLDERS BY INVESTOR TYPE

The BFA Group is subject to the disclosure requirements for information of prudential relevance under article 13 of the CRR. At 31 December 2018, the contribution made by BFA and its direct investees to the Group's total risk-weighted assets was 1.04%.

On 28 November 2012, the BFA-Bankia Group received approval by the European Commission, the Bank of Spain and the FROB for the Entity's 2012-2017 Restructuring Plan (the "Restructuring Plan").

The amount of public assistance required by the BFA Group in the Restructuring Plan was finally estimated at 17,959 million euros.

By year-end 2017, the Group had completed implementation of the measures and commitments contemplated in its 2012-2017 Restructuring Plan, as approved by the European Commission, the Bank of Spain and the FROB.

Royal Decree-Law 4/2016, of 2 December, on urgent financial measures, extended the period for the Spanish Fund for Orderly Bank Restructuring (known as the FROB) to dispose of its stake in Bankia from five to seven years. It also provided for the possibility of further extensions subject to approval by the Council of Ministers. On 21 December 2018, the Council of Ministers approved a further two-year extension to the disinvestment period and resulting privatisation of Bankia (through to December 2021) to help ensure the most efficient use of public funds.

Merger by absorption of BMN by Bankia

The merger of BMN with Bankia was ratified at the Extraordinary General Meetings of Bankia and BMN on 14 September 2017. The approved transaction structure implied the wind-up of BMN, without its going into liquidation, and the transfer en bulk of all of its assets and liabilities to Bankia, which would acquire, by universal succession, all of the assets, liabilities, rights and obligations of BMN, all of which on the terms and conditions of the Draft Merger Terms agreed by the directors of Bankia and BMN on 26 June 2017. To this end, in keeping with the provisions of Spanish Law 3/2009 (of 3 April 2009) regarding structural modifications to enterprises ("the Structural Modifications Act") and other applicable regulations, the following resolutions, among others, were ratified:

- Designation of the separate balance sheet of Bankia at 31 December 2016, forming part of the 2016 financial statements authorised for issue by the Board of Directors of Bankia on 9 February 2017 (duly verified by Ernst & Young, S.L., Bankia's financial statement auditor, on 10 February 2017, and approved at Bankia's Annual General Meeting on 24 March 2017), as the merger balance sheet for the purposes of the Merger.

- Ratification of the Draft Merger Terms in their entirety and without any modification whatsoever, which are deemed fully reproduced for all intents and purposes. According to article 32 of Act 3/2009, the Merger Project is available in the corporate web page (www.bankia.com) since 27 June 2017.

- Approval of the merger deeds in keeping with article 40 Law 3/2009 and article 228 Law 3/2009 of the Companies Register Regulations.

- Bankia committed to undertake a share issue of the size needed to facilitate the share exchange with BMN, specifically to issue the required number of new ordinary shares, each with a par value of EUR one and each of the same class and series as those currently outstanding, represented via the book entry method, subscription of which would be reserved to the holders of shares of BMN, such that there would not be, as provided for in article 304.2 of the Corporate Enterprises Act, pre-emptive subscription rights. Pursuant to the terms of article 26 Law 3/2009, neither the BMN shares that Bankia holds nor the shares held by BMN as treasury stock, if any, would be exchanged; instead these shares would be cancelled.

- Following: (i) ratification of the Merger at the General Meetings of Bankia and BMN; (ii) presentation of the equivalent documentation referred to in Articles 26.1.d) and 41.1.c) of Spanish Royal Decree 1310/2005 (of 4 November 2005); (iii) satisfaction of the conditions precedent; (iv) the placing of the deeds to the merger and the corresponding share issue by Bankia on public record before a notary; and (v) registration of the merger deeds in the Companies Register of Valencia, the shares of BMN would be exchanged for shares of Bankia, as from the date indicated in the notices to be duly published in keeping with application regulations.

- The date from which the transactions of BMN would be deemed undertaken by Bankia for accounting purposes would be that resulting from application of the General Accounting Plan enacted by Spanish Royal Decree 1514/2007 (of 16 November), specifically standard 19th thereof, as well as International Financial Reporting Standard 3, specifically paragraphs 8 and 9, the two standards being consistent in this respect.

- In keeping with these standards, the Merger date for accounting purposes would be the date on which, the Merger having been approved at the General Meetings of Bankia and BMN, the last of the government permits to which effectiveness of the Merger was subject was granted, this being the date on which it is considered that the transferee takes control of the transferor. The idea was to then align that date with a monthly accounting close for convenience; this implied that if the final government permits were obtained before 31 December 2017, the designated date of acquisition for accounting purposes would be the last day of the immediately preceding month, i.e., 30 November 2017.

- Approval to have the Merger avail of the special tax regime provided for in Chapter VII of Title VII and additional provision two of Spain's Corporate Income Tax Act (Law 27/2014, of 27 November 2014).

The conditions precedent discharged, Bankia took effective control of BMN on 28 December 2017.

Having placed the merger deeds on public record before a notary, issued the corresponding new Bankia shares and registered the merger deeds with the Companies Register of Valencia, the newly issued Bankia shares were admitted to trading on 12 January 2018 and delivered to BMN's shareholders, in keeping with the exchange ratio determined on the basis of the real value of the two companies' social equity, i.e., 1 ordinary Bankia share, with a par value of EUR 1, for every 7.82987 ordinary shares of BMN, similarly with a unit par value of EUR one, such that 205,630,814 new-issue Bankia shares were exchanged for 1,610,062,544 BMN shares. Note that subscription for the new-issue Bankia shares was restricted to BMN shareholders, implicitly valuing BMN at EUR 825 million, which is equivalent to the fair value of the shares issued by Bankia; there were no pre-emptive subscription rights, in keeping with the provisions of article 304.2 of Spain's Corporate Enterprises Act.

As a result of the merger, the shares of BMN cancelled.

In addition, as provided in the last of the resolutions ratified, the Spanish tax authorities were duly notified of the Merger in the manner and within the deadline prescribed.

The transaction outlined above has been recognised as a business combination, in keeping with IFRS 3. Given that Bankia, S.A. is the acquirer, the pre-existing carrying amounts of its assets and liabilities have not changed; rather the acquisition method was applied to the business of BMN.

The date on which Bankia took effective control of BMN was 28 December 2017. For accounting purposes, the date from which BMN transactions are deemed to performed by Bankia is 1 December 2017 ('designated' acquisition date). The impact on equity and earnings of using the designated acquisition date rather than the date of effective control is immaterial.

Bankia engaged an independent expert to determine the fair value of the assets and liabilities of BMN as of 1 December 2017 (for the purposes of the purchase price allocation or PPA).

Below is the breakdown of the provisional fair values of the identifiable BMN assets acquired and liabilities assumed, measured in accordance with the rules applicable to business combinations as at 1 December 2017:

Table 2. Merger's Balance sheet 1/12/2017

EUR million

Merger Balance sheet [1]	Initial measurement	Adjustments	Fair value
Cash and cash balances at central banks	634	-	634
Financial assets held for trading	47	-	47
Available-for-sale financial assets	9,780	-47	9,733
Loans and receivables	21,698	-309	21,389
Derivatives – Hedge accounting	123	-	123
Investments in joint ventures and associates	38	-	38
Tangible assets	1,080	-311	769
Intangible assets	147	-147	-
Tax assets	2,390	356	2,746
Other assets	162	-36	126
Non-current assets and disposal groups classified as held for sale	1,567	-245	1,322
TOTAL ASSETS	**37,666**	**-739**	**36,927**
Financial liabilities held for trading	51	-	51
Financial liabilities at amortised cost	35,070	74	35,144
Derivatives – Hedge accounting	105	-	105
Provisions	61	387	448
Tax liabilities	136	-1	135
Other liabilities	212	-	212
Liabilities included in disposal groups classified as held for sale	7	-	7
TOTAL LIABILITIES	**35,642**	**460**	**36,102**
TOTAL EQUITY	**2,024**	**-1,199**	**825**
Consideration paid			**825**
Difference			**-**

The main differences between the carrying amounts of the assets and liabilities and their fair values are described next:

- The fair value of the "Loans and receivables" portfolio was determined by applying expected loss percentages, in turn determined basically as a function of the characteristics of the financing granted, the current status of the loans and the associated collateral.
- The Group estimated the fair value of the listed debt instruments classified under "Available-for-sale financial assets" and "Financial liabilities at amortised cost" in the balance sheet using the securities' quoted prices (refer to note 2.2 to the Group's consolidated financial statements), factoring in the own securities held in the case of issued debt securities.
- The fair value of the portfolio of real estate assets was obtained on the basis of the uses foreseen for the assets, appraisals performed by appraisal companies officially registered with the Bank Spain, the properties' locations, estimated costs to sell, etc., and are recognised under "Tangible assets – Property, plant and equipment", "Non-current assets and disposal groups classified as held for sale" and "Tangible assets – Investment property".
- The remaining tangible and intangible assets were measured considering their expected use and useful lives.

- To estimate the fair values of the portfolio of unlisted equity investments, a range of generally accepted valuations methods were used, such as the estimated sale value, discounted cash flow analysis, etc.

- In addition, the Group has recognised provisions were also recognised for certain contingencies, based on the estimate of the expected outflow to reflect the estimated outflow of resources, of uncertain timing, as a result mainly of legal proceedings, renegotiations and/ or the cancellation of market and service provision agreements.

- Lastly, the tax assets deemed recoverable have been recognised.

The absorbed group's contribution from 1 December 2017 to the 2017 consolidated income statement was negligible. However, the merger process described must be considered when comparing the consolidated income statement, statement of recognised income and expenses, statement of changes in equity and statement of cash flows for 2018 with those of 2017, presented solely and exclusively for purposes of comparison (see Note 1.5 to the Group's consolidated financial statements).

In keeping with IFRS 3, the acquirer has a measurement period of no more than one year from the acquisition date during which it can restate, retrospectively, as warranted, the provisional amounts recognised and can recognise additional amounts of assets and liabilities in order to reflect new information obtained about the facts and circumstances that existed as at the acquisition date. In 1 December 2018 ended the measurement period, after that period no material changes have been identified.

Other transactions

In 2018, the Group derecognised its stake of 19.76% in Banco Europeo de Finanzas, S.A., identified as a business combination and classified as a non-current asset held for sale. The derecognition had no significant impact on the Group's equity.

In April 2018, Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser") modified the composition of its board by appointing an additional director representing Bankia. The Bank is now one of the companies with the largest number of representatives sitting on the board and this company now qualifies as an associate from that date onward and is accounted for using the equity method. The inclusion of the stake in the Group's scope of consolidation has not had a significant impact on the Group's equity (see Note 14.2 and Note 28 to the Group's Consolidated Financial Statements).

In May 2018, Bankia S.A. announced the agreement reached with Crédit Agricole, through its Crédit Agricole Consumer Finance subsidiary, to set up a consumer lending joint venture in Spain. The new company, "CA CF – Bankia, S.A.", will be 51%-owned by Crédit Agricole Consumer Finance and 49% by Bankia. It was created in the second half of 2018 after receiving the go-ahead from the regulatory and supervisory authorities.

In 2018, Bankia, S.A. acquired 50% stakes in the Caja Granada Vida Compañía de Seguros Reaseguros, S.A., a Ahorro Andaluz, S.A., and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A., a Aviva Europe, SE insurance companies classified as associates at 31 December 2017, and reclassified them as a discontinued operation (see Note 18.5.2 to the Group's Consolidated Financial Statements and the Annex "Subsequent Events" of this document).

There were no significant changes in the Group's composition or scope of consolidation in 2018 other than those already described.

1.3 Market disclosure policy

Rule 59 on information of prudential relevance in Chapter 8: Market disclosure obligations of Bank of Spain Circular 2/2016, of 2 February, on the supervision and solvency of credit institutions, which completes the transposition into Spanish law of Directive 2013/36/EU and Regulation (EU) No 575/2013, establishes that, pursuant to Article 85 of Act 10/2014 and Article 93 of Royal Decree 84/2015, credit institutions or consolidable groups of credit institutions required to publish a Pillar III disclosures report, within the scope stipulated in Article 13 of Regulation (EU) No 575/2013, must submit the content of said report for verification by the institution's internal audit team or risk control units or by independent auditors or experts.

In accordance with the aforesaid, the Entity's policy on publishing Pillar 3 disclosures is as follows:

Disclosure frequency	The final and unabridged version of the Pillar 3 Disclosures Report is released each year. The report cannot be published after the date on which BFA's financial statements are approved. A quarterly summary is also published, with a view to adopting the EBA's guidelines on materiality, proprietary and confidentiality and on disclosure frequency as per Article 432.1 and 432.2 and Article 433 of Regulation (EU) No 575/2013, of 23 December 2014, adopted as its own by the Bank of Spain on 12 February 2015. Any restrictions that may apply to this information are discussed under section 2.1.11.
Location of disclosure	BFA and Bankia corporate websites http://www.bfatenedoradeacciones.com I www.bankia.com
Body responsible for approving document	Capital Committee Risk Advisory Committee BFA Board of Directors
Body responsible for verifying content	The content of the Pillar 3 disclosures report is reviewed by the serving statutory auditor appointed by the Entity. The revision of Pillar 3 has been carried out by Ernst and Young by following a set of procedures agreed upon with BFA's management.

It is worth highlighting that the Pillar 3 disclosures report is prepared using applications, systems and processes that form part of the Entity's daily operations, which are periodically reviewed and overseen by internal auditors and the supervisory authorities, which should be considered when assessing whether the information provided to market participants is appropriate and offers a complete insight into the Entity's risk profile.

In December 2016, the EBA published the final guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013, including the considerations on Pillar 3 requirements set out by the Basel Committee in January 2015 in its Revised Pillar 3 Disclosure Requirements document. The guidelines are an effort by the EBA to enhance and increase the consistency, transparency and comparability of institutions' regulatory disclosures, offering them advice on how to comply with the CRR and the Basel Committee's requirements, and applicable as from 31 December 2017.

This new framework has been implemented in three phases; the first two running throughout 2015 and 2017, respectively. The third phase was completed in December 2018, with the publication of the document titled "Disclosure requirements for Pillar 3 - updated framework". It sets out the new prudential disclosure requirements following the conclusion of the Basel III reform process.

The Annex titled "Disclosure Requirements" contains a list of standard disclosure templates recommended by various regulatory bodies. All templates that are not applicable to the Bank are reported as "N/A" (not applicable).

1.4 Certification by the governing bodies

The BFA Group's Board of Directors certifies that the 2018 Pillar 3 Disclosures Report 2018 has been published and released as per the principles set out in Part Eight of Regulation (EU) 575/2013, taking due account of the disclosure requirements contained in Part Eight of that regulation as published by the EBA, and that the information released to the market accurately and fully reflects its risk profile.

In addition, the Board of Directors states that as at the aforementioned reference date:

- The risk management systems put in place are adequate with regard to the Bank profile and strategy.
- The consolidated group maintains a level of capital that exceeds the minimum regulatory capital requirements.
- Its internal capital ratio is consistent with its business model, which is focused on retail banking.
- The level of internal capital is consistent with the target risk profile and risk appetite, covering all risks considered material.
- Capital projections reveal satisfactory levels and are clear of the regulatory (Pillar 1) and prudential (Pillar 2-R) minimums for both the baseline scenario and the adverse scenarios considered.
- The Group's capital management is adequately integrated within the organisation, with sturdy governance across and involving the entire organization.

02. GENERAL DISCLOSURE REQUIREMENTS

CHAPTER 2. GENERAL DISCLOSURE REQUIREMENTS

2.1 General requirements

2.1.1 Name or Company name of the reporting entity

BFA Tenedora de Acciones, S.A.U. (formerly Banco Financiero y de Ahorros, S.A.) is a body governed by private law that was initially incorporated as a credit institution. After ceasing to operate as a credit institution in January 2015, it now carries out the activities of a holding company. Its core activity is the acquisition, holding and disposition of all kinds of securities, including but not restricted to interests in other credit institutions, investment firms or insurance or insurance brokerage companies, to the extent permitted by prevailing legislation.

The most important solvency rules and regulations in force in Spain that are applicable to the BFA Group at consolidated level include:

- Directive 2013/36/EC (or CRD IV 36/2013) on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms;
- Regulation (EU) No 575/2013 (or CRR 575/2013) on prudential requirements for credit institutions and investment firms;
- Regulation (EU) 2016/445 of the European Central Bank for the harmonisation of regulations for credit institutions under its direct supervision,
- Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions and
- Bank of Spain Circulars 2/2014, 3/2014, 10/2014, 2/2016 and 3/2017, and the Royal Decree-Law 22/2018.

Bankia's business model focuses on commercial banking products and services, designed to meet the needs of its 7.8 million customers (individuals and companies) through a global network of 2,298 branches and digital channels. The Group has assets totalling 205,223 million euros and 171,793 million euros of funds under management on and off the balance sheet. The Group has 184,643 shareholders and a workforce of 15,925 employees.

2.1.2 Regulatory developments

The main amendments to current regulations affecting the prudential scope of consolidation are as follows.

Macroprudential tools

Royal Decree Law 22/2018 of 14 December, which transposes European legislation on tools for controlling macroprudential risks into Spanish legislation. The standard establishes new tools aimed at preventing potential systemic risks; those arising from a deterioration in the financial system that may cause a disturbance in the financial services markets that ends up undermining the real economy. It also included limits on sectoral concentration, along with conditions on the granting of loans and other exposures. In this respect, the Bank of Spain may require application of a countercyclical buffer for all of an entity's exposures or exposures in a specific sector.

Package of Basel III reforms

On 7 December 2017, the Basel Committee published a raft of reforms comprising the first phase of the Basel III reforms (known as Basel IV) announced in 2010 and entering into force in January 2022.

The objective is to standardise the calculation of Risk Weighted Assets (RWAs) by proposing restrictions on the inputs of internal models and ensuring their comparability among entities in relation to the application of internal models versus the standardised approach.

Its effective date is 1 January 2022. Capital floors will be phased in over a 5-year period, with the floor increasing from 50% on 1 January 2022 to 72.5% on 1 January 2027. The Committee also introduced an additional leverage ratio for global systemically important banks ("G-SIB").

The European Commission launched a consultation on this reform which ran until April 2018. It also requested advice from the EBA on the implementation of the Basel III framework, including an assessment of the potential impact of the reform on the banking sector and the EU’s economy.

Securitisation framework

In September 2015, the European Commission launched a set of measures aimed at driving the development of a European securitisation market. They resulted in a new securitisation regulation and amendments to the securitisation requirements of CRR 575/2013. Both were published in December 2017 and are effective from 1 January 2019.

The new regulation establishes a risk-adjusted treatment for simple, transparent and standardised (STS).

Throughout 2019, banks will continue to apply the current regime to securitisations carried out before 1 January 2019. They will apply the new regulatory framework to securitisations originated in 2019.

Financial stability and resolution measures

Furthermore, since 1 January 2016, the European Bank Recovery and Resolution Directive (Directive 2014/59/EU or BRRD) established a new eligible liabilities and capital requirement known as Minimum Required Eligible Liabilities (MREL) to ensure institution’s avail of liabilities capable of absorbing losses in case of a bail-in. The Group monitors regulatory developments in connection with this new ratio (the European Commission’s proposed BRRD review and modification proposal issued on 23 November 2016 is pending approval), and calculates and estimates the future requirement of eligible capital and liabilities capable of absorbing losses to comply with this ratio.

Since January 2018, the new system for calculating banks' contribution to the Single Resolution Board (SRB) has been applied, in place of the transitional system applied to date. The SRB and the various national resolution authorities have established the framework for determining the minimum requirement of eligible liabilities (MREL) and continue to develop European regulatory framework for resolution.

Further progress was made in 2018 in strengthening the SRM funding of the Single Resolution Fund, which is expected to be fully implemented by 2024. The share of SRB funding in the year was 33%, compared to 40% in 2017.

Treatment of non-performing exposures

At the end of 2018, the European Commission, Parliament and Council agreed to amend the CRR regarding the minimum loss coverage arising for non-performing exposures; this amendment is expected to become effective in 2019.

In addition, the European Banking Authority (EBA) published guidance on the management of NPLs, applicable from 30 June 2019, and on the disclosure of NPLs, applicable from 31 December 2019.

Finally, in March 2018, the European Central Bank published an addendum to its expectations for provisioning of non-performing exposures in the main institutions under its supervision. This is not a mandatory rule, but a basis on which to apply the European Central Bank's oversight of doubtful exposures.

2.1.3 Consolidable Group

As per Note 2.1.2 to the Group's consolidated financial statements, the financial statements of subsidiaries are fully consolidated. Subsidiaries are companies over which the Group has control. Control over an investee is understood as the exposure, or rights, to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of investor returns.

Consideration as subsidiaries requires:

- Power: An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities; i.e. the activities that significantly affect the investee's returns;

- Returns: An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or both positive and negative.

- Link between power and returns: An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

According to Article 18 of Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR), institutions shall only carry out a full prudential consolidation of institutions and financial institutions that are their subsidiaries or, where relevant, the subsidiaries of the same parent financial holding company or mixed parent financial holding company.

2.1.4 Differences between exposures for accounting purposes and for prudential purposes

Since not all the subsidiaries of the consolidable group are institutions or financial institutions, there are differences between the scope of full consolidation for financial accounting purposes and the scope of full consolidation for regulatory purposes. These differences arise in consolidated asset, liability and equity balances with an impact on the calculation of eligible capital and capital requirements. The table in Appendix I provides further information on the consolidation method used for each entity in the scopes of financial accounting consolidation and regulatory consolidation.

Table 3. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)

Million €	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash and cash balances at central banks and other demand deposits	4,754	4,753	4,753	0	0	0	0
Financial assets held for trading	6,308	6,308	0	6,308	0	6,308	0
Financial assets designated at fair value through profit or loss	9	9	9	0	0	0	0
Loans and receivables	15,636	15,636	15,575	0	61	0	0
Held-to-maturity investments	158,065	158,016	152,418	4,757	1,243	0	0
Derivatives - Hedge accounting	2,627	2,627	12	2,615	0	0	0
Investments in joint ventures and associates (*)	306	392	345	0	0	0	47
Tangible assets	2,190	2,190	2,230	0	0	0	0
Intangible assets	298	298	0	0	0	0	298
Tax assets	11,899	11,897	9,333	0	0	0	2,564
Other assets	1,649	1,636	818	0	0	0	819
Non-current assets and disposal groups classified as held for sale	3,927	3,575	3,416	0	0	0	159
TOTAL ASSETS	**207,667**	**207,337**	**188,909**	**13,679**	**1,304**	**6,308**	**3,886**
Financial liabilities held for trading	6,047	6,047				6,047	0
Financial liabilities measured at amortised cost	182,719	182,742		20,476	333		161,933
Derivatives - Hedge accounting	183	183					183
Provisions	2,070	2,068					2,068
Tax liabilities	663	663					663
Other liabilities	1,162	1,162					1,162
Liabilities included in disposal groups classified as held for sale	373	22					22
TOTAL LIABILITIES	**193,217**	**192,886**	**0**	**20,476**	**333**	**6,047**	**166,031**

(*) Mainly goodwill on consolidation not subject to capital requirements

A summary is provided below of the main sources of differences between the reserved consolidated financial statements' carrying values and the exposure amounts used for regulatory purposes (EAD):

Table 4. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

million €	TOTAL	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**210,201**	**188,909**	**13,679**	**1,304**	**6,308**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	26,856	0	20,476	333	6,047
Total net amount under the regulatory scope of consolidation	**237,057**	**188,909**	**34,155**	**1,637**	**12,355**
Prudential adjustments to trading book (netting, etc)	-12,355	0	0	0	-12,355
Off-balance-sheet amounts	14,958	14,958	0	0	0
Derivatives regulatory Addon	314	0	314	0	0
Difference in exposure of temporary transfers and acquisitions	-18,615	0	-18,615	0	0
Ineligibility of margin posted in cash (collateral provided)	-4,846	0	-4,846	0	0
Differences due to CRMs	-4,094	0	-4,094	0	0
Differences due to consideration of provisions	3,480	3,480	0	0	0
Differences due to application of standard security interests	-36	-36	0	0	0
Differences due to securitisations with significant transfer of risk	-1,063	0	0	-1,063	0
Exposure amounts considered for regulatory purposes (EAD)	**214,800**	**207,311**	**6,914**	**574**	**0**

2.1.5 Transfer of own funds between subsidiaries and their parent

Under Spanish legislation, the transfer of own funds or redemption of liabilities between subsidiaries or between subsidiaries and their parent are subject to strict compliance with company law, especially Royal Decree-Law 1/2010, of 2 July, enacting the consolidated text of the Corporate Enterprises Act, with regard to the requirement to keep reserves and reporting thereof.

Notwithstanding the aforesaid, in addition to accounting standards, fund transfers are subject to tax regulation on transfer pricing and compliance with prudential disclosure requirements affecting subsidiaries and parents according to their legal form and subject to the corresponding supervision.

Outside the jurisdiction of Spain, the constitutional principles and fundamental rules in force in the European Union will apply in the first instance; rules that are applicable regarding change of control; and, depending on the nature of the entities involved in the transfer of funds, regulatory rules depending on the origin of a subsidiary, its nature and possible applicability of specific prudential rules.

The aforesaid is reinforced by the following legislation:

- Royal Decree-Law 1/2010, of 2 July, approving the consolidated text of the Corporate Enterprises Act and subsequent amendments thereto.
- Ministerial Order EHA/3050/2004, of 15 December, on information regarding related-party transactions that must be supplied by the issuers of securities listed on secondary markets.

2.1.6 Identification of subsidiaries with own funds below required minimum

At 31 December 2018, there are no subsidiaries in the consolidable group with own funds below the minimum applicable regulatory requirements.

2.1.7 Exemptions from individual or consolidated own funds requirements

At 31 December 2018, there are no entities in the Group exempted of complying with the prudential requirements as per Article 19 of Regulation (EU) No 575/2013 (CRR).

2.1.8 Reconciliation between balance sheet items used to calculate own funds for accounting purposes and regulatory own funds

The key aspects to be considered in the reconciliation of the BFA Group's consolidated financial accounting information and the regulatory consolidation disclosures at 31 December 2018 are as follows:

- Differences in method of consolidation for subsidiaries due to the nature of their activity. Appendix I lists the financial and prudential consolidation methods applicable to the Group's subsidiaries.

- Difference in accounting treatment for subsidiaries treated as non-current assets held for sale. These include the stakes in Corporación Financiera Habana, S.A. and Residencial La Maimona, S.A., which fulfil the criteria to be classified as a "disposal group" at 31 December 2018, as disclosed in the note 18.5.3 to the Group's consolidated financial statements.

- Minority interests. Minority interests arising from non-financial holdings are not eligible as own funds in the scope of regulatory consolidation, while minority interests arising from financial holdings are eligible. The limit to its inclusion is calculated applying the minority interest's percentage to the part of eligible own funds of minority interests in each tier of capital exceeding the minimum requirements of the tier; the result of this calculation is not eligible for the parent. This excess is calculated based on the minority interests for regulatory purposes, which differ from those reported in the accounts, as they do not include other comprehensive income or, where applicable, interim profits.

A reconciliation of the amounts shown in the balance sheet for financial accounting purposes and those in the own funds and transitional provisions disclosure templates of the consolidated regulatory financial statements is provided below.

Table 5. Reconciliation of items in the public balance sheet and regulatory balance sheet

	Financial information	Regulatory regulation impact	Regulatory information
Common equity Tier 1 (CET1)	**14,449.8**	**-1,888.8**	**12,561.0**
Equity	1,918.4		1,918.4
Share Premium	417.0		417.0
Accumulated earnings	250.2		226.8
Accrual of interests from subsidiaries' AT1 instruments		-23.5	
Other comprehensive eligible and accumulated income	91.4		76.2
Actuarial gains or (-) losses on pension plans		-18.6	
Cash flow hedges and rest of prudential adjustments		3.4	
Other reserves	6,747.4		6,739.2
Accrual of interests from subsidiaries' AT1 instruments		23.5	
Prudential treasury stock attributable to minority interests		-9.8	
Deferred expense by SRB contribution		-21.8	
Minority interests	5,025.5		3,183.4
Differences on the consolidation method		0.4	
Other comprehensive income from minority interests		-57.4	
Expected dividend from Bankia to minority interests		-137.0	
Prudential treasury stock of Bankia attributable to minority interests		-6.0	
Non-financial minority interests		-2.3	
Surplus of computables over CET1 requirements		-1,639.8	
Deductions and prudential filters of Common Equity Tier 1	**11,592.6**	**-10,215.4**	**1,377.2**
Additional valuation adjustments (negative amount)		22.1	22.1
Intangible assets (*)	297.6	204.5	502.0
Deferred tax assets depend on future incomes	11,295.0		846.7
Differences on the consolidation method		-0.6	
Monetisable and not monetisable		-8,851.8	
Tax liabilities		-433.8	
Transitional arrangements		-1,162.1	
Negative amounts resulting from the expected loss calculation		0.8	0.8
Instruments that can be weighted 1.250%, if the Entity chooses the deduction		5.6	5.6
Additional Tier I Capital (AT1)	**1,250.0**	**-780.2**	**469.8**
Additional Tier 1 instruments issued by subsidiaries	1,250.0		0.0
Additional Tier 1 instruments issued by subsdiaries computable as Tier2		-1,250.0	
Surplus of computables over minority requirements computables in AT1		469.8	469.8
Tier 2 capital	**1,672.3**	**355.4**	**2,027.7**
Tier 2 capital instruments issued by subsidiaries	1,672.3		1,672.3
Additional Tier 1 instruments issued by subsidiaries computable as Tier2		1,250.0	1,250.0
Surplus of computables over minorities requirements computables in Tier2		-1,085.2	-1,085.2
Credit risk adjustments		190.7	190.7

(*) The impact of prudential regulations is due to the reclassification of goodwill of investees classified as investments in subsidiaries, joint ventures and associates or non-current assets held for sale

The financial information in the public balance sheet derives from the Group's consolidated financial statements, confidential information of the FINREP 6401 (F.01) while the regulatory information is from the COREP 3201 and 3204 (C.01 and C.04) of December 2018.

2.1.9 Characteristics of CET1, AT1 and T2 capital instruments issued by the Entity

At 31 December 2018, the BFA Group's parent had CET1 instruments outstanding in the form of shares, with no issues eligible for classification in the other regulatory capital categories.

The resolutions adopted on 12 September 2017 by the Sole Shareholder, ratified on 16 January 2018, to increase share capital via non-monetary contributions and amend the Bylaws accordingly were placed on file at the Madrid Mercantile Register on 2 February 2018. The amendment was as follows:

- Increase capital by a nominal 122,467 thousand euros via the issue of 1,224,670,108 new registered shares of the same class and series as existing shares, with 0.10 euros par value each, numbered consecutively from 17,959,000,001 to 19,183,670,108, inclusive, with a share premium of 0.340471723 euros per share, resulting in a total share premium of 416,965 thousand euros.

- The new shares were subscribed by the Company's sole shareholder, the FROB, which paid the full nominal amount and share premium through the non-monetary contribution to the Company of 134,013,851 newly issued ordinary shares of Bankia owned by the FROB and acquired in the exchange from the merger between Bankia (as absorbing company) and Banco Mare Nostrum, S.A. (as absorbed company), carried out in a public deed executed on 29 December 2017.

This capital increase, which has not affected the BFA Group's equity, has not been considered in the scope of regulatory consolidation as the permission required under Article 26.3 of CRR 575/2013 had not been obtained at the date the regulatory statements were issued. The ECB granted this permission on 9 March 2018.

Appendix II provides details of the CET1 instruments and those eligible as T2 capital, specifically the subordinated debt and convertible bonds issued by Bankia S.A. (BFA Group entity) and by BMN, which has merged with Bankia, S.A., as explained in point 1.1.

2.1.10 Nature and amount of prudential filters and deductions and waivers from application of deductions

- Prudential filters

At 31 December 2018, the prudential filters applied in the BFA Group as per Part Two, Title I, Chapter 2, Section 2 of Regulation (EU) No 575/2013 (CRR), primarily for prudential valuation adjustments, total -20.6 million euros (-45.5 million euros at 31 December 2017).

- Deductions

The deductions applied to CET1 as per Articles 36, 56 and 66 of Regulation (EU) No 575/2013 (CRR) at 31 December 2018 amount to 1,376.9 million euros, shown in the following table:

Table 6. Phase-in deductions, 2018

	million €
DEDUCTIONS	**2018**
Intangible assets	-206.7
Goodwill	-295.3
Deferred tax assets that rely on future profitability	-2,008.8
Expected loss on equity exposures	-0.8
Calendar adjustment	*1,162.1*
First-loss tranche of securitisations	-5.6
Other deductions	-21.8
Total deductions	**-1,376.9**

- Items not deducted as per Articles 47 and 49 of Regulation (EU) No 575/2013

At 31 December 2018, the Group has not excluded underwriting positions from the deduction stipulated in Article 36.1 (i) of Regulation (EU) No 575/2013, while the conditions for the temporary waiver from deductions established in Article 79 of Regulation (EU) No 575/2013 have not been met.

2.1.11 Restrictions on disclosure

At 31 December 2018, no prudential disclosures have been omitted or restricted and none are considered to be confidential as per Article 432 of Regulation (EU) No 575/2013 (CRR) or for any other reason.

2.1.12 Periodicity of the disclosure

The Group provides Pillar 3 disclosures on a quarterly basis, including the information laid down in articles 437 and 438 of European Regulation no. 575/2013 (CRR), and has not detected the need to increase this frequency.

2.1.13 Disclosure of capital ratios calculated using alternative criteria to that stipulated in Article 79 of Regulation (EU) No 575/2013 (CRR)

The Group has not published capital ratios prepared in accordance with regulations other than Regulation (EU) No 575/2013 (CRR). The Group includes its interim profits in the quarterly information it reports to the market.

2.2 Internal governance

BFA and Bankia have a Service Agreement that sets out and governs the services and activities Bankia provides and carries out mainly for BFA. The current Framework Agreement was signed between BFA and Bankia on 28 February 2014, superseding the Framework Agreement signed on 22 June 2011.

The Framework Agreement governs the relationship between BFA and Bankia and sets out the mechanisms needed to ensure the following, subject to legal limitations:

- Guarantee, at all times, an adequate level of coordination between Bankia and Banco Financiero y de Ahorros and its Group companies.

- Manage and minimise potential conflicts of interest between BFA and Bankia (especially when it comes to related-party transactions), while ensuring due respect for and protection of the interests of BFA and Bankia shareholders, within a framework of transparent relations between the two institutions.

For more information on the provision of services by each corporate department, please refer to the Framework Agreement available on the corporate website.

The content of this section refers to the processes Bankia uses for both its own and BFA's portfolios.

2.2.1 Organisation of the Entity

The Company's governing bodies are the general meeting of shareholders and the Board of Directors. Both are regulated in the bylaws, and their powers, duties and responsibilities are set out in the general meeting regulations and the regulations of the Board of Directors, respectively. The Bylaws, the General Meeting regulations and the Board of Directors regulations are all inspired by good corporate governance practices. The Regulations of the Board of Directors underwent two changes in 2018. The first amendment was made on 25 January following the filing at the Companies Registry of the instrument formalising the merger by absorption of Banco Mare Nostrum, S.A. by Bankia, S.A., thus bringing the merger process to a close and effectively removing the Final Provision of the Regulations of the Board of Directors governing the Monitoring and Supervision Committee for the Merger Process between Bankia and Banco Mare Nostrum.

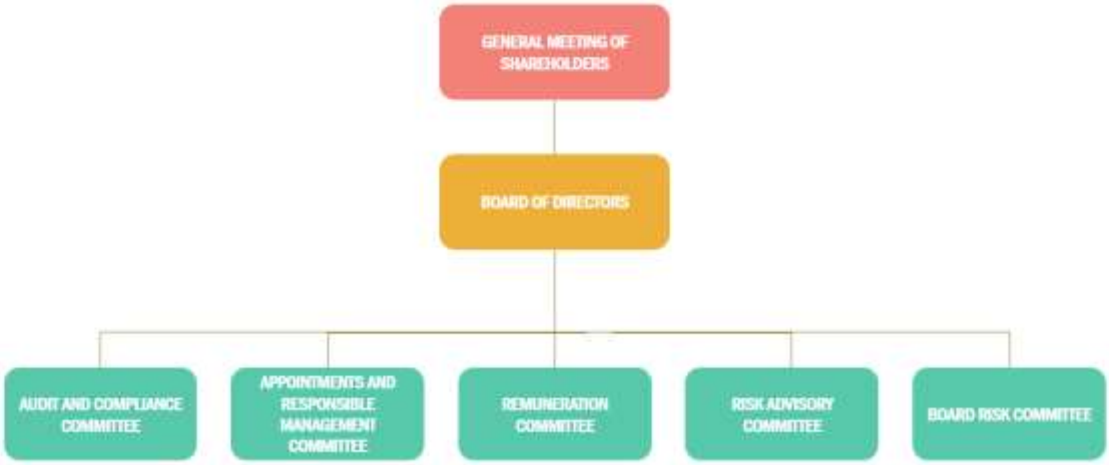
Meanwhile, the second modification became effective on 26 April 2018, amending article 14 on the Audit and Compliance Committee in order to include the recommendations and guidelines set out in Technical Guide 3/2017, of the Spanish National Securities Market Commission (CNMV) on audit committees at public interest entities. Accordingly, on the same date, the Board of Directors approved the Regulations of the Audit and Compliance Committee.

The information on internal governance contained in this document may be read in conjunction with Bankia's Annual Corporate Governance Report for 2018, which accompanies the consolidated financial statements and the "Selection, diversity, suitability, induction and training policy for directors, general managers and similar executives, and other key function holders of Bankia, S.A." This documentation is available on the corporate website.

2.2.2 Organisation and governing bodies

Organisation of Bankia's governing bodies:

Bankia's governing bodies



On 25 January 2018, and following completion of the merger process whereby Bankia, S.A. absorbed Banco Mare Nostrum, S.A., the Regulations of the Board of Directors were amended to remove the Final Provision regulating the Monitoring and Supervision Committee for the Merger Process between Bankia and Banco Mare Nostrum, thus effectively extinguishing that committee.

2.2.3 Functions and responsibilities, rules of organisation and operation

Following are descriptions of the composition, functions, responsibilities, and rules of organisation and operation of the Board of Directors and the board committees involved in risk management.

BOARD OF DIRECTORS

Composition of the Board of Directors

According to article 37 of the bylaws, the Board of Directors shall comprise a minimum of 5 and a maximum of 15 members. The general meeting sets the number of board members.

Directors serve for a term of four years and may be re-elected one or more times for periods of the same duration. To be appointed as a member of the board, it is not necessary to be a shareholder. However, once appointed, members of the Board of Directors must acquire, as appropriate, and retain a shareholding in the company.

Members of the Board of Directors of Bankia, S.A. must satisfy the requirements of banking regulation to be honourable persons suitable for exercise of that function. Supervening failure to satisfy those requirements will be grounds for removal of the director.

A resolution was adopted at the extraordinary general meeting of shareholders held on 14 September 2017 to set the number of board members at 12. It was also agreed to appoint Carlos Egea Krauel as new director, with the status of non-executive director. His appointment was to be effective from and subject to filing, at the Valencia Companies Registry, of the deed of merger by absorption of Banco Mare Nostrum S.A. by Bankia, S.A. and subject also to obtaining the pertinent regulatory clearance. The deed for merger was registered with the Valencia Companies Register on 8 January 2018. Mr Egea was subsequently appointed as an executive director.

To fill the vacancy on the Board left by the resignation of independent director Álvaro Rengifo Abbad, the Board of Directors resolved on 25 October 2018 to co-opt Laura González Molero to serve as independent director.

As a result, the Board of Directors comprised 12 members, of which eight were independent and four were executive directors.

Functions, responsibilities, powers and delegations of the Board of Directors

According to article 35 of Bankia's Bylaws, except for matters reserved to the competence of the general meeting, in accordance with the provisions of applicable legislation and the bylaws of the Company, the Board of Directors is the highest decision-making body of the Company. The foregoing is without prejudice to the delegated and other authority given carried out by the bylaws to the chairman of the Board of Directors.

The board will assume, without delegation, such authority as is legally reserved directly to it, and such other authority as may be necessary for responsible exercise of the general supervision function.

Without prejudice to delegations of authority made on an individual basis and its authority to establish board committees for specific areas of business, the Board of Directors may establish an Executive Committee, with general decision-making authority, and in any event will establish an Audit and Compliance Committee, an Appointments and Responsible Management Committee, a Remuneration Committee and a Risk Advisory Committee, these latter with authority only to report, advise and make proposals regarding the matters specified in the following articles, and a Board Risk Committee, with decision-making authority. Also in 2017, the Board of Directors created the Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum.

To date, there is no executive committee, with the Board of Directors assuming all powers reserved for it.

The board's policy is to delegate ordinary Company management in executive bodies and management team and to concentrate its activities on the general supervisory function and consideration of those matters that are of importance to the Company.

The board takes responsibility for providing the markets with timely, accurate and reliable information, particularly on ownership structure, substantial amendments to governance rules, trading in treasury shares and particularly significant related-party transactions.

The board will establish the dividend policy and present the corresponding proposed resolutions regarding allocation of profits and other forms of remuneration of shareholders to the general meeting of shareholders, and, if applicable, will order payment of interim dividends.

In particular, without prejudice to the powers recognised in the bylaws, the Board of Directors will have the following authority which may not be delegated:

a) The approval of the strategic or business plan, as well as the management objectives and annual budget, the investment and financing policy, the corporate social responsibility policy and the dividend policy, assuming responsibility for administration and management of the Company, approval of and overseeing the application of its strategic objectives, its risk strategy and its internal governance.

b) The determination of the general strategies and policies of the Company, in particular the determination of the tax strategy of the Company, the policy for control and management of risk, including tax risk, and supervision of the internal reporting and control systems, as well as ensuring the integrity of the accounting and financial reporting systems, including financial and operational control and compliance with applicable legislation.

c) The determination of the corporate governance policy for the Company and the group of which it is the controlling company; as well as regular supervision, control and periodic evaluation of the effectiveness of the corporate governance system and, if applicable, adoption of appropriate measures to correct deficiencies; organisation and functioning of the Board of Directors and, in particular, approval and modification of its own regulations.

d) The approval of the financial information that, by reason of its status as a listed company, the Company must publish periodically, as well as supervising the process of disclosure of information and the communications related to the Company.

e) The definition of the structure of the corporate group of which the Company is the controlling entity.

f) The approval of all kinds of investments and operations which, due to their high value or special characteristics, are strategic in nature or have high tax risk, unless their approval is the remit of the General Meeting.

g) Approval of the creation or acquisition of shareholdings in entities of purpose special or entities resident in countries or territories considered to be tax havens, and any other transactions or operations of a comparable nature the complexity of which might impair the transparency of the Company or its Group.

h) The approval, after obtaining a report from the Audit and Compliance Committee, of transactions entered by the Company or companies in its Group with directors, or with shareholders who, either individually or together with others, hold a significant interest, including shareholders represented on the Board of Directors of the company or of other companies in the same group or with persons related to them. The affected directors, or those representing or related to the affected shareholders, must refrain from participating in deliberation and voting on the resolution in question. Only transactions simultaneously having the three following characteristics are exempt from this approval:

1º they must be carried out under contracts whose terms are standardised and apply en masse to many customers,

2º they must be carried out at prices or rates which are established generally by the supplier of the good or service in question, and

3º their value must not exceed one percent of the Company's annual income.

i) The supervision of the actual operation of the committees created by it and of the actions of the delegated bodies as well as, when so envisaged by the law, of the officers appointed by it, in all cases including senior management.

j) The policy on treasury shares.

k) The call of the General Meeting of Shareholders and the preparation of the agenda and proposed agreements.

l) Decisions relating to directors' remuneration, in accordance with the provisions of the bylaws, and with the remuneration policy, where applicable as approved by the general meeting.

m) The authorisation or waiver of the obligations deriving from the duty of loyalty as provided by law.

n) The formulation of the annual accounts and their presentation to the general meeting.

o) Making any kind of report required by law to the Board of Directors, provided that the matter covered by the report is nondelegable.

p) The appointment and removal of the Chief Executive Officer of the Company, as well as the establishment of the terms of his contract.

q) The Appointment and removal of the executives reporting directly to the Board or any of its members, as well as the establishment of the basic terms of their contracts, including their remuneration, on a proposal from the chief executive of the society.

r) The powers the General Meeting has delegated to the Board of Directors, unless it had been expressly authorised by it to sub-delegate them.

The chairman of the Board of Directors will be the chief executive of the Company and will have the maximum authority necessary for exercise of that position, without prejudice to the authority, if any, given to the chief executive officer, having the following authority, in addition to the other authority granted in the bylaws and these regulations:

- to see to overall compliance with the bylaws and implementation of the resolutions of the General Meeting and the Board of Directors;
- to exercise top-level oversight of the Company and all its departments;
- to head the Company's management team, always in accordance with the decisions and criteria set by the General Meeting and Board of Directors within the scope of their respective authorities;
- together with the managing director, to handle matters related to ordinary management of the Company;
- to propose the appointment and removal of the Chief Executive Officer to the Board of Directors, after obtaining a report from the Appointments and Responsible Management Committee;
- to call and chair the meetings of the Board of Directors, setting the agenda and directing discussions and deliberations;
- to chair General Meetings of Shareholders;

- to ensure that directors receive sufficient information in advance to deliberate on the points of the agenda;
- to encourage debate and the active participation of the directors during meetings, safeguarding their right to freely choose their position and express their opinion; and
- any other functions that have been delegated to him.

The chairman, as the one responsible for efficient functioning of the Board of Directors, will prepare and submit to the Board of Directors the estimated planning of the matters of an ordinary and/or regular or recurring nature to be considered; he will be responsible for directing the board and the effectiveness of its functioning; he will see to it that sufficient time is given for discussion of strategic questions, and will order and revise refresher programmes for each director, when circumstances so advise. Also, the chairman will see to it that the directors receive sufficient information for the performance of their duties, with each, director being entitled to request such additional information and advice as may be required for performance of his duties, and to request that the Board of Directors be assisted by experts from outside the Company's departments, regarding such matters submitted to its consideration that by their special complexity or importance so require.

Rules or organisation and operation of the Board of Directors

The Board of Directors generally will meet once each month, following the estimated planning of matters of an ordinary and/or recurring nature to be considered. Each individual director may propose other points for the agenda, initially not contemplated. The foregoing must be understood to be without prejudice to the proposal or analysis of any other matter that should be submitted to consideration of the Board of Directors, apart from matters of an ordinary and/or recurring nature. In addition, it will meet as often as called by the chairman, on his own initiative or on request of an independent director. In the latter case, the chairman will call the extraordinary meeting within a maximum term of three business days after receipt of the request, to be held within the three following business days, including on the agenda items to be considered at the meeting.

When, exceptionally, by reason of urgency, the chairman wishes to submit decisions or resolutions not appearing on the agenda for approval of the Board of Directors, expressing prior consent of the majority of the present directors will be required, with that consent to be reflected in the minutes.

Agendas for meetings will clearly indicate those points in respect of which the Board of Directors must adopt a decision or resolution, so that the directors may, in advance, study or collect the information necessary for adoption thereof.

Directors may seek such additional information as they deem to be necessary regarding matters within the competence of the board. Information requests must be made to the chairman or secretary of the board.

There will be a quorum for the Board of Directors with the attendance, in person or by proxy, of at least a majority of its members. The Board of Directors will be understood to be validly constituted at the place stated in the call notice. The board also may validly meet without need of a call if the holding of the meeting is unanimously accepted by those present in person or by proxy.

The directors will do everything possible to attend meetings of the board. When they cannot do so in person, they will arrange to grant voting proxies to another member of the board, although non-executive directors may only grant a proxy to another director under applicable law. Proxies will be granted for the purpose of the board meeting to which they refer and, where possible, with instructions.

The Chairman will organise the debate, seeking and promoting participation of all directors in the deliberations of the body, ensuring their free adoption of positions and statement of opinions. Each board member has one vote.

Any person invited by the chairman may attend meetings of the board.

The minutes of the Board of Directors meeting will be prepared by the secretary of the board and, in his/her absence, by the assistant secretary, if any. In their absence, the minutes will be prepared by the person appointed by those in attendance as the secretary for the meeting. The minutes will be approved by the board itself, at the end of the meeting or at the immediately following meeting.

The chairman, chief executive officer and secretary of the board will be permanently authorised, jointly and severally, to arrange for attestation as public documents of the resolutions of the Board of Directors, all without prejudice to the express authorisations contemplated in the applicable regulations.

The Board of Directors held 15 meetings in 2018.

AUDIT AND COMPLIANCE COMMITTEE

Composition of the Audit and Compliance Committee

The Audit and Compliance Committee will be composed exclusively of non-executive directors, the majority independent, with a minimum of three and a maximum of five directors, all of the foregoing without prejudice to attendance, when so expressly resolved by the members of the committee, of other directors, including executive directors, senior managers and any employee.

The members of the Audit and Compliance Committee will be appointed by the Board of Directors considering the knowledge, aptitude and experience in accounting, auditing or in both areas of the directors and the tasks of the committee; the members of the committee, as a whole, must possess the relevant technical knowledge of the banking sector. The committee will be chaired by an independent director that, in addition, has knowledge, aptitude and experience in the field of accounting, auditing or risk management. The chairman of the committee must be replaced every four years, and may be re-elected after the term of one year elapses since he left office.

Bankia's Audit and Compliance Committee was composed of four independent directors in 2018.

Functions, responsibilities, powers and delegations of the Audit and Compliance Committee

On 26 April 2018, the Board of Directors agreed to amend article 14 of the Regulations of the Board of Directors governing the Audit and Compliance Committee, to include the specific recommendations and guidelines contained in the CNMV Technical Guide 3/2017 on Audit Committees at Public Interest Entities. The Regulations of the Audit and Compliance Committee were approved on that same date.

In accordance with article 14 of the Regulations of the Board of Directors and the Regulations of the Audit and Compliance Committee, the Audit and Compliance Committee has all the functions assigned to it under applicable law, without prejudice to any further functions that may be assigned to it by the Board of Directors. These functions include, without limitation, the basic responsibilities governed by Chapter III of the Committee's Regulations, most notably:

Supervision of financial and non-financial information

The committee's responsibilities in this area are as follows:

- Monitoring the process of preparation and presentation of the required financial information and presenting recommendations or proposals to the Board of Directors, aimed at safeguarding its integrity, and in particular.
- In relation to the foregoing, the Committee shall receive and analyse the relevant reports from the heads of the internal control units, and especially from internal audit, and shall reach conclusions as to the reliability of the system and propose possible improvements.
- Reviewing the Company's accounts, monitoring to compliance with legal requirements and proper application of generally accepted accounting principles, and reporting on proposed changes of accounting standards and principles suggested by management based on the internal audit reports, other expert reports and the analysis and opinion of the management, as well as information on the outcome of the financial audit process, although the Committee shall apply its own judgement in reaching its own conclusions. The Committee shall also assess in which cases it would be advisable or desirable to ask the statutory auditors to review some of the additional reports above and beyond the financial statements.
- In addition, and to ensure the fulfilment of this supervisory work the Committee will maintain meetings with management, internal audit, as a fluent communication with the statutory auditor.
- Reporting on proposed changes of accounting standards and principles suggested by management.
- Reporting in advance to the Board of Directors on the financial information which the Company must make public on a regular basis; paying particular attention to its clarity and its integrity.
- Reviewing the issue prospectuses and the periodic financial information, if any, that the board is required to provide to the markets and market supervisory bodies.
- Ensure that the financial information published on the Company´s website is kept up-to-date and coincides with the information prepared by the Company´s directors and published on the website on the CNMV.
- Continuously review, analyse and discuss any relevant non-financial information with Management, internal audit and the statutory auditor.

If, after the review carried out in its supervisory capacity, the Committee is not fully satisfied with any aspect of the financial information, it must convey its opinion to the Board of Directors.

Supervision of the internal control, regulatory compliance and risk management systems

The committee's responsibilities in this area are as follows:

- Supervising the effectiveness of the internal control system in respect of risks, regulatory compliance and risk management systems, financial and non-financial, based on the periodic reports submitted to it by the Company's managers and the conclusions reached in any tests carried out on those systems by the internal auditors or any other professional hired specifically for that purpose.

- Discussing significant weaknesses in the internal control system detected in the development of the audit with the auditor, all without compromising its independence. For such purposes, the committee if applicable may submit recommendations or proposals to the Board of Directors and the corresponding term for their monitoring.

- Verifying the appropriateness and integrity of internal control systems and reviewing the appointment and replacement of those responsible therefore.

- Periodically reviewing the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed

- Evaluate everything related to operational, technological and legal risks of the Company, independently of the powers that rest with the Risk Advisory Committee and other committees for supervising risks.

- Monitoring the performance of the regulatory compliance unit, the head of which will report directly to the committee on issues arising in the implementation of the annual work plan, and at the end of each financial year will submit an activities report.

- Establishing and supervising a mechanism that allows employees, on a confidential basis, to communicate potentially significant irregularities, specially financial and accounting, arising within the Company, promoting compliance with the Code of Ethics and Conduct approved by the Company, verifying the functioning of the Ethics and Conduct Committee within the scope of its authority, which committee will submit an activities report to the Audit and Compliance Committee at the end of each financial year.

  In discharging its function of supervising the mechanism for reporting irregularities and breaches, the Ethics and Conduct Committee shall report regularly to the Committee on the functioning of the channel and, in particular, on the number of reports and grievances received, including their origin, type, the results of the investigations and proposed responses. Once these aspects have been analysed, the Committee shall, if deemed necessary, propose appropriate action to improve its functioning and reduce the risk of further irregularities and breaches occurring down the line.

In particular, and when it comes to risk management systems, the Committee shall coordinate and maintain appropriate relations with the Advisory and Delegated Risk Committees.

Supervision of internal audit

The committee must safeguard the independence and effectiveness of the internal audit function based on the information it receives directly from the head of audit about any incidents that have arisen and the report of activities the head must submit to the committee at the end of each year.

In particular, the committee's responsibilities are to:

- Proposing the selection, appointment and removal of the head of internal audit functions.

- Ensure that internal audit staff have the right profile to preserve the unit's objectivity and independence, in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the recommendations of the CNMV's Good Governance Code of Listed Companies.

- Taking the principle of proportionality into account, review the internal audit unit's annual work plan, which must be approved by the board of directors, ensuring that due consideration is given to the main risk areas and that a clear division of responsibilities is established between the internal audit unit, on the one hand, and the risk management and control, management control, regulatory compliance units and the statutory audit, on the other.

- Monitor the internal audit unit's annual work plan, ensuring that:

    - The business's main risk areas identified in the plan, including the supervision of internal controls over the calculation of the alternative measures of performance (APMs) the Company uses in its periodic reports, are adequately covered in practice.

    - The unit works in a coordinated way with other assurance functions, such as risk management and control or regulatory compliance, as well as with the statutory auditor.

    - The resources initially assigned – human, technological and financial resources, including the engagement or use of experts for audits that require special qualifications – are sufficient and appropriate.

    - The head of internal audit has effective direct access to the commit.

    - All material changes to the work plan are properly reported to the committee.

    - The conclusions reached by internal audit are appropriate, any action plans are implemented as agreed and the committee receives timely information on their implementation.

    - Any disagreements with management are resolved or else are submitted to the consideration of the committee.

    - Periodic reports are received on the unit's activities, including presentations of the conclusions of its reports at the scheduled intervals and the preparation of reports in line with the annual work plan or in response to specific requests made or approved by the committee. Those conclusions must include both the weaknesses or irregularities detected and the plans for resolving them and the monitoring of their implementation.

    - An annual activities report is submitted, which must contain, at a minimum, a summary of the activities carried out and the reports issued during the year explaining any activities included in the annual plan that were not carried out and any activities carried out but not included in the plan, together with an inventory of the weaknesses, recommendations and action plans set out in the various reports.

- Submit to the board of directors, before the end of each year, a draft annual budget and annual resource plan for the internal audit directorate, for approval.

- Ensure that senior management takes the conclusions and recommendations of its reports into account. In particular, the internal audit function must respond to any requests for information it receives from the committee in the performance of its duties.

- Verifying that senior management is acting on the findings and recommendations in its reports. In particular, the internal audit function will respond to information requests received from the Committee in the exercise of its duties.

- Assess the functioning of the internal audit unit and the performance of its head, for which purpose the committee must gather the opinions of other specialised committees and senior executives. The conclusions of the assessment carried out by the committee must be reported to the head of internal audit and must be considered by the Company in determining the head's annual variable remuneration.

The committee's chairman may contact the head of the Company's internal audit unit at any time with requests for information on internal audit activities. Similarly, regardless of established organisational reporting relationships, the head of internal audit must maintain continuous functional contacts with the committee and its chairman. The committee must in any case oversee the performance of the internal audit unit.

Responsibilities in relation to the auditing of accounts

The Committee's main responsibilities in this area are as follows:

- Submitting to the Board of Directors proposals for selection, appointment, re-election and replacement of the auditor, taking responsibility for the process of selection, as well as the terms of its engagement.

    - In selecting the statutory auditor, the committee must take into consideration the scope of the audit, the auditor or audit firm's qualifications, experience and resources, the audit fees, the auditor's independence, the effectiveness and quality of the audit services to be provided, as well as any criteria laid down in Spanish and EU laws and regulations or in the internal procedures for the hiring of the statutory auditor.

    - The committee must weigh the various criteria appropriately. Remuneration should not be the decisive criterion and the committee should decide in advance which aspects are negotiable, discarding any offers that might be considered abnormal or disproportionate.

  In relation to the preceding point, the committee must define a statutory auditor selection procedure that specifies the criteria or parameters to be considered (the level of the fees not being the primary consideration), in relation to a sufficient number of auditors and audit firms invited to take part by the committee.

- Ensuring the independence of the external auditor in the performance of its duties and, to that end:

    - Request and obtain from the statutory auditor, each year, a statement of its independence from the Company and any entities directly or indirectly related to the Company, as well as detailed, individualized information on any additional services provided and the fees received by the auditor or persons or entities related to it from those entities, in accordance with auditing standards.

  - Annually, prior to the issue of the audit report, issuing a report stating an opinion as to whether the independence of the auditors of the accounts or audit companies has been compromised. This report in any event must contain a reasoned evaluation of the provision of each one of the additional services referred to in the preceding section that have been provided, taken individually and as a whole, other than the legal audit, as regards the scheme of independence of the auditors and regulations governing the activity of auditing accounts.
  - Conduct relations with the statutory auditor in order to receive information about any matters that might jeopardise the auditor's independence and assess the effectiveness of the safeguards put in place. Also, understand and assess, in aggregate, all the relationships between the Company and its related entities, on the one hand, and the statutory auditor and its network, on the other, that involve the provision of non-audit services or any other type of relationship.
  - Ensuring that the Company and the auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence.
  - Seeing to it that the remuneration of the external auditor for its work does not compromise its quality or independence; considering the rules on fees set out in auditing standards.
  - In the event of resignation of the external auditor, reviewing the underlying reasons.
  - Supervising that the Company reports any change of auditor as a material disclosure, accompanied by a statement regarding the existence of disagreements with the outgoing auditor and, if applicable, the substance thereof.
  - Establish internal sources, within the Company, to obtain relevant information on the independence of the statutory auditor, from financial management, other executive functions, internal audit, or other assurance functions such as regulatory compliance or risks, or external sources such as information supplied by the statutory auditor itself.
  - Seek explanations from the statutory auditor about the internal quality control system it has in place to safeguard its independence, as well as information on internal practices regarding the rotation of the audit partner and audit team and whether those practices comply with applicable Spanish and EU regulations in this respect.
  - Analyse any changes in the overall remuneration of the statutory auditor.

- Acting as a communications channel between the Board of Directors and the auditors (internal and external), evaluating the results of each audit and the responses of the management team to its recommendations and mediating in the event of disputes between the former and the latter regarding the principles and criteria applicable to the preparation of the financial statements. In particular, the Board will ensure that the external auditor at least annually has a meeting with the full Board of Directors to report to it on the work performed and the evolution of the accounting and risk situation of the Company.

- Once the audit has been completed, review with the statutory auditor any significant findings and the content of both the auditors' report and the additional report for the committee.

- To complete its supervisory tasks, the committee must perform a final assessment of the work done by the auditor and how it has contributed to the quality of the audit and the integrity of the financial information, including, among others parameters, the auditor's independence; its knowledge of the business; the frequency and quality of its communications; internal opinion about the auditor, both at corporate level and in each business unit and assurance area, including internal audit and regulatory compliance; the public results of the quality controls or inspections carried out by the ICAC (Institute of Accounting and Accounts Auditing) or other supervisors; and the auditor's transparency reports and any other information available.

  If, based on its assessment of the auditor, the committee believes that there are matters for concern or unresolved issues as to the quality of the audit, it should consider the possibility of reporting its concerns to the board of directors and, if the board so decides, notifying the supervisory authorities accordingly.

- Request the auditor regular information from the audit programme and its implementation, and verifying that senior management is acting on its recommendations.

- Supervising compliance with the audit contract, seeking to ensure that the opinion on the annual accounts and the principal content of the auditor's report are drafted clearly and accurately.

Communication between the auditor and the committee must comply with the obligations set out in auditing legislation and auditing standards and must not impair the auditor's independence or the effectiveness of the audit.

The committee's relations and communications with the statutory auditor must be fluid and continuous and should follow a plan of activities and an annual schedule of meetings, most of them without the presence of the Company's management, in which any matters that may affect the audit opinion or the auditor's independence should be discussed.

Responsibilities in relation to the General Meeting of Shareholders:

The committee must prepare a report on its activities which, in compliance with Recommendation 6 of the Code of Good Governance of Listed Companies, the Company must publish on its website sufficiently in advance of the Ordinary General Meeting for shareholders and other stakeholders to understand the work done by the committee during the period in question.

Other competences

- Examine and supervising compliance with these regulations, the Company's internal code of conduct for the securities markets, the manuals and procedures for prevention of money laundering and, in general, the Company's governance and compliance rules, and making the necessary proposals for improvement thereof.

- Supervise the shareholder and investor communications and relationships strategy, including small and medium-sized shareholders.

- Periodically evaluate the adequacy of the Company's corporate governance system in order for it to fulfil its mission of promoting the interests of society and, as applicable, taking account of the legitimate interests of stakeholder groups.

- Receive information and, if applicable, issue reports regarding measures disciplining members of the Board of Directors or senior management of the Company.

- Establishing and supervising the existence of a model for prevention and detection of crimes that may result in criminal liability of the Company.

- Any other functions entrusted to it or authorised by the Board.

- Inform the Board, prior to the adoption by it of the corresponding decisions, on related party transactions.

- Reporting to the board on the creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, as well as and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

- Reporting in advance to the Board of Directors on any matters within its remit envisaged by law, the bylaws and the board regulations.

- The Committee will be informed of any fundamental changes or corporate transactions the Company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, in particular, on the exchange ratio proposed.

Rules of organisation and operation of the Audit and Compliance Committee

The committee must meet as many times as it is convened by resolution of the committee itself or its chairman and no less than four times per year.

The members of the committee have an obligation to be properly informed and prepared for meetings.

Any members of the Company's management team or staff who are called upon to do so are obliged to attend the meetings of the committee and to cooperate with it and make available any information they may have at their disposal. The committee may also call upon the statutory auditor to attend, always in accordance with the provisions of these Regulations.

Besides the participation of all the committee's members in its meetings, when the members of the committee so decide and at the prior invitation of the chairman, other directors (including executive directors), senior managers and employees may attend, exclusively to address the Audit and Compliance Committee Regulations specific items on the agenda for which they have been called to attend, leaving the meeting before the deliberation and decision making on those matters begins.

The committee must always meet on the occasion of the publication of annual or interim financial information and in these cases, may request the presence of the internal auditor and, if it has issued any review report, the statutory auditor to provide input on any agenda item for which they have been invited to attend. At least part of these meetings with the internal or statutory auditor must take place without the management team being present, so that any specific issues arising from the audit reviews can be discussed exclusively with the auditor.

One of the committee's meetings must be used to assess the efficiency of the Company's governance rules and procedures and the extent of the Company's compliance with them and to prepare the information the board must approve and include in the annual public documentation.

At least twice a year, the committee must hold joint sessions with the risk advisory committee to discuss common concerns and any other matters that fall within the remit of both committees and so must be examined and supervised by both.

Committee will be validly held when a majority of the committee's members are present in person or by proxy. Resolutions will be adopted by absolute majority of the members present at the meeting in person or by proxy. In the event of a tie, the chairman will have a casting vote.

The members of the Committee may extend proxies to other members.

Bankia's Audit and Compliance Committee held 17 meetings in 2018.

RISK ADVISORY COMMITTEE

Composition of the Risk Advisory Committee

The Risk Advisory Committee was created pursuant to a Board of Directors' resolution dated 22 October 2014 in compliance with Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions.

The Risk Advisory Committee is governed by article 16 of the regulations of the Board of Directors.

The Risk Advisory Committee will be comprised of a minimum of 3 and a maximum of 5 directors, who may not be executive directors. The members of the Risk Advisory Committee must have the appropriate knowledge, ability and experience to fully understand and control the risk strategy and risk tolerance of the Company. At least one third of its members must be independent directors. In any event, the chairman of the committee will be an independent director.

Bankia's Risk Advisory Committee was composed of three independent directors in 2018.

Functions, responsibilities, powers and delegations of the Risk Advisory Committee

The Risk Advisory Committee will have the following functions:

- Advising the Board of Directors regarding overall risk exposure of the Company, current and future, and its strategy in this regard, and assisting it in overseeing the implementation of the strategy.

  Notwithstanding the foregoing, the Board of Directors will be responsible for the risks assumed by the Company.

- Ensuring that the pricing policy for assets and liabilities offered to customers takes full account of the business model and risk strategy of the Company. If it does not, the Risk Advisory Committee will present the Board of Directors with a plan for correction thereof.

- Determining, together with the Board of Directors, the nature, amount, format and frequency of reporting on risks that is to be received by the Risk Advisory Committee itself and the Board of Directors.

- Collaborating for the establishment of rational remuneration practices and policies. To that end, and without prejudice to the functions of the remuneration committee, the Risk Advisory Committee will monitor whether the incentives policy contemplated in the remuneration system takes account of risk, capital, liquidity and the probability and timing of profits.

- Submitting risk policies to the Board of Directors.

- Proposing the risk control and management policy of the Company and the Group to the Board of Directors, by way of the ICAAP (Internal capital adequacy assessment process), which, in particular, will identify:

    - The various kinds of risk, financial and nonfinancial (inter alia operating, technological, legal, social, environmental, political and reputation) to which the Company and the Group are exposed, including contingent liabilities and other off-balance-sheet risks within financial or economic risks.

    - The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.

    - The risk levels assumed by the Company.

    - The corrective measures to limit the impact of the identified risks, should they materialise.

- Referral to the Board of Directors of proposals for:

    - Approval of policies for assumption, management, control and reduction of risks to which the Company is or may be exposed, including those deriving from the macroeconomic environment as related to the status of the economic cycle.

    - Approval of the general internal control strategies and procedures, on the status of which it periodically will be advised.

    - Periodic reports of the results of verification and control functions undertaken by the Company's units.

- Undertaking periodic monitoring of the loan portfolio of the Company and the Group, with the purpose of proposing to the Board of Directors the control of the adaptation of the risk assumed to the established risk profile, with particular attention to the principal customers of the Company and the Group and the distribution of risks by business sector, geographical areas and types of risk.

- Periodically verifying evaluation systems, processes and methodologies and criteria for approval of transactions.

- Proposing to the Board of Directors the evaluation, monitoring and implementation of the instructions and recommendations of supervisory entities in the exercise of their authority and, if applicable, referring proposals of actions to be taken to the Board of Directors, without prejudice to following the instructions received.

- Verifying that the risk reporting processes of the Company are those appropriate for management of the risks assumed, and, if not, proposing such improvements as it deems to be necessary for correction thereof.

- Proposing to the Board of Directors the Company's scheme of Credit Risk Authority.

- Supervising the internal risk control and management function, the head of which will, at the end of each financial year, submit an activities report to the committee, and evaluating whether the risk unit has the processes, technical resources and human resources necessary for proper fulfilment of its functions in an independent manner, in accordance with the risk profile of the Company.

- In particular, the Risk Advisory Committee will supervise the functions of the risk unit in relation to:

    - Assurance of the good functioning of the risk control and management systems, in particular that all important risks affecting the Company are appropriately identified, managed and quantified.
    - Active participation in the elaboration of the risk strategy and in important decisions regarding the management thereof.
    - Seeing to it that the risk control and management systems adequately mitigate the risks within the context of the policy defined by the Board of Directors.

Rules of organisation and operation of the Risk Advisory Committee

There will be a quorum for the Risk Advisory Committee when the majority of the directors that are a part thereof are in attendance, in person or by proxy. It will adopt its resolutions by absolute majority of the members of the committee, present at the meeting in person or by proxy. In the event of a tie, the chairman will have a casting vote.

To perform its functions, the Risk Advisory Committee will have unhindered access to information about the Company's risk situation and, if necessary, to the risk management unit and specialised outside advice.

The director of the risk unit will be a senior manager, meeting the requirements set forth in the applicable regulations and in the performance of his/her duties, having direct access to the Board of Directors and the board and risk advisory committees, that director being removable in accordance with the provisions of applicable regulations.

Bank's Risk Advisory Committee held 37 meetings in 2018. It generally meets weekly, except during the week when the Board of Directors meets, unless expressly called.

To properly discharge its functions, each year the Risk Advisory Committee approves a set of reports and their frequency, as follows:

Recurring reports of the Risk Advisory Committee

Report	Frequency
Alignment of Objectives and Budget to the RAF and Variable Remuneration Policy	Annual
Asset Allocation	Annual
Model Governance Framework and Approval and Modification Protocol	Annual
Calibration of Parameters	Annual
Control of Compliance with RDA Principles (Risk Data Aggregation)	Annual
Scorecard for ECB Activities	Quarterly
Report on Modifications to the Manual of Credit Risk Powers	Half-yearly
Follow-up of Improvements Detected in the ILAAP	Half-yearly
Facilitation Tools. Annual Report	Annual
Report on Divestment Activity: Outstanding Debt and Portfolio Transactions	Annual
Report, Analysis and Linkage of Asset Allocation and RAF in the Budget	Annual
Report on Major Borrower Groups (Football Clubs and Media Outlets)	Annual
Risk Concentration Report	Quarterly
Report on Internal Risk Control	Half-yearly
Internal Capital Adequacy Assessment Process (ICAAP)	Annual
Report on Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) Assumptions/Scenarios	Annual
Pillar 3 Disclosures Report	Annual
Follow-up Report on Market Risk, Counterparty Risk and Collateral	Quarterly
Monitoring Report on Structural, Liquidity and Funding Risk	Quarterly
Monitoring Report on Operational and Technological Risk	Quarterly
Follow-up Report on Reputational Risk	Annual
Monitoring Report on the Credit Rating System	Half-yearly
Report on the Internal Control Framework: Control of Compliance with Credit Risk Policies	Half-yearly
Report on the Internal Control Framework: Follow-up Report on Credit Risk Policies	Half-yearly
Global Risk Report. Global Risk situation	Monthly
Follow-up Report on Recommendations: Internal and External Audit, Internal Validation, Internal Control, Bank of Spain and ECB	Half-yearly
Internal Validation Reports	Half-yearly
Sector reports: Hotels	Annual
Follow-up Report on the Strategy for Managing Non-productive Assets	Quarterly
Manual on Credit Risk Powers	Annual
Manual on Liquidity and Financing Risk Policies and Limits	Annual
Manual on Market Risk Policies relating to Trading Activity and Limits	Annual
Manual on Structural Risk Policies and Limits	Annual
Manual on Internal Validation Policies	Annual
Manual on Policies and Procedures for Managing Reputational Risk	Annual
Manual on Operational and Cybersecurity Risk Policies and Procedures	Annual
Manual on Technology and Cybersecurity Risk Policies and Procedures	Annual
Manual on Private Banking Risks - Manual on Risk Policies for Private Banking Portfolios	Annual
Manual on Liquidity and Financing Risk Policies	Annual
Manual on the Control and Management of Model Risk as part of Market Risk	Annual
Manual on Financial Instruments in Own Positions	Annual
Manual on Valuation Adjustments (VAs)	Annual
Facilitating Framework	Annual
Management Framework for Irregular Assets and NPL Strategy	Annual
Framework of Credit Risk Policies, Methods and Procedures. Credit Risk Policies	Annual
Capital Planning Framework and Policies	Annual
Framework/Statement on Risk Appetite and Tolerance and Manual on Risk Appetite and Tolerance Policies	Annual
Monitoring Levels, performance	Half-yearly
Other sector reports: Energy Portfolio subject to Special Regime	Annual
Other sector reports; Report on Foreign Motorways	Annual
2018 Plan - Credit Risk Department	Annual
Business Continuity Plan: Governance and Operational Model	Annual
CCR Planning for the following year	Annual
Internal Validation Planning	Annual
Credit Risk Policies in Market Activities and other Counterparty Risk Manuals	Annual
Manual on Market Risk Policies relating to Trading Activities	Annual

Internal Liquidity Adequacy Assessment Process (ILAAP)	Annual
Recovery Plan (preliminary version)	Annual
Recovery Plan (final)	Annual
Summary of adjustments to reports to be submitted under CCR	Annual
Monitoring of Risk Appetite, Capital Planning and Recovery Plan (RAFUR)	Quarterly
Monitoring of NPL Strategy	Quarterly
Monitoring of IRRBB implementation	Quarterly
Monitoring of Business Banking RAR	Half-yearly
Monitoring of Retail Banking RAR	Half-yearly
Portfolio Monitoring and Facilitation	Half-yearly
Credit Rating Systems	Annual

BOARD RISK COMMITTEE

Composition of the Board of Directors

As provided for in article 16 bis of the regulations of the Board of Directors, the Board Risk Committee will be made up of no fewer than three (3) and no more than seven (7) directors. The chairman of the committee will be a director appointed by the Company's Board of Directors.

Bankia's Board Risk Committee was composed of four members in 2018.

Functions, responsibilities, powers and delegations of the Board of Directors

The Board Risk Committee is the body responsible for approving risks within the authority delegated to it and for overseeing and administering the exercise of the authority delegated to lower-ranking bodies, all this without prejudice to the oversight authority vested by law in the Audit and Compliance Committee.

The Board Risk Committee will have operational authority and, therefore, may adopt the corresponding decisions within the scope of authority delegated by the board.

Specifically, the Board Risk Committee will have the following functions, among others:

- Make decisions within the scope of the authority delegated by the Board of Directors in risk matters specifically provided for in the board's current delegation resolution.
- Within its scope of authority, set the overall pre-classification limits for account holders or customer groups in relation to exposures by risk class.
- Report to the Board of Directors on risks that may affect the Company's capital adequacy, recurring results, operations or reputation.
- With respect to the approval of risk types other than credit risk, the authorities of the Board Risk Committee will be those delegated to it by the Board of Directors at any given time.

As body charged with overall risk management, the Board Risk Committee assesses reputational risk within its scope of action and decision-making.

Rules of organisation and operation of the Board Risk Committee

There will be a quorum for the Board Risk Committee when the majority of the directors that are a part thereof are in attendance, in person or by proxy.

The Board Risk Committee will adopt its resolutions by absolute majority of the members of the committee, present at the meeting in person or by proxy. In the event of a tie, the chairman will have a casting vote.

Bankia's Board Risk Committee held 35 meetings in 201.

To discharge its functions, on a regular basis, the Board Risk Committee receives the following information:

Recurring reports of the Board Risk Committee

Report	Frequency
Official Notification of Transactions with Major Borrowers Groups	Quarterly
Official Notification of new or renewed transactions for amounts over 30 million euros	Quarterly
Report on transactions arranged	Quarterly
Risk Limits of collateral for Guaranteed Funds	Annual
Risk Lines and Foreign Trade Framework for Financial Institutions	Annual
Framework for Authorisation for Project Finance for Energy Projects in the Special Regime	Annual
Review of Bank of Spain Country Risk classification	Annual

APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE

Composition of the Appointments and Responsible Management Committee

The Appointments and Responsible Management Committee will be composed of non-executive directors and a majority of independent directors, with a minimum of three and a maximum of five directors, all of the foregoing without prejudice to attendance, when so expressly resolved by the members of the committee, of other directors, including executive directors, senior managers and any employee.

The members of the Appointments and Responsible Management Committee will be appointed by the Board of Directors, based on the knowledge, ability and experience of the directors and the responsibilities of the committee. The committee will be chaired by an independent director appointed by the Board of Directors. The chairman of the committee must be replaced every four years, and may be re-elected one or more times for terms of the same length.

From 1 January to 20 December 2018, the Appointments and Responsible Management Committee was composed of three independent directors. On 20 December 2018, the Board of Directors agreed to appoint independent director Laura González Molero to the Appointments and Responsible Management Committee, thus bringing its membership to four directors, all falling within the category of independent director.

Functions, responsibilities, powers and delegations of the Appointments and Responsible Management Committee

The Appointments and Responsible Management Committee will have, inter alia, general authority for proposing and reporting on appointments and removals of directors and senior managers, and evaluating social, environmental, political and reputational risks of the Company, independently of the powers that rest with the Risk Advisory Committee and other committees for supervising risks. Other responsibilities include the review of the Company's corporate social responsibility policy, and coordinating the process for non-financial reporting and reporting on diversity.

In particular, without prejudice to other tasks assigned to it by the board, the Appointments and Responsible Management Committee will be responsible for:

- Assessing the skills, knowledge, ability, diversity and experience required for the Board of Directors and, therefore, defining the necessary functions and abilities for candidates wishing to cover each vacancy, and assessing the necessary time and dedication to carry out their duties in an effective manner, ensuring that the non-executive directors have sufficient time available for proper performance of their duties;

- Identifying, recommending and making proposals to the Board of Directors of independent directors to be appointed by co-option or, for submission to decision by the general meeting of shareholders, and proposals for re-election or removal of those directors by the general meeting;

- Identifying, recommending and reporting to the Board of Directors on proposals for the appointment of the other directors to be appointed by co-option or for submission to decision by the general meeting of shareholders, and proposals for their re-election or removal by the general meeting of shareholders;

- At the initiative of the chairman, reporting, on a non-binding basis, on resolutions of the board related to the appointment or removal of senior managers of the Group and the basic terms of their contracts, without prejudice to the authority of the Remuneration Committee regarding remuneration matters, and periodically reviewing the policy of the Board of Directors regarding selection and appointment of members of senior management of the Group and making recommendations to it;

- Analysing the existence and updating of plans for succession of the chairman, the vice chairman, if applicable, and the chief executive officer and senior managers of the Company and, if applicable, making proposals to the Board of Directors for such succession to occur in an orderly and planned manner;

- Ensuring the independence, impartiality and professionalism of the secretary and assistant secretary of the Board of Directors, reporting on their appointment and removal for approval of the full board;

- Setting a goal of representation for the gender under-represented on the Board of Directors and to develop guidance on how to increase the number of the underrepresented gender to achieve this objective. Also, the committee will ensure, that by providing new vacancies selection procedures do not suffer of implicit biases that interfere with the selection of the under-represented gender;

- Regularly (at least once each year) evaluating the structure, size, composition and performance of the Board of Directors, if applicable making recommendations to it regarding possible changes;
- Regularly (at least once each year) evaluating the suitability of the various members of the Board of Directors and the board as a whole, and reporting thereon to the Board of Directors;
- Reporting to the Board of Directors on issues relating to good corporate governance of the Company regarding matters within the competence of the committee (objectives, management of talent, liability insurance, etc.) and making the proposals necessary for improvement thereof;
- Proposing the policy for selection of directors to the Board of Directors, and annually verifying compliance therewith;
- Without prejudice to the functions of the Audit and Compliance Committee, the ethics and conduct committee will submit to the Appointments and Responsible Management Committee, periodically and at least at the end of each financial year, an activities report in relation to performance of its functions, in particular as regards oversight and monitoring of the Code of Ethics and Conduct;
- Reviewing the Company's corporate social responsibility policy, seeing to it that it is aimed at creation of value;
- Monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance thereof;
- Monitoring and evaluating the processes of relationships with the various stakeholder groups;
- Evaluating everything relating to the social, environmental, political and reputational risks of the Company, independently of the powers that rest with the Risk Advisory Committee and other committees for supervising risks;
- Coordinating the process of reporting non-financial and diversity information, in accordance with applicable regulations and international standards of reference, independently of the powers that rest with other committees.

Rules or organisation and operation of the Appointments and Responsible Management Committee

The Appointments and Responsible Management Committee will meet as often as called by resolution of the committee itself or its chairman, at least four times per year. Further, it also will meet whenever the Board of Directors or its chairman requests the issue of a report or adoption of proposals.

There will be a quorum for the Appointments and Responsible Management Committee when the majority of the directors that are a part thereof are in attendance, in person or by proxy.

The Appointments and Responsible Management Committee will adopt resolutions by absolute majority of the members present at the meeting in person or by proxy. In the event of a tie, the chairman will have a casting vote.

To perform its functions more effectively, the committee may use whatever resources it considers appropriate, including taking advice from outside professionals in matters within its remit.

Bankia's Appointments and Responsible Management Committee held 14 meetings in 2018.

2.2.4 Functions and responsibilities of the Board of Directors related to risk management, internal risk control and capital adequacy

The Board of Directors is the body responsible for determining the policy for control and management of risk, including tax risk, and supervision of the internal reporting and control systems, as well as ensuring the integrity of the accounting and financial reporting systems, including financial and operational control and compliance with applicable legislation.

In turn, the Board Risk Committee is the body responsible for approving risks within the scope of its powers, and guiding and administering powers conferred on lesser bodies, all of the foregoing without prejudice to the supervisory authority corresponding to the Audit and Compliance Committee. The Board Risk Committee has operational authority and, therefore, may adopt the corresponding decisions within the scope of authority delegated by the board.

The Board of Directors is also responsible for monitoring the effectiveness of internal control, internal audit, regulatory compliance and systems for risk management, which it carries out through the Audit and Compliance Committee.

The following table provides a summary of the main risk-related activities of Bankia's Board of Directors in 2018:

Risk-related activities as the Board of Directors. Bankia Group

Bankia Board of Directors meeting	Risk-related activities
Meeting of 01.25.2018	- Review of the Risk Appetite and Tolerance Statement. - Market Risk Validation Report. - Valuation Manuals: Manual on the Control and Management of Model Risk as part of Market Risk. Manual on the Valuation of Financial Instruments for Own Positions and Manual on Additional Valuation Adjustments (AVAs). - Further Manuals on Liquidity and Financing Risk: Funds Transfer Pricing Management Framework.
Meeting of 02.22.2018	- Follow-up Report on the Irregular Asset Management Strategy (December 2017). - IFRS 9 Report and IRFS 9 Validation Reports. - Manual on Technology and Cybersecurity Risk Policies and Procedures. - Trading Framework/Limits for Private Fixed Income Securities.
Meeting of 03.21.2018	- Report on Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) - Assumptions/Scenarios. - Monitoring of Risk Appetite, Capital Planning and Recovery Plan. - Approval of Modification to Governance Framework and Approval Protocols/Modification of Models. - Manual on Market Risk Policies relating to Trading Activities and Limits. - Framework of Unsecured Loans - FIs.
Meeting of 04.26.2018	- Prudential Relevance Report. - Report on the Internal Capital Adequacy Assessment Process (ICAAP). - Report on the Internal Liquidity Adequacy Assessment Process (ILAAP). - Framework for Delegating Powers (Special Funding Arrangements).
Meeting of 05.24.2018	- Report on Divestment Activity: Outstanding Debt and Portfolio Transactions. - Framework of Credit Risk Policies, Methods and Procedures. - Facilitating Framework.
Meeting of 06.28.2018	- Manual on Reputational Risk Policies. - Manual on Private Banking Risk Management Policies. - Framework/Statement of Risk Appetite and Tolerance and Manual on Risk Appetite and Tolerance Policies. - Monitoring of Risk Appetite, Capital Planning and Recovery Plan. - Modifications to Protocol on the Approval of IRB Models. - NPL Management Framework, including NPL Strategy for information purposes.
Meeting of 07.25.2018	- Manual on Credit Risk Powers. - Capital Planning Framework and Policies
Meeting of 09.24.2018	- Follow-up Report on Risk Appetite, Capital Planning and Recovery (RAFUR). - Follow-up Report on the Non-Productive Asset Management Strategy (FURNPAMS). - Recovery Plan.
Meeting of 10.25.2018	- Manual on Internal Validation Policies - Protocol for the Manual on Internal Validation Policies. - Protocol for the Approval and Modification of Internal Models. - Application of Behavioural Model for Mortgages. - Application of Large Companies Model and Approval and Modification of Internal Models. - Application of Behavioural Model for Mortgages. - Aplication of Large Companies Model.
Meeting of 11.30.2018	- Manual on Operational and Technology Risk Policies. - Credit Risk Policies in Market Activities. - Market Risk Policies relating to Trading Activities. - Follow-up Report on Risk Appetite, Capital Planning and Recovery Plan (3Q 2018) (RAFUR). - Sundry reports: Review of the Risk Appetite Framework. - Follow-up Report on the Non-productive Asset Management Strategy (3Q 2018) (FURNPAMS) - Manual on Structural Risk Policies. - Global Limits on Investment in Collateralised Products. - Credit Risk Limits in relation to Market Activities.
Meeting of 12.20.2017	- New Definition of Default (DoD): application process. - Liquidity and Financing Risk Policies.

The main risk-related activities of BFA's Board of Directors in 2018 were as follows:

Risk-related activities of the Board of Directors. BFA Group

BFA Board of Directors meeting	Risk-related activities
Meeting of 01.25.2018	- Review of the Risk Appetite and Tolerance Statement. - Market Risk Validation Report. - Valuation Manuals: Manual on the Control and Management of Model Risk as part of Market Risk. Manual on the Valuation of Financial Instruments for Own Positions and Manual on Additional Valuation Adjustments (AVAs). - Further Manuals on Liquidity and Financing Risk: Funds Transfer Pricing Management Framework.
Meeting of 02.22.2018	- Follow-up Report on the Non-performing Loan Management Strategy (December 2017). - IFRS 9 Report and IRFS 9 Validation Reports.
Meeting of 03.22.2018	- Monitoring of Risk Appetite, Capital Planning and Recovery Plan. - Approval of Modification to Governance Framework and Protocols for Approving/Modifying Models. - Manual on Market Risk Policies relating to Trading Activities and Limits.
Meeting of 04.26.2018	- Prudential Relevance Report. - Report on the Internal Capital Adequacy Assessment Process (ICAAP) - Report on the Internal Liquidity Adequacy Assessment Process (ILAAP).
Meeting of 06.28.2018	- Manual on Reputational Risk Policies. - Framework/Statement of Risk Appetite and Tolerance and Manual on Risk Appetite and Tolerance Policies. - Monitoring of Risk Appetite, Capital Planning and Recovery Plan. - Modifications to Protocol for the Approval of IRB Models. - NPL Management Framework, including NPL Strategy for information purposes.
Meeting of 07.25.2018	- Capital Planning Framework and Policies.
Meeting of 09.25.2018	- Follow-up Report on Risk Appetite, Capital Planning and Recovery (RAFUR). - Follow-up Report on the Non-Productive Asset Management Strategy (FURNPAMS). - Recovery Plan.
Meeting of 10.25.2018	- Manual on Internal Validation Policies. - Protocol for the Approval and Modification of Internal Models. - Application of Behavioural Model for Mortgages. - Application of Large Companies Model.
Meeting of 11.30.2018	- Manual on Operational and Technology Risk Policies. - Credit Risk Policies in Market Activities (for information purposes). - Market Risk Policies relating to Trading Activities. - Follow-up Report on Risk Appetite, Capital Planning and Recovery Plan (3Q 2018) (RAFUR). - Sundry reports: Review of the Risk Appetite Framework. - Follow-up Report on the Non-productive Asset Management Strategy (3Q 2018) (FURNPAMS). - Manual on Structural Risk Policies.
Meeting of 12.20.2018	- New Definition of Default (DoD): Application processes. - Liquidity and financing risk policies.

2.3 Objectives, structure and organisation of the risk function

2.3.1 General risk management principles

Risk management is a strategic pillar in the Bankia Group. The primary objective of risk management is to safeguard the Group's financial stability and asset base, while creating value and developing the business in accordance with the risk tolerance and appetite levels set by the Governing Bodies. It involves the use of tools for measuring, controlling and monitoring the requested and authorised levels of risk, managing non-performing loans and recovering unpaid risks.

The Board of Directors is responsible for determining the risk control and management policy, and for monitoring the effectiveness of internal control, internal audit, regulatory compliance and systems for risk management, which it carries out, mainly, through the Audit and Compliance Committee and the Risk Advisory Committee.

The Group implements its risk strategy with a view to ensuring stable, recurring income with a medium-low enterprise risk profile. The key pillars of this strategy are:

1 – General principles

A set of general principles governing risk management, covering all types of material risks for the Group as a whole, independence of the function and the commitment of senior management, bringing conduct into line with the highest ethical standards and strictly complying with laws and regulations. These principles are:

- Independent, end-to-end risk function that provides adequate information for decision-making at all levels.
- Objective decision-making, incorporating all relevant risk factors (both quantitative and qualitative).
- Active management throughout the life of the risk, from preliminary analysis until the risk is extinguished.
- Clear processes and procedures, reviewed at regular intervals in light of changing needs, with clearly defined lines of responsibility.
- Integrated management of all risks through identification and quantification, and consistent management based on a common measure (economic capital).
- Differentiated treatment of risk, approval levels and procedures based on risk characteristics.
- Creation, implementation and diffusion of advanced decision support tools, with effective use of new technologies, so as to facilitate risk management.
- Decentralisation of decision-making, using available methodologies and tools.
- Consideration of risk variables in business decision-making in all operational, tactical and strategic areas.
- Alignment of overall and individual risk targets in the Bank to maximise value creation.

2 – Efficient risk governance

- Risk Appetite Framework integrated with the Capital Planning Framework and the Recovery Plan:

Illustrating its willingness to strengthen the importance of Corporate Governance in Risk Management and following the recommendations issued by the main international regulatory bodies, the group has a Risk Appetite Framework approved by the Board of directors of the Group. The Risk Appetite Framework sets out the desired levels of risk and the maximum levels of risk that the group is willing to accept, monitoring mechanism and the system of responsibilities of the various committees and governing bodies involved.

The Board of Directors reviews the framework annually, updating the desired and maximum levels, and the metrics considered most appropriate for correct monitoring.

Additionally, the Board of Directors approved the Capital Planning Framework which, together with the RAF, sets out the Entity's strategic lines of action with respect to risk and capital in normal business circumstances. Both processes shape the planning of the Entity's activities and businesses.

The Recovery Plan, also approved by Board of Directors, establishes the potential measures to be adopted in a hypothetical crisis situation. The measures would be triggered if the predefined level of any of the selected indicators in the plan were exceeded. They are consistent with those determined by the tolerance levels in the Risk Appetite Framework.

One mechanism the Bank has put in place to lower the RAF entails a system for determining target exposure, and expected loss levels and limits for the various loan portfolios. This system is defined to maximise risk-adjusted returns within the overall limits established in the RAF. In fact, preparation of the annual budget, beyond the requirement to be commensurate with the risk appetite statement, was drawn up comparing business development proposals with the optimal portfolios provided by the system.

If any of the key indicators in the Risk Appetite Framework exceeds the established limits, the Management Committee, as appropriate, will propose to the Risk Advisory Committee, for its analysis and subsequent escalation to the Board of Directors, the actions plans that the Group may undertake to bring the indicators back to normal levels.

- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP) adapted to new European Central Bank.

In these processes, the Group performs a self-assessment of risks, liquidity and capital adequacy in different scenarios (baseline and stressed). The results of the assessments were approved by the Board of Directors in April and reported to the European supervisor. This exercise is a core element of the new single European banking supervision process.

3 – An organisational model consistent with the function's general principles

In April 2015, the Board of Directors approved the new status of the Group's CRO (Chief Risk Officer), setting out: the conditions necessary for proper performance of the function; the main duties and responsibilities and the rules and powers for appointment and removal.

The status reinforces the independence of the Chief Risk Officer (CRO), which must maintain constant functional reporting with the Risk Advisory Committee and its Chairman. The Chief Risk Officer (CRO) also has regular, direct two-way access to Senior Management and the Governing Bodies.

In keeping with the ECB's regulatory guidelines, the risk management structure was updated in December 2017 bringing its activity under two specialised corporate departments:

- Corporate Risk Department, responsible for defining all of the bank's risk management policies, creating and validating all risk methodologies and models and constituting a powerful and structured second line of defence in risk management, an aspect that is crucial for the Group's corporate governance.

- Corporate Credit Risk Department, responsible for loan authorisation, monitoring and recoveries and for managing the real estate assets foreclosed by the Bank.

Subsequently, in March 2018, the Group approved the Risk Function Transformation Plan, as the Group considers transforming and reinforcing the Risk Function crucial to ensure the continuity of its business model, better manage the Group's risk, meet the Supervisor's expectations and adapt its corporate governance to best market practices. The Risk Function Transformation Plan pursues the following objectives:

- To help to strength the Board of Directors' supervisory function.

- Establish the sources for improving compliance with SREP recommendations and the Annual Supervision Programme.

- To reinforce the holistic view of risk with a forward-looking approach aligned with a sustainable and profitable business model, embracing the risk culture across the entire organisation.

- To improve the risk control by implementing a new internal control tool (for credit and market risk) that identifies, measures and control the critical risks of key processes.

- To strengthen the credit risk management and control environment within a Framework of Revitalization that improves the roll-out of the credit growth strategy, in addition to optimisation of the recoveries model.

- To adapt the risk function to a three lines of defence model, thereby complying with prevailing regulations and supervisory expectations.

A crucial aspect is internal risk control, organised in accordance with a three lines of defense system.

The first line entails operational areas, business lines or support units, as well as risk areas that directly service the business. All of these are responsible for complying with the risk frameworks, policies and procedures established by the governing bodies.

Areas that control and oversee risks make up the second line of defence. They comprise the Corporate Risk Directorate and the Corporate Compliance Directorate. The Corporate Risk Directorate's main task is to monitor, control and oversee all the Group's risks from a comprehensive and forward-looking vision. Accordingly, there is ongoing dialogue between the directorate and the Board of Directors through the Risk Advisory Committee.

The third line of defence is the independent Internal Audit function. This function, carried out by the Corporate Internal Audit Directorate under the Audit and Compliance Committee, provides an independent and objective assessment of the quality and effectiveness of the internal control system in place, of the first and second lines of defence, and of the governance framework established for managing risk.

Meanwhile, the functions of the Audit and Compliance Committee, which reports to the Board of Directors, include monitoring the effectiveness of the internal control of the Company, the internal audit, regulatory compliance, and systems for risk management, and discussing significant weaknesses in the internal control system detected in the development of the audit with the auditor, all without compromising its independence.

Execution of the Transformation Plan entails implementation of a number of action plans which, together with the approved modification of the risks structure, will enable the Group to better adapt its risk function to the three lines of defence model.

Risk reporting and measurement systems

The Board of Directors ensures that the risk management and measurement processes, as well as the internal control systems, are appropriate.

The Risk Advisory Committee oversees the performance of the risk unit in terms of ensuring that risk control and management systems are functioning correctly and, specifically, that the major risks to which the Company is exposed are correctly identified, managed and quantified, while ensuring that risk control and management systems are mitigating risks effectively in accordance with the policy drawn up by the Board of Directors. To properly discharge its functions, each year the Risk Advisory Committee approves a set of reports, and their frequency, on the various risks.

Lastly, regarding control mechanisms, the Risk Advisory Committee is informed quarterly on the degree of compliance with credit risk policies, with details on default and justification.

While one of the Risk Committee's main duties is to authorise the **reporting and internal control system** used to control and manage risks, the responsibilities of Bankia's Audit and Compliance Committee include regular reviews of the internal control and risk management systems to ensure that the principal risks are identified, managed and appropriately disclosed. The remit of Bankia's Internal Audit Department includes supporting the Audit and Compliance Committee in ensuring that the internal control system operates correctly, by performing regular reviews of reporting procedures.

The Bank is currently in the process of redesigning its information and reporting systems to ensure compliance with RDA requirements and to raise compliance with the regulatory framework. A multi-year Master Plan has therefore been designed for effective implementation (RDA[1] project). Virtually all of the objectives set for 2018 were accomplished during the year, and the planning for 2019 is now in progress as at the date of this report.

---

[1] Risk Data Aggregation (RDA) regulation, included in BCBS 239, includes the principles that the entities have to comply with to guarantee the governance and quality of the risk figures used by management to make decisions, as well as the information reported to the regulator. These principles have four pillars: quality of data, reporting and information, IT infrastructure and framework and governance. In order to reach a reasonable level of compliance with these principles, the group undertook an evaluation of the situation and developed an objective model.

The Global Risk Management Department is charged with managing and maintaining the Bank's risk reporting, credit scoring and RAR (risk-adjusted return) system.

Stress-testing

The stress test exercise carried out in the Entity are designed to measure the resilience of capital to potential impacts caused by external shocks. A system has been designed including structural (economic scenario) and directional (direct impacts of risk stress) impacts on the main types of risks identified by the Entity: business risk, credit risk, market risk, interest rate risk, liquidity risk, operational risk, and reputational risk.

Stress test models are a key element of the Entity's credit risk management, since they allow for the risk profiles of portfolios and the sufficiency of capital under stressed scenarios to be evaluated. This, therefore, contributes appropriately to capital planning. The purpose of these tests is to evaluate the systemic component of risk, while also considering the specific vulnerabilities of the portfolios. The impact of stressed macroeconomic scenarios on risk parameters and migration matrices are assessed, allowing not only expected loss under stress scenarios to be determined, but also the impact on profit and loss. The entire exercise is underpinned by four main cornerstones:

- Relationship between macro scenarios and credit risk parameters
- Conditions of PDs and migration for each year in the stress test time horizon (three years)
- LGD trend: it should not only determine the economic loss related to default, but also the distribution over time of the outcomes, both amicable and judicial, of recovery processes under different scenarios.
- Based on these, dynamic projections are made of performing and non-performing portfolios to determine solvency in each period and the impact on the statement of profit or loss.

The Bank's stress testing methodology was designed to comply with principles established by the ECB in its "Guidelines on Stress Testing (GL32)".

VaR and sensitivity are the core measures used to control and monitor market risk, and form the basis of the market risk limits structure. For credit risk, stress-testing is performed periodically to quantify the economic impact of extreme movements in market factors on the portfolio. Three scenarios are defined: a historical scenario, based on market conditions observed in the latest crises; a crisis scenario, that captures extreme market movements; and a scenario that reflects maximum daily loss over the last year. Further details on stress-testing are provided in the related sections on the main risks managed by the Bank.

For liquidity risk, the Bank has designed liquidity stress tests, providing a powerful tool for pinpointing its vulnerabilities. Their development should raise the effectiveness of the contingency plans by being able to map and quantify the main exposures affecting the liquidity risk arising from the various funding sources.

2.3.2 Risk appetite and tolerance

Acting on the Bank's willingness to strengthen the importance of corporate governance in risk management and following the recommendations issued by the main international regulatory bodies regarding the implementation of systems to define and monitor risk appetite, at its meeting held in September 2014, the Board of Directors approved the Risk Appetite Framework (RAF) for the BFA-Bankia Group.

Risk appetite is understood as the amount and type of risk the Bank is willing to take in its activity in order to meet its objectives, complying with regulatory restrictions. The RAF includes a set of elements to provide a comprehensive view of risk appetite, tolerance and capacity of each risk, and compare them with the risk profile.

The formalisation of the RAF, as well as the monitoring of risk appetite and tolerance, are clear improvements to the Bank's risk management. This formalisation mainly affords the following advantages:

- It complies with the requirements and recommendations of good governance in the risk function of most regulators, including the new single European regulator.
- It improves the perception of risk at all levels of the Bank, thereby strengthening the corporate risk culture.
- It implies an exercise of transparency vis-à-vis external agents, shareholders, regulators, rating agencies, analysts and investors.
- It lends consistency to budgeting and planning processes with risk targets; i.e. among the various targets affecting capital, balance sheet and income statement indicators.

In February 2015, the Board of Directors approved the Capital Planning Framework which, together with the RAF, sets out the Bank's strategic lines of action with respect to risk and capital in a business-as-usual situation. Both processes shape the planning of the Bank's activities and businesses.

Also in February 2015, the *Recovery Plan* of the Entity was approved, that with its annual updates, establishes the potential measures to be adopted in a hypothetical crisis. The measures would be triggered if the predefined level of any of the selected indicators in the plan were exceeded. Their definition is consistent with those determined by the tolerance levels in the RAF.

In the following years, the Bank has made further progress along the same lines by regularly updating the Risk Appetite Framework and Statement and including new indicators better aligned with the Bank's Risk Profile.

These modifications reinforced the integration of the RAF indicators into management by linking them to the budgeting and strategic planning process, the business targets, and the determination of variable remuneration for all the Bank's employees.

The BFA-Bankia Group's RAF comprises the following elements:

- Manual on Risk Appetite and Tolerance Policies: sets out the policies and procedures established by the BFA-Bankia Group in relation to Risk Appetite and Tolerance Framework, covering the following aspects:
    - Objective, basic principles and scope: defining the Risk Appetite, specifying the basic principles governing Risk Appetite and Tolerance, and defining scope of application in the sense of the entities subject to the policies.

- Roles and responsibilities: description of the organisational structure and of the roles and responsibilities of the various bodies involved during the different phases of approval, monitoring and control of Risk Appetite and Tolerance.
- Risk Appetite measurements: defining risk types and identifying the individuals or departments tasked with calculating the indicators used to monitor the Risk Appetite.
- Procedures: procedure for approving policies and the Risk Appetite Framework, and response protocols for managing breaches of applicable limits.
- Reporting: description of the documentation generated when monitoring the Risk Appetite.

- Risk appetite and tolerance statement: the statement describes the risk appetite of the BFA-Bankia Group for all the different risks it considers material. This includes both qualitative statements and quantitative indicators, for which appetite, tolerance and early warning levels are defined.

  Indicators making up the Bank's risk appetite statement include solvency, liquidity and business profitability, along with specific indicators for each material risk; e.g. credit, concentration, market and operational risk.

- Periodic follow-up reports on Risk Appetite, Capital Planning and Recovery Plan: the RAF sets out the mechanisms required to ensure adequate monitoring and control of risk appetite. The backbone is the Risk Appetite and Tolerance Monitoring Report, which includes measurements and comparisons of each indicator included in the risk appetite and tolerance statement.

Limits

Risk appetite management essentially involves a set of metrics defined for each risk category.

The Bank relies on quantified levels or thresholds for all the indicators set out in its risk appetite and tolerance statement. These thresholds are established in accordance with the following rules and criteria:

- Faithfully reflecting the level of appetite and tolerance that the Board of Directors wishes to establish for the Bank.
- Establishing thresholds on the assumption of normal market conditions, but constructing those thresholds to guarantee the Bank’s continuity in response to stress scenarios.
- Anticipating possible non-compliances with early warnings so that action can be taken before the limits are breached.
- Annual review of established thresholds, including measurement improvements and following international best practices.

In relation to the Bank’s main risks:

Credit risk

The "Credit Risk Document Structure", approved by the Board of Directors in May 2018, is to define, regulate and disseminate common standards of action that act as a benchmark and allow basic rules of Credit Risk management to be set within the BFA Group and to determine the roles and responsibilities of the bodies, committees and directorates involved in procedures to identify, measure, control and manage the Group's credit risk, in accordance with its risk appetite. The structure comprises a Framework of credit risk methods and procedures, Credit Risk Policies, Specific Criteria Manuals, and Operating Manuals, which regulate, among others, the methodologies, procedures and criteria used for transaction approvals, applying changes in terms and conditions, the assessment, monitoring and control of credit risk, including the classification of transactions and assessment of allowances, in addition to defining and establishing effective guarantees, and registering and assessing foreclosed assets or assets received in payment of debt so that any impairment can be detected early and a reasonable estimate of credit risk allowances can be made

Market risk

For market risk, the policies for market risk in trading outline the general framework for integrated, prudent and consistent management of market risk to preserve the Bank's solvency and prevent earnings from being heavily affected by the complexity and scale of the risks assumed. It is precisely these policies that detail the limits and warnings in place in the Bank regarding market risk, with varying levels of relevance. They also set out the procedure for establishing the limits and managing breaches.

Structure interest risk

In addition to the RAF, the Bank has defined a framework of limits in the Structural Risk Policies Manual quantifying interest rate risk in the banking book (IRRBB) considering a broader range of scenarios than the regulatory scenarios.

Liquidity and funding risk

Senior management, represented mainly by the Management Committee and the ALCO, is charged with designing and implementing the risk management strategy in accordance with the Bank's risk tolerance and the framework of management policies and annual limits.

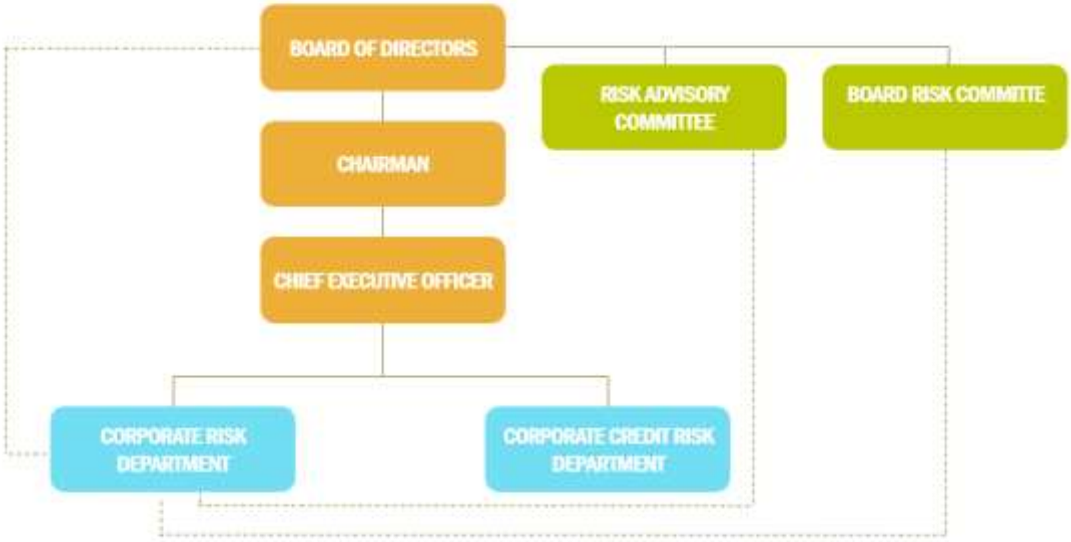
2.3.3 Organisation of the risk function

In keeping with the ECB's regulatory guidelines, the risk management structure was updated in December 2017, bringing its activity under two specialised corporate departments:

- The Corporate Risk Department. Responsible for defining all of the Group's risk management policies, creating and validating all risk methodologies and models and constituting a powerful and structured second line of defence in risk management, an aspect that is crucial for the Group's corporate governance.

- The Corporate Credit Risk Department. Responsible for loan authorisation, monitoring and recoveries and for managing the real estate assets foreclosed by the Group.

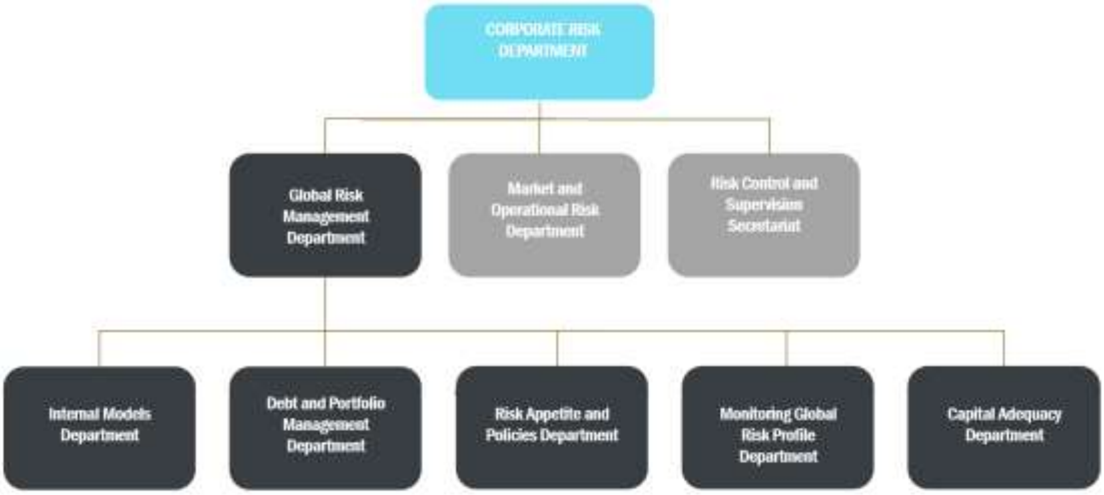
The risk management structure was as follows at 31 December 2018:



2.3.3.1 Corporate Risk Department

The main functions of the various divisions and units attached to the Corporate Risks Department are as follows:

Global Risk Management Department

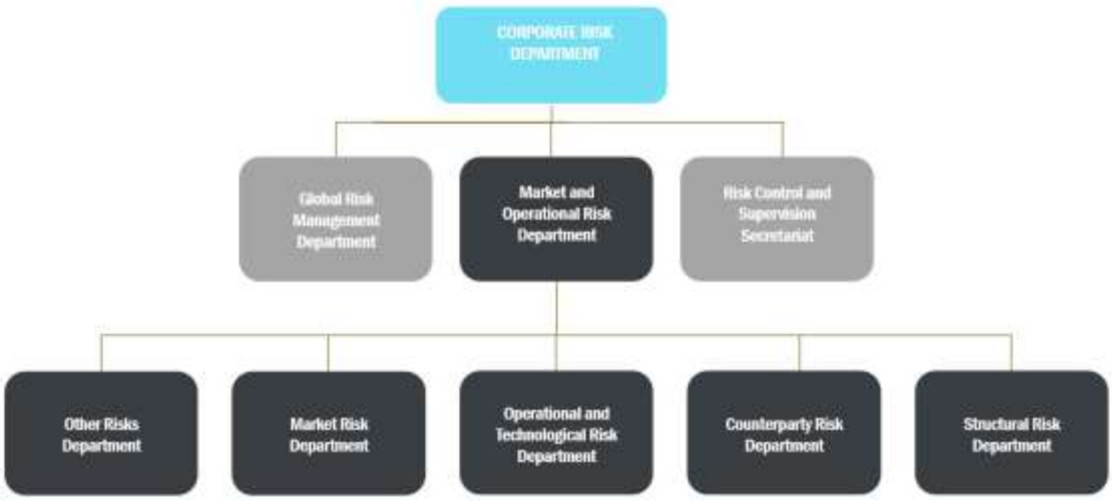


This department has the following responsibilities:

- Building, implementing and maintaining internal credit rating models (scoring, pre-authorisation, behaviour and rating).
- Estimating the risk parameters (PD/LGD/EAD) used to manage the risk appetite, capital requirements and provisioning.

- Performing statistical monitoring, running backtest exercises and benchmarking the robustness of the Bank's rating system (Models, Parameters, Use).
- Managing, exploiting and coordinating risk-related information, involving the Corporate Risks Department, the Corporate Systems Development Department and the Corporate Financial Controller's Department.
- Developing and coordinating credit risk policies (including the credit risk classification and hedging policy and policies related to the management of irregular assets), in close coordination with the Corporate Wholesale and Retail Loan Approval and Monitoring Departments.
- Determining, simulating and optimising minimum capital requirements for credit risk and consolidating requirements for the other risks under Pillar 1. Coordinating and consolidating Pillar 3 disclosure requirements.
- Developing and generating reports with a global vision of the Bank's risk profile (Global Risk Report, quarterly and annual Risk Management Reports, reports for rating agencies and other reports).

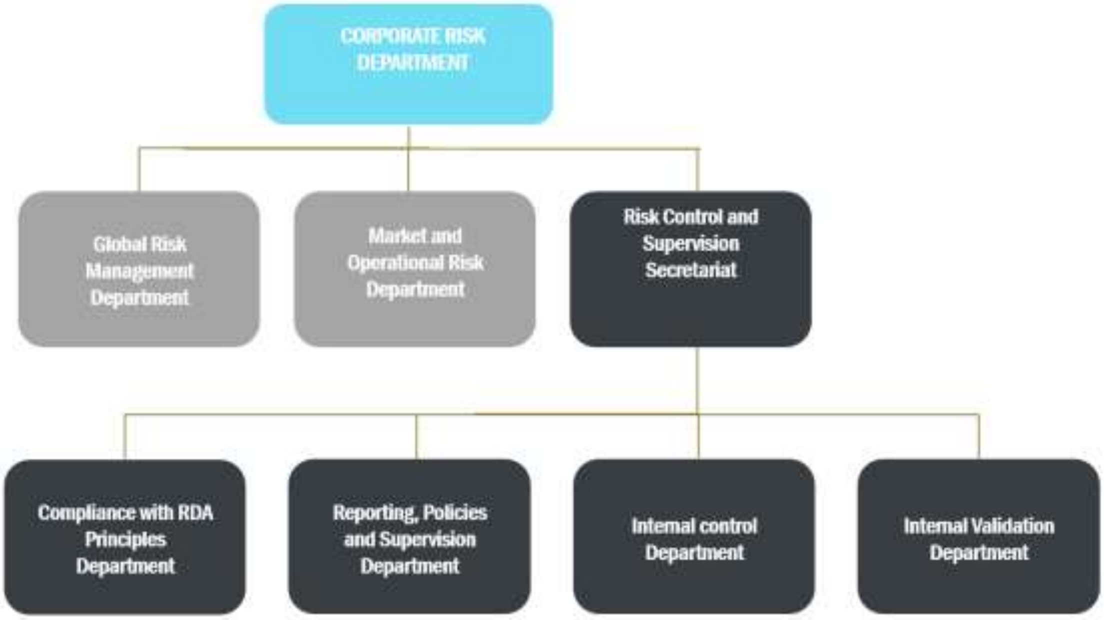
Market and Operational Risk Department



Its principle responsibilities are:

- Measuring and controlling the risks inherent in transactions with market risks in trading activity, counterparty risk, interest rate risk in the balance sheet, liquidity and financing risks, operational risk, technology risk, reputational risk and other risks associated with insurance, private banking and asset management activities, thus ensuring compliance with the control requirements established by the Bank and the competent bodies, to which it will report as often as required.
- Incorporating best practices and new regulatory requirements in the identification, measurement and control of risks under its remit, including market risks in trading, counterparty, interest rate risk in the balance sheet, liquidity and funding, operational, and other risks in the insurance, private banking and asset management businesses.

Risk Control and Supervision Secretariat

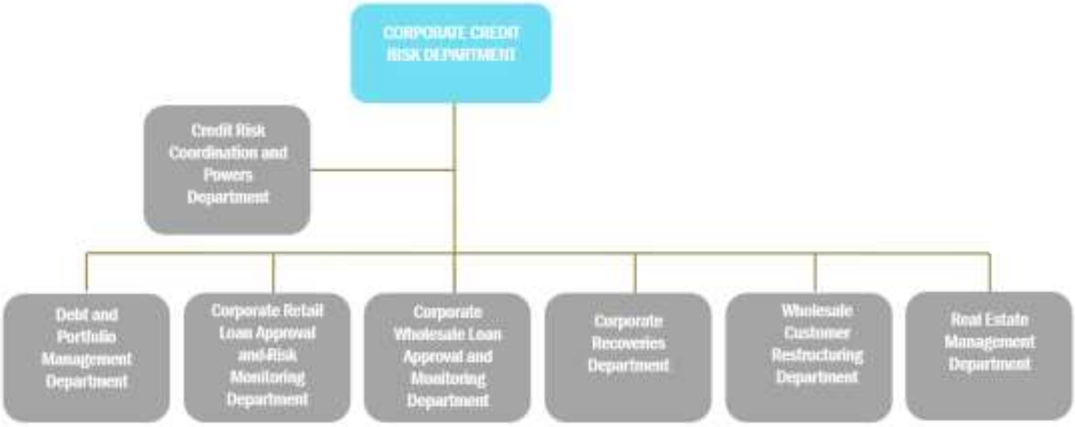


Its principle responsibilities are:

- Managing the main committees attached to the Corporate Risk Department, the Risk Advisory Committee and the Board on risk-related matters.
- Coordinating dialogue and relations with supervisors on risk-related matters.
- Monitoring and supervising risk processes in relation to both solvency and liquidity (supervision of the RAF-ICAAP/ILAAP-Recovery Plan-risk profile-NPL Plan-Business Model), following a holistic approach and monitoring future changes.
- Verifying the proper functioning of the internal models developed by the Bank through the Internal Validation function.
- Implementing a new internal risk control system, based on the management processes for each of the Bank's material risks, while guaranteeing the proper maintenance of that system to ensure a robust control framework.
- Fostering a risk culture in the Bank.

2.3.3.2 Corporate Credit Risk Department

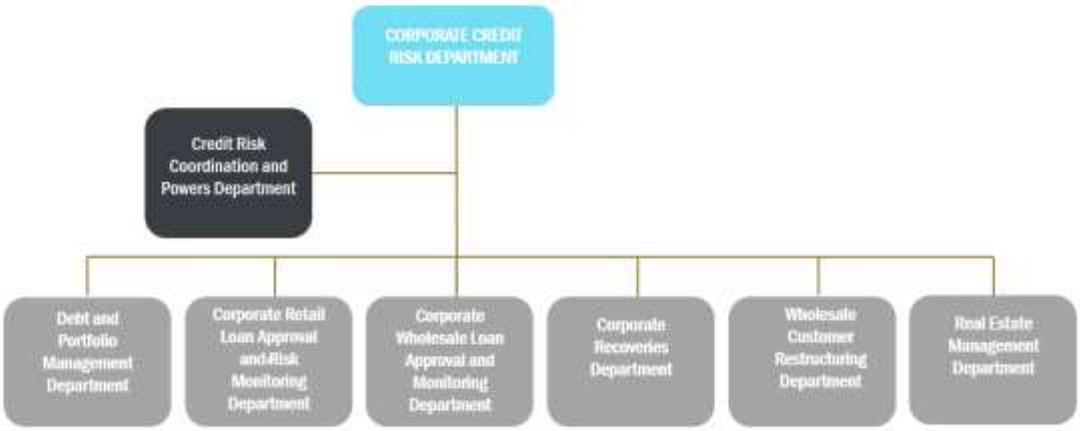
The principle responsibilities of the Corporate Risk Department are as follows:



Credit Risk Coordination and Powers Department.

Its main responsibilities are:

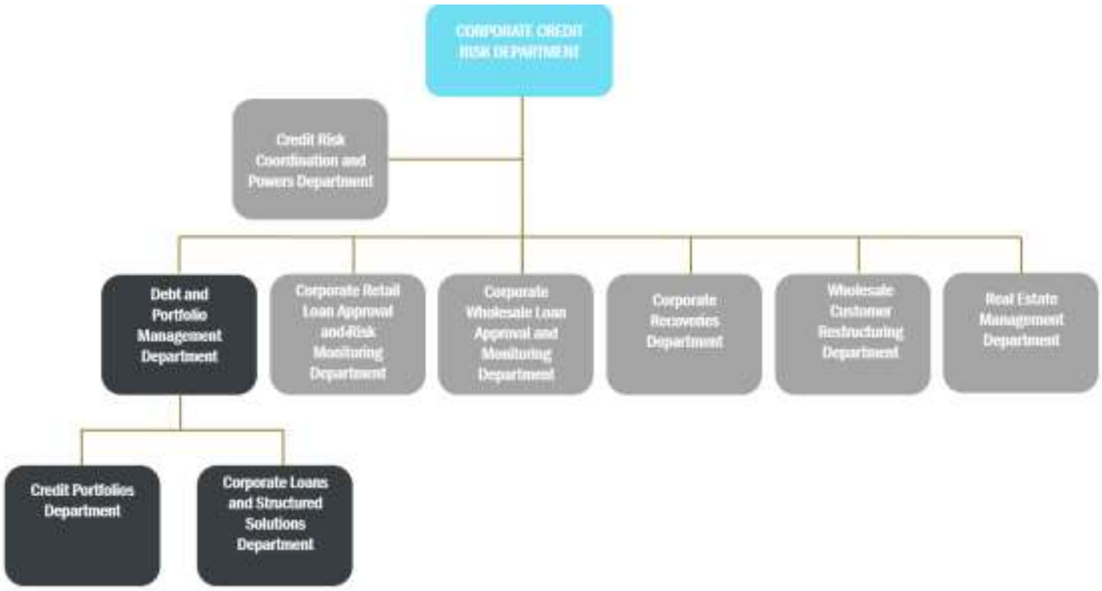
- Cross-Group coordination of the different management units.
- Budgetary control for the different units that make up the Corporate Credit Risks Department.
- Managing committees and the systems governing powers.



Debt and Portfolio Management Department

Its principle responsibilities are:

- Helping to reduce the Bank's doubtful and highly doubtful loans.
- Overseeing relations with current and potential investors and liaising with market counterparties in negotiating sales of portfolios or other assets.
- Organising tenders for sales in all stages, including involvement in post-sales management.

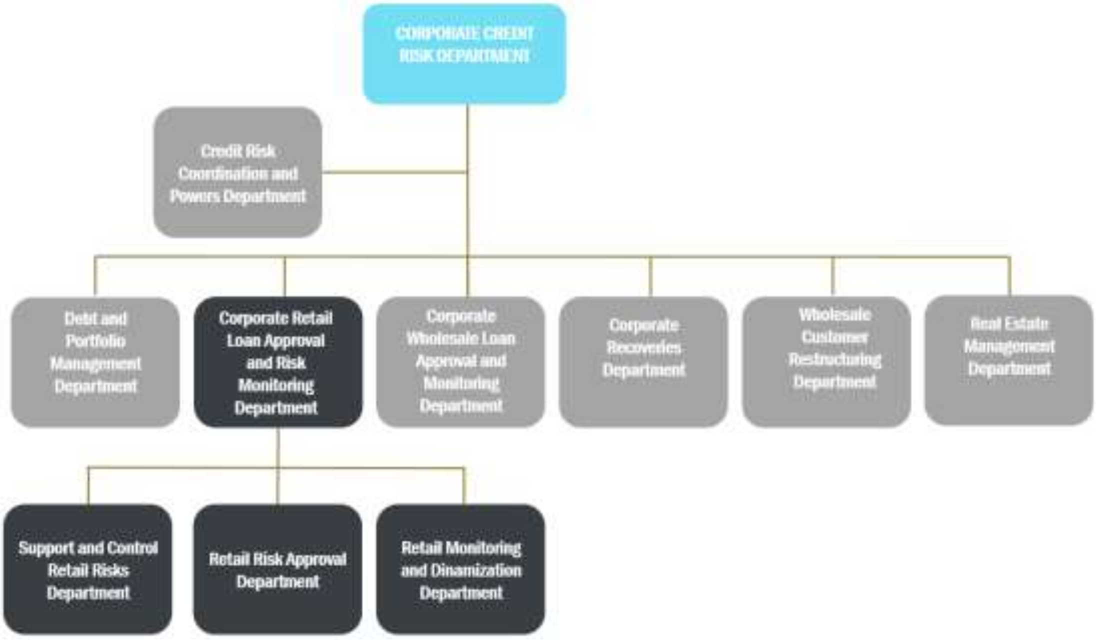


Corporate Retail Loan Approval and Risk Monitoring Department

Its main responsibilities are:

- Comprehensive management of the risk cycle of the DGD of Retail Banking: loan approval, pre-authorisation and monitoring of credit risk.
- Monitoring and controlling the credit quality of retail portfolios across their different segments.
- Providing support when drawing up policies relating to credit risk that fall within its remit.
- Ensuring compliance with risk policies that fall within its remit.
- Establishing rules and criteria to ensure data quality and approval procedures.
- Optimising pre-authorised or pre-classified portfolios and proposing and promoting innovative facilitation initiatives.
- Helping to ensure the proper implementation of the internal risk models used for the acceptance and monitoring of credit risk and supporting the governance of such models.

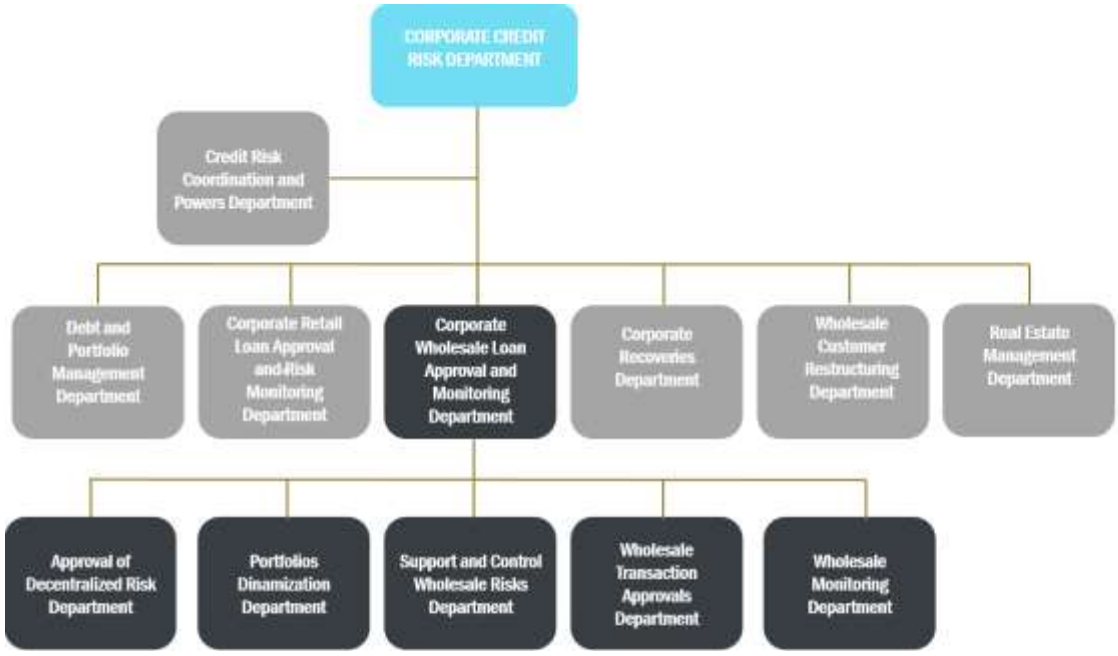
- Analysing and consolidating programmes that help generate risk business opportunities within the Risk Appetite and Tolerance Framework.



Corporate Wholesale Loan Approval and Monitoring Department

Its main responsibilities are:

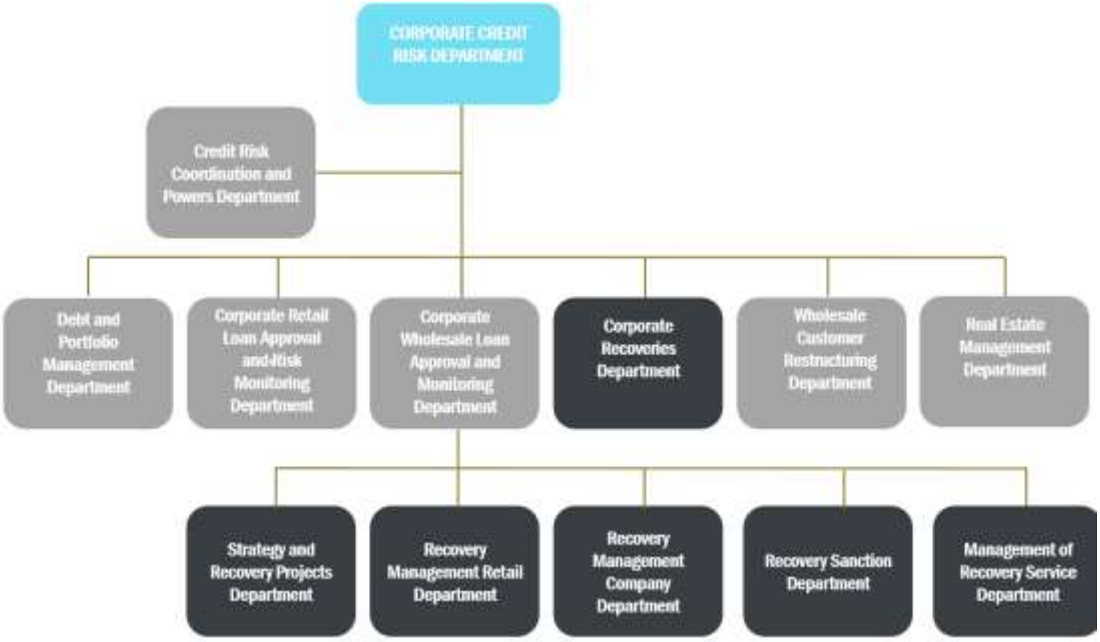
- Comprehensive management of the risk cycle of customers assigned a rating: acceptance, pre-authorisation and monitoring of credit risk.
- Helping to control the credit quality of wholesale portfolios across their different segments.
- Facilitating the commercial activity of the centres by proactively analysing potential customers and devising the “Relay to Committee” system.
- Analysing, assessing and resolving credit risk transactions (new lending arrangements, renewals, modifications, overlimits and overdrafts) for borrowers with normal, or level II or III status, where the risk has been decentralised, while providing support in relation to any financial programs (FPs) that fall within its remit.
- Anticipating and managing the behaviours of level II and III Corporate Banking customers and level II and III portfolio-assigned Corporate Banking customers who are subject to monitoring and who hold authorised risk positions at group level in excess of EUR 10 million.



Corporate Recoveries Department

Its main responsibilities are:

- Managing and recovering customers with non-payments or impaired ratings assigned to Recovery Centres or Recovery Managers for both Retail and Corporate Banking.
- Managing recoveries for real estate developers.
- Approving transactions for customers who fall within the Recoveries segment.
- Managing external services and suppliers associated with recovery activity.
- Managing and implementing recovery projects. Arranging and overseeing internal and external audits and managing the implementation and completion of all recommendations to be issued.
- Maintaining collateral and security and updating the value or price of collateral and foreclosed assets.

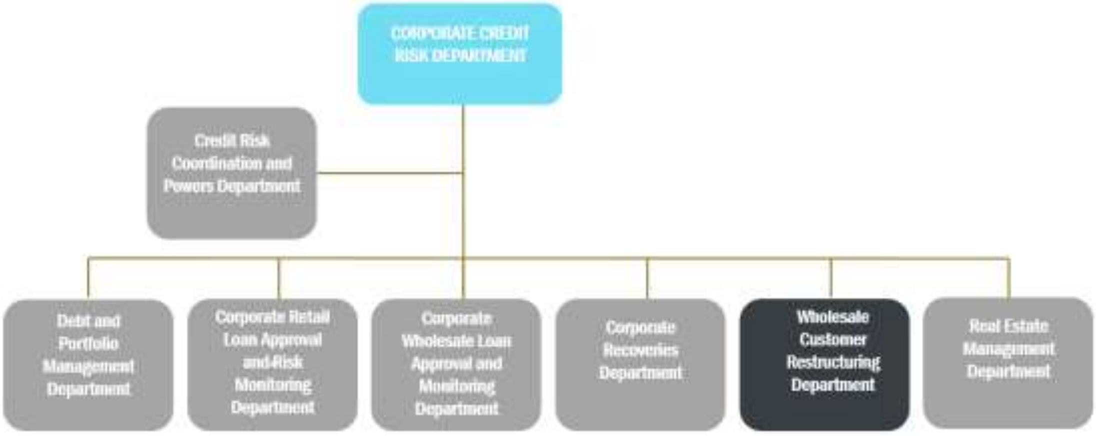


Wholesale Customer Restructuring Department

Its principle responsibilities are:

- Proposing restructuring/forbearance arrangements with borrowers and overseeing the commitments undertaken in the special transactions arising from them.
- Managing restructuring arrangements of customers and groups of borrowers that require a cross-cutting perspective (retail and wholesale) involving bilateral negotiations with the borrower.
- Maximising the amount of debt recovered in special cases which, given their complexity, importance or lack of past experience, require non-standardised measures with the borrowers and third parties involved.
- Managing equity holdings in companies from restructuring processes in which there is a debt-equity swap.

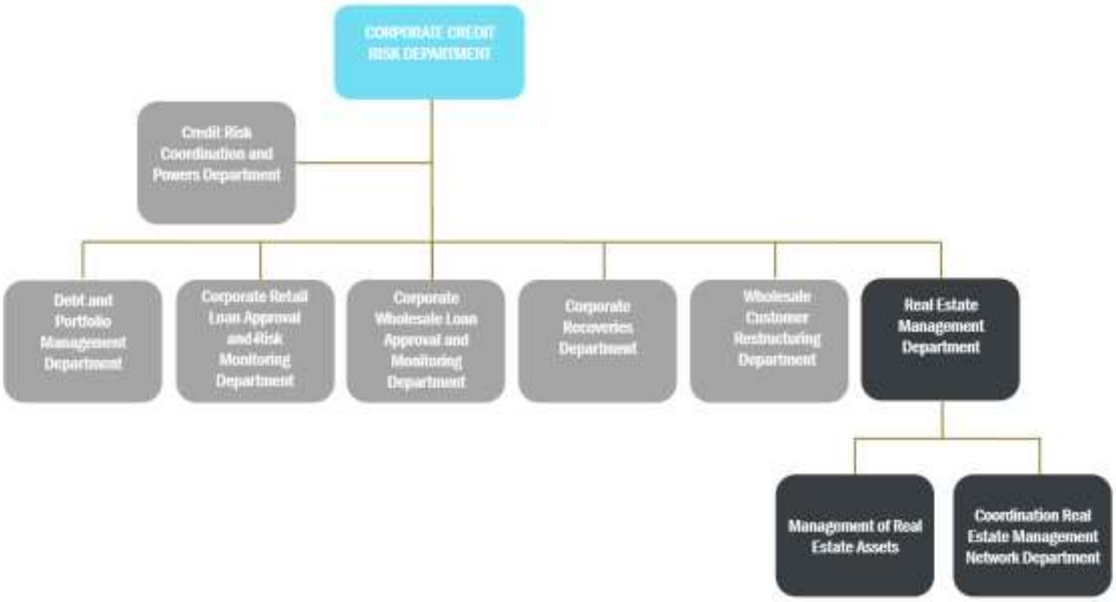
The Wholesale Customer Restructuring Department does not have any areas reporting to it. The following chart shows its position within the Corporate Risk Department:



Real State Management Department

Its main responsibilities are:

- Managing and controlling the sale of real estate assets through any channel available, including the sale of portfolios. It also manages and controls the sale and divestment of movable assets.



2.3.4 Functional structure

The senior governing bodies: the Board of Directors, Risk Advisory Committee and Board Risk Committee are described in section 2.2.3 (Functions and responsibilities, rules of organisation and operation).

This section describes the Bank's main executive committees with responsibilities relating to risks:

Management committee

This committee is presented with the documentation analysed at previous meetings of the organisation's various units. Under the scope of the Risk Appetite Framework, this committee is in charge of proposing the pertinent measures when limits are approached.

Risk Committee

Risk Committee. Oversees the operations under its remit and performs a preliminary analysis and assessment of all credit risk which must be resolved by high-ranking levels (Board of Directors and the Board Risk Committee). It is also in charge of designing a risk authorisation system and interpreting regulations to improve operations in accordance with general criteria approved by the Board of Directors.

Models Committee

Its main functions include the management, approval (including extension/modification of existing models) and monitoring of the Group's internal models. It has also inherited the functions of the now defunct Ratings and Credit Scoring Committees. In short, the Models Committee is tasked with ensuring the integrity of ratings and credit scores, establishing criteria for situations not contemplated in the ratings models and setting up a body to monitor credit scoring systems.

Assets and liabilities Committee

Charged with monitoring and managing structural balance sheet and liquidity risks, reviewing the balance sheet structure, business performance, product profitability, earnings, and so on, with due regard to the policies and powers approved by the Board of Directors.

Capital Committee

The committee's powers include authority to monitor the regulatory framework and its potential impact on the Group's regulatory capital to monitor and analyse the main capital ratios and their components, as well as the leverage ratio. It also monitors capital initiatives being carried out within the Group.

Operational and IT risk committee

The committee meets each month and its risk-related duties include the following:

- Knowing Bankia's operational risk profile

- Proposing the annual appetite and tolerance framework for operational and IT risk

- Approving the implementation of specific policies and procedures affecting the operational and IT risk area.

Risk Control and Oversight Committee

Its risk-related functions include the control, oversight and effective assessment of trends and changes in the Group's risk profile, in the risk appetite approved by the Board of Directors, and in the business model. In doing so, it follows a holistic and forward-looking approach. The committee also analyses any deviations that might affect the Group's risk profile, solvency and/or liquidity and proposes, where necessary, any measures deemed appropriate.

Provisioning Committee

Meeting monthly, the committee's main functions are to ensure compliance with current legislation governing the recognition of credit risk impairment and to approve the framework of policies, criteria and methodologies for classifying risks and provisions, within the general framework of policies established by the Board of Directors.

New Products Committee

This committee has no set calendar of meetings, but is held immediately upon the request of any person or department wishing to propose a new product, as per the process for launching new products. Its functions include the duty to scrutinise all new products, ensuring that all risks have been identified and analysed and are measurable and controllable and then approving or rejecting the proposed new product based on that analysis.

2.3.5 Credit risk

The Group views credit risk as the risk of incurring financial losses in the regular course of its banking business in the event that its customers or counterparties fail to honour their contractual payment obligations. This risk is inherent to all traditional banking products offered by financial institutions (loans, credit facilities, financial guarantees granted, etc.), and other types of financial assets (debt securities, derivatives and other) and affects financial assets whether measured at amortised cost or fair value.

The principles guiding the Group's actions when it comes to credit risk management are outlined below.

- Responsible risk approval. Customers should be offered the financing facilities best suited to their needs and for amounts and under terms and conditions that match their repayment capacity. The necessary support should be provided so that borrowers acting in good faith can overcome possible financial difficulties.

- Alignment with the Risk Appetite Framework. Policies must be seen as a set of action guidelines and restrictions aimed at ensuring compliance with the Risk Appetite statement.

- Establishing criteria that generate best banking practices. In this vein, specific policies are defined for industries or borrowers that may be sensitive on account of the social impacts involved, such as investments in or financing of controversial businesses, such as arms and ammunition, or that violate human rights, or any activity that might fall short of the Bank's ethical standards.

- Transparent environment. A transparent environment has been created, featuring the various systems developed to prevent crimes and combat fraud, and the Bank acts at all times in compliance with applicable law.

- Stable and reliable general rules and criteria. While specific circumstances can change, general rules and guidelines are there to stay.

- Adaptation. The general criteria must be supplemented with segment- and product-specific criteria to establish clear and well-defined action guidelines.

- Risk-adjusted pricing. Considering the customer as a whole and transactions on an individual basis in accordance with existing Pricing Policies, while guaranteeing the attainment of business objectives and coverage of cost of risk.

- Data quality. Effective risk assessment requires information of an adequate nature and of sufficient quality, whereby the consistency and integrity thereof must be ensured.

- Two-way relationship with internal scoring systems. The policies describe clear lines of action to ensure that internal scoring systems are fed with accurate and sufficient information to guarantee their proper functioning. Decisions related to credit risk will also depend on the rating assigned to the borrower and/or to the transactions.

- Continuous monitoring of exposures. Monitoring is underpinned by the allocation of specific management responsibilities for customers/transactions, supported by policies, procedures, tools and systems that allow for their appropriate identification and assessment throughout their life cycle.

- Improving recovery activity. Based on policies, procedures, tools and systems that ensure a flexible and early response by the parties concerned, involving actions and decision-making aimed at minimising the loss incurred by the Bank from exposures.

Meanwhile, the Group manages credit risk based on the following principles and criteria:

- The involvement of senior management in decision-making.

- Ensuring a holistic view of the credit risk management cycle, thus enabling:

    - Planning on the basis of key credit risk metrics so as to guide the actions of the business and risk-taking;

    - Specialisation and expertise in each stage of the risk management process, with specific policies, procedures and resources: Approval, Monitoring and Recoveries;

    - An approval policy with criteria to identify, for instance, minimum requirements for transactions and customers, the Bank's desired target profile for each type of material risk in line with the Risk Appetite Framework, and the elements or variables to be considered in the analysis and decision-making;

    - Establish a preventive system for monitoring customers, involving all business units and integrated in the day-to-day management to improve and facilitate the Bank's recovery activity where exposures become further impaired;

- Flexible recoveries model, adaptable to changes in the regulatory environment;
- Tools to assist risk decision-making and measurement, underpinned by the credit quality of exposures (scoring, rating), so as to objectify and maintain a risk management policy attuned with the strategy pursued by the Group at any given time;
- Clear separation of roles and responsibilities. The Bank understands the risk control function as a function that permeates the entire organisation and is based on a three-lines-of-defence system, as explained below.
    - First line: departments that own and manage the risk.
    - Second line: departments that oversee the risks.
    - Third line: departments that provide independent assurance.

Credit risk management policies

To achieve its objectives, the Group has a Credit Risk Document Structure in place. It was approved by the Board of Directors in May 2018 to replace its previous Credit Risk Statement and Manual and the last amendment was authorised by the Board of Directors in December 2017 to reflect the completion of the Group's restructuring plan on 31 December 2017 and to make certain amendments following the entry into force of Bank of Spain Circular 4/2017 on 1 January 2018.

The Credit Risk Document Structure explained in section 2.3.2 is there to define, regulate and promote common principles of action that will steer the way credit risk is managed at the Bankia Group in accordance with its risk appetite. The structure comprises the Credit Risk Policies, Methods and Procedures Framework, the Credit Risk Policies, the Specific Criteria Manuals and the Operating Manuals. A brief summary of each document is provided below:

- The Credit Risk Policies, Methods and Procedures Framework contains criteria and guidelines to ensure adequate management of the approval, monitoring and recovery process and the proper classification and coverage of transactions over their entire life cycle. It also allows the Group to establish high-level action limits by setting general principles that are adjusted accordingly in the policies

- The Credit Risk Policies contain a set of rules and main instructions governing the management of credit risk. They are effective and consistent with the general principles set out in the Policies Framework and in the Risk Appetite Framework and are applied across the entire Group. They are used internally to create and develop rules and regulations on risks when it comes to competencies related to risk strategy, implementation and control.

- The Specific Criteria Manuals provide a detailed description of the criteria set out in the policies regulating the activities carried out by the Group. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously put in place by minimising operational risk. The Specific Criteria Manuals combine with certain policies to provide transversal risk management across the Group.

- The Operating Manuals are methodological documents that develop and expand upon the criteria set out in the Specific Criteria Policies and Manuals. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously established. These manuals remain permanently in sync with the Credit Risk Policies and Criteria Manuals.

Assessment, monitoring and control of credit risk

Risk is managed in accordance with the limits and instructions established in the policies, underpinned by the following processes and systems:

- Transaction approvals and amendments
- Transaction monitoring
- Transaction recoveries
- Concentration risk management
- Risk forecasting
- Risk-adjusted return
- Driving up business
- Risk classification
- Risk quantification

Approval and amendment of credit risk transactions

When arranging credit risk positions, the Group carefully assesses the creditworthiness of the customer or counterparty by obtaining information on any existing or proposed risk transactions, the collateral provided and repayment capacity, among other factors, taking into account the risk-adjusted return expected by the Group on each transaction.

The Group has an Approvals Policy aligned with the standards established by senior management in terms of segments, products, markets, risk-adjusted return and other variables, and also in line with the management objectives set out in the Risk Appetite Framework. General loan approval criteria are developed through the following main lines of action:

- Responsible approval.
- Activity: geared toward Retail – SMEs banking in Spain.
- Borrowe solvency.
- Transaction: financing to be consistent with the customer's size and profile; to ensure an appropriate balance between short- and long-term financing; and to include a proper valuation of any collateral presented.
- Environmental and social risk.

The approval policies are governed by credit scoring systems, which allow a response to be given that is objective, consistent and coherent with the Entity's risk policies and risk appetite. The scoring systems not only rate risk, but also produce a binding recommendation in accordance with the most restrictive of the three following components:

- Score. Cut-off points are established using risk-adjusted return (RAR) criteria or by determining the maximum default level. Based on the rating given by the model, there are three possible outcomes:
  - Reject, if the score is below the lower cut-off point.
  - Review, if the score is between the lower and upper cut-off points.
  - Accept, if the score is above the upper cut-off point.
- Indebtedness. The level of indebtedness is established based on the financial burden which the transaction represents over the stated net income of the applicants. In no case can the resulting available income after allowing for debts represent a noticeable limit to cover the living expenses of the borrower. Specifically, in the mortgage segment, the longer the term of the loan, the higher the maximum limit of indebtedness with a view to mitigating the increased sensitivity to fluctuations in interest rates.
- Exclusion filters. The Group uses internal and external databases to gather information on its customers' and counterparties' credit, financial and asset positions. Any significant incidents related to them may result in a rejection. Moreover, a set of criteria are in place to cap maximum loan terms, both absolute levels and in relation to the age of the loan applicant or maximum loan amounts.

A key issue for the mortgage segment is the set of criteria that define the eligibility of assets as mortgage collateral and the valuation criteria. In particular, the risk assumed by the borrower may not depend substantially on the potential return the borrower may obtain on the mortgaged property, but rather the borrower's ability to pay the debt by other means. Meanwhile, only appraisals by Bank of Spain authorised appraisers are accepted. These are regulated by Royal Decree 775/1997, of 30 May, on the legal framework governing the certification of services and appraisal companies to ensure their quality and transparency. Appraisals must also be carried out in accordance with ministerial order ECO 805/2003, of 27 March, on rules for the valuation of real estate assets and certain financial rights, and Bank of Spain Circular 4/2017.

Meanwhile, both Finance Ministry Order EHA/2899/2011, of 28 October, on transparency and consumer protection in banking services, and Bank of Spain Circular 5/2012, of 27 June, addressed to credit institutions and payment service providers and governing the transparency of banking services and responsibility when granting loans, introduce —as a feature of responsible consumer lending— the requirement that borrowers provide institutions with complete and accurate information on their financial position and their intentions and needs regarding the purpose, amount and other conditions of the loan or credit facility, while also insisting that borrowers be adequately informed about the characteristics of those products that are best suited to their needs and of the inherent risks. The Group does indeed have responsible approvals policies for loans and credit facilities, which, as just mentioned, require it to offer its customers financing facilities that are best suited to their needs and under terms and conditions and for amounts deemed suitable in view of the borrower's payment ability. The Bank must also provide necessary support so that borrowers acting in good faith can overcome possible financial difficulties, making the following pre-contract information available to the customer and storing that information in their case file:

- Pre-contract information file: A document describing the characteristics and general conditions of the product.
- Personalised information file: Pre-contract information on the specific conditions of the product, which is non-binding and adapted to the customer's application, finance needs,

financial position and preference so the borrower can compare the product with other loans available in the market, assess the implications and make an informed decision. Appendices: (I) Adhesion to the Code of Good Practices and (II) Additional information on variable-rate loans (interest rate scenarios), to be delivered together with the personalised information file.

- BO or binding offer: Document with all the terms and conditions of the transaction (similar to the personalised information file) but binding for the Group for a period of 14 calendar days from delivery.

Monitoring credit risk transactions

Monitoring activity is established on the premises of anticipation, proactivity and efficiency, which are the basic principles governing the management of customers subject to monitoring:

- Holistic vision of the client, with an approach that is geared towards the global management of customers (or groups), and not just at contract level.
- Involvement of all Bank centres in monitoring activity.
- Symmetry with the approval process.
- Efficiency and sharing of opinions.
- Executive in terms of management

The Group uses a set of tools to analyse and monitor risk concentration. First, as part of the calculation of economic capital, it identifies the component of specific economic capital as the difference between systemic economic capital (assuming maximum diversification) and total economic capital, which includes the effect of the concentration. This component offers us a direct measure of the risk. An approach similar to that used by ratings agencies is also applied, paying attention to the weight of the main risks in respect of the volume of capital and income-generating capacity.

Recovery of credit risk transactions

Recovery management is defined as an end-to-end process that begins even before a payment is missed, covering all phases of the recovery cycle until a solution is reached, whether amicable or otherwise.

Early warning models are applied in lending to retail customers. These are designed to identify potential problems and offer solutions, which may entail adapting the terms and conditions of the transaction. In fact, a large number of mortgage loan renegotiations during the year resulted from proposals put forward proactively on the Bank's own initiative.

With business loans, the system of levels described above pursues the same objective: early management of delinquency. Accordingly, the entire portfolio is monitored and default is always the result of failed prior negotiations.

Risk projection

Stress models are another key element of credit risk management, allowing for the risk profiles of portfolios and the sufficiency of capital under stressed scenarios to be evaluated. The tests are aimed at assessing the systemic component of risk, while also bearing in mind specific vulnerabilities of the portfolios. The impact of stressed macroeconomic scenarios on risk parameters and migration matrices are assessed, allowing expected loss under stress scenarios and the impact on profit and loss to be determined.

Risk-adjusted return

The profitability of a transaction must be adjusted by the costs of the various related risks, not only the cost of the credit. And it must be compared to the volume of capital that must be assigned to cover unexpected losses (economic capital) or to comply with regulatory capital requirements (regulatory capital).

In wholesale banking, pricing powers depend on both the RAR of the new transactions proposed and the RAR of the relationship, considering all the outstanding business with a customer. In retail banking, RAR is taken into account to determine approval criteria (cut-off points) in accordance with the fees in effect at any given time. The Board, through the Board Risk Committee, is informed regularly on the RARs of all the lending portfolios, distinguishing between the total portfolio and new business.

Business revitalisation

One of Risk Management's functions is to create value and develop the business in accordance with the risk appetite established by the governing bodies. In this respect, the Risks Department is equally responsible for revitalising the lending business, providing tools and establishing criteria that identify potential customers, simplify the decision-making processes and allocate risk lines, always within pre-defined tolerance levels. It has tools and pre-authorisation and limit assignment processes for lending to both companies and retail customers.

Risk classification

Rating and scoring tools are used to classify borrowers and/or transactions by risk level. Virtually all segments of the portfolio are classified, mostly based on statistical models. This classification not only aids in decision-making, but also enables the risk appetite and tolerance stipulated by the governing bodies to be incorporated, through the thresholds established in the policies.

The models committee reviews and decides on scorings and ratings for non-retail borrowers, which as such are subject to ratings. Its objective is to achieve consistency in decisions on the ratings of the portfolio and include information not covered by models that could affect these decisions.

At the same time, the models committee ensures that the credit scoring system works properly and proposes potential changes in criteria for decision-making to the risk committee. The Group has both approval (reactive) and performance (pro-active) scoring models. Performance models form the basis of pre-authorisation for lending to both companies and retail customers. There are also recovery models applicable to groups in default.

Risk classification also includes the "Monitoring levels system". This system aims to develop pro-active management of risks related to business activities through classification into four categories:

- Level I or high risk: risks to be extinguished in an orderly manner.
- Level II or medium-high risk: reduction of the risk.
- Level III or medium risk: maintenance of the risk.
- Other exposures deemed standard risks.

Each level is determined in accordance with rating, but also with other factors, e.g. activity, accounting classification, existence of non-payment, the situation of the borrower's group. The level determines the credit risk authorisation powers.

2.3.6 Market risk

Market risk is defined as the risk arising from adverse changes in the valuation of financial assets in the Entity's trading portfolio. The BFA Group's consolidated trading portfolio comprises all the positions held by the Group in its trading portfolio as recorded for accounting purposes.

Trading positions are those whose purpose is:

- For sale in the short term;
- To benefit from current or expected short-term market movements;
- To lock in profits on arbitrage trades;
- To close out other positions arising from brokerage and market-making activities;
- To hedge other positions in the trading portfolio.

Market activities that qualify as trading activities include:

- Distribution/sales;
- Market-making;
- Origination, provided that the instruments originated are financial instruments and are not intended for an investment portfolio;
- Management of trading derivatives books.

The trading book captures all positions in financial instruments and commodities held by an institution either with trading intent, or in order to hedge positions held with trading intent. It does not capture derivatives designated as accounting hedges in any of the established types of hedge accounting. If a hedge is discontinued, the derivative is reclassified as a trading derivative. Hedge accounting is discontinued when the hedging instrument expires, is sold or exercised, or the hedge no longer meets the requirements for hedge accounting or the hedge designation is revoked.

The committees involved in the process of approving, managing and monitoring market risks, and the related functions they perform, are summarised in the following table:

	Est. Limits	Management	Mon. & Control
Board of Directors	✓		✓
Risk Advisory Committee			✓
Management Committee			✓
Risk Control and Global Supervision Committee	✓		✓
Model's Committee			✓
New Product Committee			✓

Comittees involved in market risk management within the trading activity

Market risk is managed, monitored and controlled by an organisational structure where risk acceptance centres and risk control and monitoring functions are clearly separate.

Management and control of the trading book		Est. Limits	Management	Mon. & Control
Finance Department	Financing & Treasury Others (*) Balance sheet management		✓	✓
Business Banking	Capital Markets		✓	✓
Risk Department	Market and Operational Risks Internal Validation	✓		✓
Financial Control Dept.	Planning			✓
Internal Audit	Audit			✓

(*) Mainly inludes the assets and liabilities whose measurement is part of the structural risk management framenwork (ALCO).
Departments involved in the management, monitoring and control of Market Risk

Market risk management is based on a system of fixed limits in terms of maximum exposure to market risk, which are approved annually by the board and distributed across the various business areas and centres.

Limit control is the responsibility of the Risk Department, specifically the Market and Operational Risks Department, which is responsible for monitoring market risk positions and counterparty exposures, calculating the management results of the various desks and portfolios on a daily basis, independently valuing all market positions, reporting daily on the level of market risk, and, finally, controlling model risk.

Market risk measurement

Market risk measurement is based on four metrics: value at risk (VaR) calculated using the historical simulation method, sensitivity, maximum loss (stop-loss limit) and the size of the position.

VaR and sensitivity are the core metrics used to control and monitor market risk, and form the basis of the market risk limits structure. sVaR and IRC also play a role in management decisions, with a focus on regulatory capital reporting and calculation.

Sensitivity	Sensitivity quantifies changes in the economic value of a portfolio due to given movements and determinants of the variables affecting this value. The key market factor movements used for sensitivity analysis are as follows: ▪ Interest rates: 100 basis point variation. ▪ Equities: 20% price shift. ▪ Exchange rates: 10% shift. ▪ Volatility: 10 percentage points for equities, 5 percentage points for interest rates and exchange rates ▪ Credit risk spreads in line with credit ratings: 5 basis points (bp) for AAA, 10 bp for AA, 20 bp for A, 50 bp BBB and 150 bp for below BBB. Sensitivity analysis by tranche is also used to measure the impact of non-parallel movements in the term structures of interest rates or volatilities, and to obtain the distribution of risk in each tranche.
VaR	VaR quantifies the maximum expected loss that can occur in the economic value of positions exposed to market risk in a given period of time and with a given level of confidence. Bankia/BFA uses a one-day time horizon and a 99% confidence level as general parameters. Historical simulation is used as the calculation method, based on at least one year of observed market data.
Stress-testing	Periodically, stress-testing is performed to quantify the economic impact of extreme movements in market factors on the portfolio. Three scenarios are defined: a historical scenario, based on market conditions observed in the latest crises; a crisis scenario, that captures extreme market movements; and a scenario that reflects maximum daily loss over the last year.

In derivative portfolios (options) there are other metrics to measure sensitivity that are not directly observable in asset price movements. Most are included in the “Greeks” nomenclature (each measure of risk is named after a letter in the Greek alphabet). The key metrics are:

- Delta. An option’s price sensitivity relative to changes in the price of the underlying asset.
- Vega. An option’s price sensitivity relative to changes in the volatility of the underlying.
- Gamma. The sensitivity of delta relative to price changes in the underlying instrument. This reflects the impact of large variations in the price of the underlying.
- Rho. Change in an option’s price relative to movements in discount interest rates.
- Theta. Change in an option’s price relative to the time decay.
- Estimated dividends: For equity options, the estimate of dividends outstanding between the option’s valuation date and exercise date.

The Market and Operational Risks Department carries out daily analysis of the established risk exposures to examine the consistency and reliability of market positions and sources. This department is also responsible for measuring financial instruments in proprietary positions. The general criteria to determine the fair value of financial instruments are:

- Wherever possible, all instruments are valued daily, at market prices or using models based on variables observed in the market.
- Wherever possible, market parameters are updated at least daily.
- A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the main market for the asset or liability or, in the absence of a main market, in the best market for the asset or liability.

Use of models makes it necessary to control, monitor and, as far as possible, measure model risk in the framework of market risk. Different financial instruments are classified according to their valuation difficulty.

Market liquidity risk

As a complement to the system of market risk limits, we operate a system of market liquidity limits. The aim is to prevent excessive concentration in a given asset on the books of BFA/Bankia that might lead as a result to its price being adversely affected in the event of a sale.

The metrics used to measure market liquidity risk are volume issued or traded on the market and issue size.

2.3.7 Counterparty risk

Credit/counterparty risk arises from the probability of a counterparty defaulting on its contractual obligations, resulting in the Bank incurring a loss on its financial market trades.

Counterparty risk management policies

The Manual on Credit Risk in Market Activities, approved annually by the Board of Directors, provides a general framework for the integrated, prudent and consistent management of credit risk inherent in both trading activities and on-balance sheet portfolios. This manual establishes the policies governing all actions with financial and non-financial entities. It also explains the different types of risk and the associated operations and transactions, the metrics used to calculate the exposure of the different products, the maximum limits/caps in place, the mitigation techniques and the tools used to control and monitor counterparty risk.

The manual sets a Global Risk Limit covering the Risk lines for financial institutions (trading in derivatives, cash/money market, other credit operations and fixed income), as well as the framework for unsecured securities lending and foreign trade operations. It also sets limits for each financial institution, which are valid for one year.

The maximum limit on the risk that can be assumed with a financial institution will be defined as a percentage of the Bankia Group’s Core Capital (coinciding with the minimum level of CET1 under Basel III at 1 January 2019, plus the capital buffer required on that date).

Specific individual limits are set on the basis of fundamentals. They correspond to levels of solvency (principal capital and total solvency), asset quality (non-performing loans and coverage), profitability, cost-to-income and the explicit ratings assigned by the relevant rating agencies.

For non-financial counterparties, the Corporate Wholesale/Retail Loan Approval and Monitoring Department analyses and presents —on an individual basis and on request, according to the existing framework of powers and authority— the financial programmes in which the limits and maximum terms for trading in derivatives and fixed income securities are to be included. Financial programs are valid for one year. The precise amount of the limits is established by calculating the estimated maximum risk —relying here on the information provided by the customer regarding the type of transaction or operation to be carried out— the maximum maturity of the transactions and the maximum nominal value.

Counterparty risk in market activities, for both financial and non-financial institutions, is managed as follows:

- Measuring, on a daily basis, the level of use of counterparty lines.
- Controlling and analysing breaches caused by new transactions or market movements.
- Calculating the fair value adjustment for derivatives upon incorporating the credit risk of both counterparties, as well as the credit valuation adjustment (CVA) and the debt valuation adjustment (DVA). The Bilateral Credit Valuation Adjustment Manual: BCVA contains all the information relating to the calculation of the BCVA (Bilateral Credit Value Adjustment).
- Monitoring overlimits and blocks on credit facilities and relaying this information quarterly to the relevant committee.
- Defining, for all the different financial products with which the Group operates, especially derivatives, the models for calculating its credit exposure.
- Performing daily controls on the different types of credit guarantee (collateral, early settlement clauses, etc.) and netting arrangements, and ensuring that these controls have the appropriate legal support. The Collateral Manual contains the policies and calculation methods for all collateral and other forms of security.
- Regularly reconciling the positions of the financial counterparties in compliance with EMIR regulations.
- Analysing and testing new software versions to be implemented in order to improve counterparty risk control.

In addition, on a monthly and quarterly basis, senior management, through the risk committee and the Risk Advisory Committee, respectively, reviews the credit risk to which the Entity is exposed through the limits monitoring report, which state:

- The exposure amount of financial and non-financial counterparties and its evolution.
- Utilisation of the overall risk limit.
- The credit valuation adjustment (CVA) and its changes over time.

Counterparty risk mitigation techniques

- Netting agreements

Trading in derivatives and repos and securities lending operations must be covered by the relevant standard framework contract (CMOF/ISDA (Contrato Marco de Operaciones Financieras/International Swaps and Derivatives Association), GMRA (Global Master Repurchase Agreement), GMSLA (Global Master Securities Lending Agreement), or EMA (European Master Agreement)). This way, the netting agreement can be applied and the exposure reduced.

- Guarantee agreements

The Collateral Manual, approved by the Board of Directors, defines the procedures and functioning of the Bank's collateral activity.

For all operations with financial counterparties involving derivatives, repos and securities lending, the parties will be required to sign the collateral annex (Annex III to CMOF, ISDA, CSA, GMRA and GMSLA).

The admitted types of collateral will be indicated in each contract signed with each of the counterparties. At present, the only collateral admissible as security under Bankia's existing contracts is cash denominated in euros, with exceptions made for certain financial counterparties, whose annex allows for the exchange of Treasury bonds.

The value or price of the transactions subject to these contracts is monitored daily and the collateral is adjusted accordingly.

At 31 December 2018, there were 1,946 netting agreements and 235 collateral agreements (119 derivatives, 81 repos and 35 securities lendings). Credit risk on derivatives trading has fallen by 89.93% by applying the associated netting and collateral agreements.

- Break clauses

In long-term contracts especially, it is common practice to appoint a date every few months or years on which either party can decide not to go ahead with the live transaction. There are generally accepted formulas for measuring the derivative and allowing an orderly settlement of the transaction. Third parties may intervene in the event of a dispute. Under the BFA risk system all break clauses are mandatory except where there are counterparties with signed collateral contracts, since the termination of these derivatives would generally be detrimental to Bankia. On an exceptional basis the manager of a counterparty can propose to the risk committee the non-exercise of a break clause.

- Derivative compression

Replacement of multiple existing derivatives between two (bilateral) or more (multilateral) entities with a much smaller number of contracts, with a lower notional amount and therefore a lower gross credit exposure.

Adverse correlation risk policies

Adverse counterparty correlation risk arises when the probability of counterparty default is adversely correlated either with general market risk factors (general adverse correlation risk) or with counterparty exposures themselves and their nature (specific adverse correlation risk).

As at 31 December 2018, the BFA Group believes that exposure to this risk is not material, because it does not expect significant future concentrations with a counterparty whose probability of default is high.

Transactions that may have an associated adverse correlation risk must be approved on an individual basis and, for risk purposes, compute at 100% of the nominal value.

In relation to the security received for derivatives and repos transactions, Bankia does not accept as collateral bonds whose issuer is the counterparty to the contract.

Effects in terms of the amount of collateral that will be required from the entity if there is a downgrade in the entity's own credit quality

At the BFA Group, the impact of a reduction in credit ratings would not be material.

Collateral contracts signed by the Bank are generally not open to impacts on the margin to be posted as a result of credit rating reductions.

2.3.8 Structural balance sheet risks

Structural interest rate risk on the balance sheet

Structural interest rate risk (off-balance-sheet positions) is a risk inherent in the banking business and an opportunity to generate value. Structural interest rate risk relates to potential losses in the event of adverse trends in market interest rates. Rate fluctuations affect both the Group's net interest income in the short and medium term, and its economic value in the long term. The intensity of the impact depends largely on different schedules of maturities and repricing of assets, liabilities and off-balance sheet transactions.

The Board of Directors delegates the management of structural risk to the assets and liabilities committee (ALCO), where the Entity's senior management is represented. The Committee analyses, manages and monitors structural risks in accordance with the Entity's Risk Appetite Framework and the limits approved by the Board and set out in the Structural Risk Management Policies Manual. The Corporate Finance Department, through different business divisions, executes decisions within its remit.

The Corporate Finance Department supports and guides the ALCO in the planning and control of the parameters of the financial strategy and the structure of the Entity's assets and liabilities. Control and monitoring is the responsibility of the Corporate Risk Department, which acts as an independent unit to ensure that risk management and control functions are properly separated, as recommended by the Basel Committee on Banking Supervision. To this end, the Structural Risk Department of the Market and Operational Risks Department specifies, calculates and monitors metrics related to structural risk. The calculation, proposal and reporting on changes in limits related to structural risk are also the responsibility of the Risk Department, although the Board, with the support of the Risk Advisory Committee, is ultimately responsible for approval and monitoring.

Each month, information on risk in the banking book is reported to the ALCO in terms of both economic value (sensitivities to different scenarios and VaR) and interest margin (net interest income projections in different interest-rate scenarios for horizons of 1 and 3 years). At least quarterly, the Board of Directors is informed through the Risk Advisory Committee on the situation and monitoring of limits. Any excesses are reported immediately to the board by the Risk Advisory Committee. In addition, part of the information prepared for the ALCO is distributed to the Global Risk Management Department for monitoring and reporting the Risk Appetite Framework, placing interest rate risk in relation to the rest of the Entity's risks.

According to current laws and regulations, the sensitivity of the net interest margin and the value of equity to parallel shifts in interest rates (currently ±200 basis points) is controlled. In addition, different sensitivity scenarios are established based on implied market interest rates, comparing them to non-parallel shifts in yield curves that alter the slope of the various references of balance sheet items.

In order to calculate the sensitivity of net interest income to changes in interest rates, the balance sheet aggregates that generate interest income or costs are identified and a maturity and interest rate review gap is created to show the concentration, by period, of these aggregates. Interest rate risk arises from the difference between the concentration of a greater balance of assets than liabilities in a given period and vice versa. For the sensitivity of economic value to interest rates the metric used is the duration of the balance sheet items.

To mitigate interest rate sensitivity in both respects financial hedging instruments are used in addition to the natural hedges of the balance sheet items themselves, with the goal of stabilising net interest income while preserving the economic value of the Entity.

Interest rate risk must be kept within the framework of the Entity's limits, which are much more demanding than the regulatory ones.

The interest rate risk on the balance sheet assumed by the BFA Group is lower than the levels considered significant (outliers) under current regulations.

Structural liquidity risk on the balance sheet

Structural liquidity risk consists of the uncertainty, in adverse conditions, of the availability of funds at reasonable prices, to enable the Entity to meet the obligations undertaken and finance the growth of its investment business.

The board delegates management of liquidity and funding risk to the ALCO, where the Entity's senior management is represented. The Committee analyses, manages and monitors liquidity risks in accordance with the Entity's Risk Appetite Framework and the limits approved by the board and set out in the Liquidity and Funding Risk Management Policies Manual. The Corporate Finance Department, through different business divisions, executes decisions within its remit.

The Corporate Finance Department supports and guides the ALCO in the planning and control of the parameters of the financial strategy and the structure of the Entity's assets and liabilities.

The Structural Risk Department of the Market and Operational Risks Department specifies, calculates and monitors metrics related to structural risk. The calculation, proposal and reporting on changes in limits related to this risk are also the responsibility of the Risk Department, although the board, with the support of the Risk Advisory Committee, is ultimately responsible for approval and monitoring.

Through the Internal Liquidity Adequacy Assessment Process presented to the Bankia Board of Directors on 26 April 2018, the Group stated that it had evaluated a series of qualitative aspects to verify the extent to which the management framework built around liquidity and funding risk complies with the supervisor's regulatory principles and guidelines and are in line with best market practices. The conclusion drawn from this process is that the Group has a liquidity and funding risk management framework with an acceptable level of risk in view of the institution's size and complexity. Through the ILAAP a qualitative evaluation was performed of the exposure to liquidity and funding risk considering both the institution's current and expected profile based on short- and long-term projections and business-as-usual and stressed market conditions. It was concluded that the Group's exposure to liquidity and funding risk is appropriate for its business model and compatible with a LOW risk level.

In its proactive liquidity risk management the Group has three main lines of action:

- First, we measure the self-financing capabilities of recurring activities. This chiefly takes the form of two metrics:
    - Gap Commercial gap: the difference between asset and liability cash flows relating to commercial activities facing the Entity's customers. This metric consists of calculating the difference between credit to customers and customer deposits.
    - The loan-to-deposit (LtD) ratio: is generically calculated as the quotient of loans to deposits. The ratio measures the self-financing capacity of the commercial balance sheet by placing net credit (ex insolvency fund) granted to customers in relation to deposits held with the Entity. A level above 100% indicates that some of the loans granted to customers are financed through the capital markets (bonds, senior and junior issues, etc.), which is usually a more volatile source of financing than commercial activity.
- The second area is the financing structure, identifying the relationship between short- and long-term funding, and the diversification of financing activity by type of assets, counterparties and other categories.
- Thirdly, pursuant to the current regulatory approach of stress ratios, the Entity is setting metrics that can be used to forecast and obtain a snapshot of the regulatory ratios over a longer time horizon.

As a supplement to the metrics, the Entity has a well-defined contingency plan, which identifies alert mechanisms and sets out the procedures to follow if the plan needs to be activated.

The liquidity metrics remained at comfortable levels throughout 2018. At year-end, the Group had a liquidity reserve of 32,621 million euros (gross liquid assets) consisting mainly of eligible assets; a regulatory liquid asset buffer (HQLA) of 32,495 million euros; a regulatory LCR (liquidity coverage ratio) of 174%, and a NSFR (net stable funding ratio) above 100% in 2018.

Table 7. Regulatory LCR

Millons of €	dec.-17	dec.-18
High quality liquid assets (numerator)	32,112	32,495
Total net cash outflows (denominator)	18.180	18.686
Regulatory LCR	**177%**	**174%**

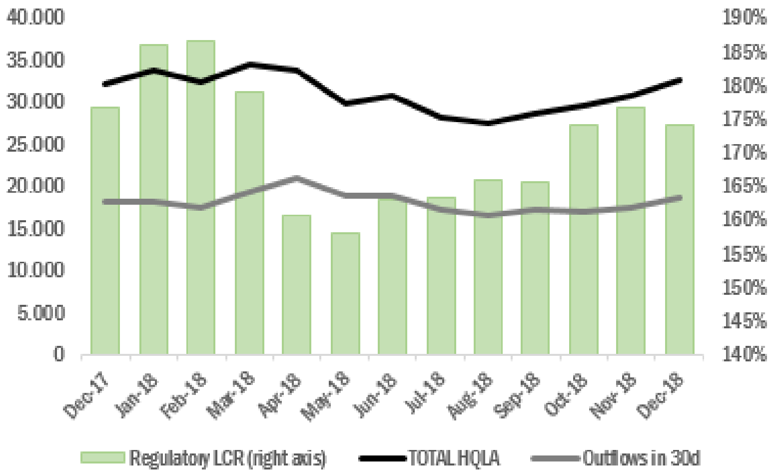


Table 8. Breakdown of regulatory liquid asset buffer

	dec.-17		dec.-18	
Millons of €	Market value	Haircut	Market value	Haircot
Level 1	**31,775**	**31,775**	**31,614**	**31,614**
Cash and central Banks	2,206	2,206	2,921	2,921
Treasuries and sovereign guarantee	29,143	29,143	28,326	28,326
Regional governments	426	426	367	367
Level 1B	**205**	**191**	**529**	**492**
Non-Bankia AA- rated covered bonds	205	191	529	492
Level 2A	**13**	**11**	**0**	**0**
Non-Bankia A- rated covered bonds	13	11	0	0
Level 2B	**190**	**135**	**523**	**389**
Non-Bankia AA- rated mortgage covered bonds	158	118	511	383
BBB- to A+ rated corporate bonds	16	8	10	5
Other	17	8	3	1
Total HQLA	**32,184**	**32,112**	**32,666**	**32,495**

Table 9. LCR detail (monthly average values) (EU LIQ1)

Amounts in millions of €	Dec 17 Total unweighted value (average)	Dec 17 Total weighted value (average)	Mar 18 Total unweighted value (average)	Mar 18 Total weighted value (average)	Jun 18 Total unweighted value (average)	Jun 18 Total weighted value (average)	Sep 18 Total unweighted value (average)	Sep 18 Total weighted value (average)	Dec 18 Total unweighted value (average)	Dec 18 Total weighted value (average)
HIGH-QUALITY LIQUID ASSETS										
Total high-quality liquid assets (HQLA)		**28,405**		**29,267**		**30,476**		**30,573**		**31,006**
CASH – OUTFLOWS										
Retail deposits and deposits from small business customers, of which:	**77,525**	**4,979**	**82,099**	**5,279**	**86,612**	**5,593**	**91,075**	**5,890**	**94,038**	**6,045**
Stable deposits	64,420	3,222	67,949	3,398	71,354	3,568	74,741	3,738	77,123	3,856
Less stable deposits	12,920	1,571	13,966	1,696	15,062	1,829	16,141	1,959	16,763	2,037
Unsecured wholesale funding	**20,380**	**11,742**	**20,600**	**11,358**	**21,779**	**11,704**	**22,305**	**11,598**	**22,931**	**11,770**
Operational deposits (all counterparties) and deposits in networks of cooperative Banks	552	135	2,173	530	3,917	955	5,721	1,395	6,879	1,676
Non-operational deposits (all counterparties)	19,627	11,406	18,238	10,639	17,498	10,386	16,217	9,837	15,592	9,634
Unsecured debt	202	202	189	189	364	364	366	366	460	460
Secured wholesale funding		**13**		**3**		**1**		**1**		**4**
Additional requirements	**14,245**	**1,807**	**12,269**	**1,596**	**10,142**	**1,379**	**7,921**	**1,143**	**7,439**	**1,064**
Outflows related to derivative exposures and other collateral requirements	602	545	543	520	511	500	446	443	392	389
Outflows related to loss of funding on debt products	46	46	40	40	34	34	30	30	29	29
Credit and liquidity facilities	13,597	1,216	11,686	1,037	9,596	844	7,445	670	7,019	646
Other contractual funding obligations	**126**	**126**	**117**	**117**	**108**	**108**	**104**	**104**	**39**	**39**
Other contingent funding obligations	**2,125**	**130**	**5,540**	**346**	**9,324**	**618**	**13,033**	**889**	**14,612**	**1,009**
TOTAL CASH OUTFLOWS		**18,796**		**18,700**		**19,403**		**19,626**		**19,931**

CASH – INFLOWS										
Secured lending (e.g. reverse repos)	**259**	**0**	**281**	**0**	**341**	**0**	**471**	**140**	**420**	**0**
Inflows from fully performing exposures	**2,531**	**1,347**	**2,824**	**1,510**	**3,027**	**1,619**	**3,193**	**1,713**	**3,245**	**1,746**
Other cash inflows	**91**	**83**	**80**	**57**	**78**	**54**	**75**	**51**	**56**	**40**
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		**0**		**0**		**0**		**0**		**0**
(Excess inflows from a related specialised credit institution)		**0**		**0**		**0**		**0**		**0**
TOTAL CASH INFLOWS	**2,881**	**1,430**	**3,185**	**1,567**	**3,446**	**1,673**	**3,738**	**1,904**	**3,720**	**1,786**
Fully exempt inflows	0	0	0	0	0	0	0	0	0	0
Inflows subject to 90% cap	0	0	0	0	0	0	0	0	0	0
Inflows subject to 75% cap	2,881	1,430	3,185	1,567	3,446	1,673	3,738	1,904	3,720	1,786
		TOTAL WEIGHTED VALUE		**TOTAL WEIGHTED VALUE**		**TOTAL WEIGHTED VALUE**		**TOTAL WEIGHTED VALUE**		**TOTAL WEIGHTED VALUE**
LIQUIDITY BUFFER		**28,405**		**29,267**		**30,476**		**30,573**		**31,006**
TOTAL NET CASH OUTFLOWS		**17,366**		**17,132**		**17,730**		**17,862**		**18,145**
LIQUIDITY COVERAGE RATIO (%)		**164%**		**171%**		**172%**		**171%**		**171%**

Additional qualitative information on liquidity risk:

- Concentration of liquidity and funding sources: Funding is concentrated mainly in the ECB through its TLTRO programme. Secondly, there is funding in clearing houses (LCH).

- Exposure to derivatives and potential collateral calls: the Entity monitors the impact of this risk on its overall funding; it represents an immaterial amount of modelled outflows in adverse scenarios.

- Imbalances due to foreign currencies in the LCR: our business is concentrated in Spain, so currency risk is negligible.

- Description of the level of centralisation of liquidity management and interaction among the Group's various units: Owing to its organisational structure, most of the Group's liquidity and funding risk oversight and control efforts are focused on Bankia, itself comprising a set of companies engaged in a variety of activities that, for liquidity and funding purposes, operate as independent units. The overarching principle is not to have any contracts that allow for the free circulation of funds between these companies and the Bankia parent. The largest intragroup cash flows arise between Bankia and BFA Holding Company, since the latter is charged with decision-making, managing policies, defining strategies and determining liquidity and funding risk exposure limits to Bankia S.A. From 1 January 2015, after BFA surrendered its status as a credit institution, a contract has been in force between Bankia and BFA which provides BFA with liquidity and financing mechanisms to ensure the structural and permanent financing of its liquid assets portfolio. The contract is at arm's length and properly secured. In 2018, these requirements were met in the repos markets.

- Other elements related to LCR calculation not shown in the LCR disclosure template yet which the Entity considers relevant: In addition to managing its liquidity under normal conditions, the Entity has also prepared itself to do so in situations of stress. As a supplement to the LCR, a programme of monthly stress tests is carried out to measure stress indicators (in accordance with Article 5 of Commission Delegated Regulation No 575/2013 as to the liquidity coverage requirement applicable to credit institutions) for each type of crisis (own, systemic and hybrid), and to adapt it to different time horizons (from one day to one year).

Note also that Note 3.2 of the BFA Group's consolidated financial statements includes the maturities of the Group's issuances from 2019 onward and the residual maturities of the assets and liabilities appearing on the consolidated balance sheet at 31 December 2018.

2.3.9 Operational risk

Operational risk control is overseen by the Market and Operational Risks Department, which is part of the Corporate Risks Department.

BFA's operational risk management aims to minimise possible losses arising from failures or shortcomings in processes, personnel or internal systems, or from external events. This definition includes legal risk, but not reputation risk. Reputational or brand risk is taken into account by qualitatively evaluating the impact on end customers of any identified operational risks.

Bankia's operational risk management objectives are:

- The BFA Group's operational and IT risk management not only covers the recognition of loss events and accounting of the losses, but also promotes control to minimise the potential negative impacts through continuous improvement to processes and the strengthening of operational controls.
- Promote the implementation of more relevant operational risk mitigation plans as set out in the Risk Appetite Framework.
- Define and approve the policies and procedures for the management, control and oversight of this risk.
- Conduct regular reviews of management information.
- Approve and oversee implementation of operational and IT risk mitigation plans.
- Operational and IT risk management must be implemented throughout the Entity to help achieve the institution's targets through the management, prevention and mitigation of the related risks.
- Maintain a control environment and culture that ensures that all groupings are aware of the risks to which they are exposed, establish an adequate control environment and assume the responsibilities in this respect.
- Supervise on an ongoing basis compliance with the Entity's risk policies and procedures.
- Put in place procedures that guarantee compliance with current and future legal requirements.
- Guarantee that all internal risk information is duly documented and available to the oversight bodies and areas involved.

The equity requirements for covering operational risk are set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 ("CRR"). Although the Regulation does not require transposition into Spanish law, and until the Bank of Spain issues a new circular, the provisions of Circular 2/2016, of 2 February 2016, on the determination and control of minimum capital requirements, which regulates the treatment of this type of risk in the field of credit institutions, must be taken as a supplement.

In 2018, the BFA Group calculated capital requirements combining the standard approach for Bankia's relevant revenues at the subconsolidated level and using the basic indicator approach for the "excess" implied by BFA's relevant revenues, which consists of applying a percentage of 15% to the average of the relevant income for the past three years.

In 2018, subsidiary company Bankia and its Group assessed the capital requirements for operational risk under the Standardised Approach, whereby the relevant income by business line (previously defined in the standard) is distributed applying the three-year average for each line, using a specific percentage that seeks to reflect the sensitivity of each line to operational risk.

Operational risk management takes various forms:

- Annual self-assessments of expected loss.
- Management, automation and accounting reconciliation of the Loss Base.
- Continuous review of operational risk indicators, thresholds and alerts.
- Launching and monitoring of action plans and operational risk mitigation plans alongside other departments and areas of the organisation.
- Drawing up operational risk stress scenarios in collaboration with other areas of the organisation, such as legal services, security and technology.
- Taking part in multidisciplinary working groups.

Main milestones in 2018

- Various improvements were made to the operational risk management framework in 2018, notably the creation of Intermediate Control Units, or ICUs for short.

  To centralize management in relation to the main areas of operational risk, the Bank has created the figure of Intermediate Control Unit (ICU), which acts as a bridge between the Operational Risk Department and the Operational Risk Originator Centres (OROCs). In certain cases, no Intermediate Unit is required and therefore the OROC remains the direct point of contact.

  Both the ICUs and the OROCs collaborate actively with the Operational and Technology Risk Department and oversee the risk management process by identifying, evaluating, monitoring and controlling operational risks that affect both their unit and those services that have been outsourced to third parties (suppliers). Their functions are set out in the Operational Risk Policies and Procedures Manual, the latest version of which was approved by the Board of Directors in November 2018.

  The Outsourcing Governance Model (OGM) was approved in April 2018, followed by the OGM Functions Manual in July 2018, which assigns specific risk control functions to the Operational and Technology Risk Department. More to the point, the department has been assigned second line of defence functions in drawing up risk analysis reports for services delegated or outsourced to suppliers.

  In 2018, the department drew up six reports for essential services and four reports for high risk services in the IT area, as well as one essential service report and six high risk service reports for non-IT domains. These reports are presented to the Operational and Technology Risk Committee (OTRC) for the record and/or approval, depending on how essential the service is considered.

- In 2018, the Technology Risk Department lent its support to the process of designing a Synthetic IT Risk Indicator, which has now been included in the Risk Appetite Framework (RAF), for monitoring and future calibration based on its performance.
- The Bank is currently in the process of analysing and simulating the impact of the new approach to measuring regulatory capital under the SMA. It is also planning adaptations to

the ARO application to allow for more accurate future calculations of SMA regulatory capital and certain other developments are also in the process of being implemented.

- An operational risk training video was created between 2017 and 2018. It must be watched and completed by all people attached to the commercial network. This training initiative will continue throughout 2019 and the perimeter of target employees has been widened.

- Meanwhile, and as part of the risk culture awareness plan, new content has been included on the Risks Site of the Corporate Intranet to raise awareness of the valuable work performed by the Operational and Technology Risk Department and of the functions and members of the Operational and Technology Risk Committee.

- In 2018, the functions, meeting schedule and members of the Operational Risk Committee were updated, approved and included in the Policies and Procedures Manual so as to ensure that it reflects the actual functioning of the committee and the matters it addresses.

2.3.10 Conduct risk

The Bankia Group attaches importance to managing conduct risk. We operate the necessary risk management and control mechanisms with the aim of minimising actions contrary to customers' interests that could lead to a loss of reputation or supervisory sanctions.

The policies and procedures established by the Bankia Group to manage conduct risk include the Group's Internal Code of Conduct in the Securities Market and the Group's Code of Ethics and Conduct, which stipulates that all Group employees must "market quality products and services that are personalised and adapted to customer needs". This provision is implemented in the Bank's internal procedures for marketing new products.

The Compliance function, alongside other business and control areas of the Bank, identifies and evaluates the compliance risks surrounding the Bank's business activities, as to both market conduct and the marketing process, to minimise the probability of this risk materialising and report any deficiencies detected so that they can be promptly corrected. In addition, as the second line of defence, the Compliance function conducts reviews of existing processes and controls carried out by the first line of defence to check that they are properly updated and implemented and to instruct the affected areas to develop and implement any necessary improvements to mitigate conduct risks.

Within the framework of operational risk management, risk events relating to conduct risk are identified. Such events take the form of fines, sanctions, and payment of damages and costs arising from regulatory breaches or customer complaints. In addition, we have in place compliance monitoring and control procedures and action and mitigation contingency plans.

2.3.11 Reputational risk

Definition

For Bankia, reputational risk is defined as "the probability of loss as a result of any event involving a failure to meet stakeholder expectations to the point that this undermines the level of recognition achieved or prevents the desired level from being reached, resulting in an adverse attitude and/or behaviour that could have a negative impact on the business."

Risk management structure

The Bank aims to improve its recognition and standing among its stakeholders so that it does not incur financial and legal cost overruns, and to manage its business activities in accordance with its chosen level of risk appetite and tolerance.

Reputational risk is to be measured annually. This process will include monitoring the relevant risk indicators and carrying out the internal self-assessment exercise, while also calculating capital requirements for reputational risk, which is part of the internal capital adequacy assessment process. The Operational and Technology Risk Department shall report this information to the Operational and Technology Risk Committee, which shall then relay it to the Risk Advisory Committee and to the Appointments and Responsible Management Committee, while the Communication and DGD for External Relations shall inform the Responsible Management Committee of all aspects related to the monitoring and measurement of that risk.

The Entity's reputational risk management requires an organisational structure with heightened implementation, as this is a cross-cutting risk with a presence in all areas of the Entity.

The key bodies are:

- The Board of Directors, which will approve the strategies, policies and procedures for measuring reputational risk.
- The Risk Advisory Committee is the body responsible for establishing and supervising compliance with the Bank's risk control mechanisms. It will receive an annual report from the Chairman of the Operational and Technology Risk Committee, who will describe and appraise those risk events deemed especially severe, confirm whether they have been included in the reputational risks map, and explain the annual changes in the synthetic index (ISRR) and how capital requirements for reputational risk have been calculated.
- The Appointments and Responsible Management Committee is tasked with assessing and monitoring responsible management strategies, policies and practices. It will receive an annual report from the Chairman of the Operational and Technology Risk Committee, who will describe and appraise those risk events deemed especially severe, confirm whether they have been included in the reputational risks map, and explain the annual changes in the synthetic index (ISRR) and how capital requirements for reputational risk have been calculated.
- The Global Risk Control and Supervision Committee is responsible for controlling, overseeing and effectively challenging trends and changes in the Group's risk profile, in the risk appetite approved by the Board of Directors, and in the business model. In doing so, it shall follow a holistic and forward-looking approach. The committee also analyses any deviations that might affect the Group's risk profile, solvency and/or liquidity and proposes, where necessary, any measures deemed appropriate.
- In the first half of the year, the Operational and Technology Risk Committee receives detailed information on the reputational risk self-assessment, the annual change in the synthetic index (ISRR), and the most underperforming indicators during the year. It also receives information on the calculation of the economic impacts associated with potential events affecting reputational risk.

As the first line of defence, the Corporate Departments form the front executive line of Bankia's structure, both for the Businesses and Central Services. Reputational risk management is distributed across the entire organisation and there is no specific group or unit responsible for approving the risk. It is therefore down to the Bank as a whole to assess and appraise the risk.

The Corporate Departments are responsible for defining the RRMCs, meaning the Reputational Risk Management Centres with remit over their department, and will also appoint the coordinators responsible for those centres.

The Corporate Departments will receive a report at last one a year on all progress made and work carried out in the realm of reputational risk through the Reputational Risk Management Centres (RRMCs) set up within their respective departments.

The main responsibilities of the Reputational Risk Management Centres are as follows:

- Answering specific questions included in the reputational risk self-assessment questionnaires each year, so as to identify and/or update the reputational impact of the different risk events.
- Tracking and reviewing any reputational risk events that could materialize within the scope of their actions. They must also proactively inform the coordinating departments of any significant change in the existing assessment of a risk event or upon identifying a new risk event that has yet to be included in the Reputational Risk Map.
- Reporting annually to their respective Corporate Departments on all work carried out in relation to reputational risk.
- Providing the coordinating departments each year with the relevant performance indicators for each risk event for which they are responsible. They shall also periodically review the suitability of these indicators, as well as the thresholds associated with each of them, and must likewise update them as and when required (adding, removing or modifying them), while explaining the reasons for any such update.
- RRMCs involved in the process of defining the indicators used for the economic quantification of reputational risk shall conduct annual reviews of their methodology and suitability, and shall adapt them if necessary based on the circumstances.
- Defining own action plans for those monitoring indicators showing the worst performance.
- Championing a reputational risk culture across their department, integrating reputational concerns into its daily activities and taking account of possible negative impacts on decision-making.

The Deputy General Director for Communication and External Relations helps measure the Bank's reputational risk by assuming the following functions:

- Annually calculating the social sensitivity variable to be included in the reputational risk self-assessment process.
- Updating the Bank's stakeholder hierarchy.
- Conducting external consultation processes with Bank stakeholders.

- Drawing up the qualitative part of chapter 1 of the internal capital adequacy assessment report and of the section in chapter 2 of that same report that analyses the news and media exposure.

- Drafting part of the reputational risk report and reporting annually to the Operational and Technology Risk Department on the scores and results obtained under the different reputational indexes and the analysis of social sensitivity.

The Operational and Technology Risk Department can be found in the second line of defence. Because operational risk events and reputational risk events are closely related, the Operational and Technology Risk Department is responsible for controlling, measuring and assessing the reputational risk events identified at the Bank.

The Operational and Technology Risk Department has the following responsibilities when it comes to reputational risk:

- Sending the self-assessment questionnaire to the Reputational Risk Management Centres (RRMCs) and aggregating the results obtained. When conducting this self-assessment, the department must identify at the outset the RRMCs for the different risk events.

- Identifying new reputational risk events and supporting the RRMCs in identifying and establishing performance indicators and associated thresholds. These indicators will function as alerts for the control of reputational risk when the thresholds established by the RRMC are breached.

- Requesting the RRMCs to define action plans to mitigate the reputational risk caused by reputational events, in accordance with the defined performance indicators and as and when the respective thresholds have been breached.

- Ensuring adequate documentation and tracking at all times of reputational risk measurement and control procedures.

- Consolidating and augmenting the Bank's reputational risk control culture.

- Helping respond to requests received from the control departments on matters relating to reputational risk.

- Conducting annual reviews of economic loss data provided by the RRMCs during the self-assessment exercise for each risk event, with authority to benchmark those data with the operational losses recorded for those same concepts.

- Updating the periodic information required internally (such as by Global Risk Management, Corporate and Regulatory Planning, etc.) so that it can be included in the different reports generated at Bankia (ICAAP, etc.).

- Functions during the ICAAP annual exercise:

    - Reviewing the premises and assumptions used in the annual reputational risk capital calculation exercise and determining whether it is necessary to include new indicators to capture the impact of those events considered especially severe to ensure the completeness of the analysis.

- Quantifying the economic impact of reputational risk on the statement of profit or loss and on capital.
- Reporting annually to the Operational and Technology Risk Committee on trends and changes in reputational risk.

Identifying reputational risk events

The first step in designing the Entity's reputational risk map is to define what it wishes to safeguard, i.e., what the keys to Bankia's reputation are and the traits for which it wishes to be recognised by its stakeholders. Only then are we able to identify milestone events that could impair our reputation and prompt adverse behaviour by stakeholders that might have a negative impact on the business.

To identify risk events, we consider a range of criteria that bring together the risk and reputation perspectives. Some of these are:

- Risks suggested by regulators and supervisors in their publications
- Corporate risk map
- Traits for which the Entity seeks to be recognised among its stakeholders, and their specific meanings
- Controversies and expectations among the stakeholders who shape community perceptions of the financial services industry (identified through references in the media and social media, consultations, satisfaction surveys, etc.)

This is the key stage for designing Bankia's reputational risk map and calculating the economic effect of each risk. The Entity has designed a modular model that allows for adding further assessment criteria until completion.

This approach encourages the emergence of a reputational risk culture and an awareness of the reputational impact of any decision taken by the Entity.

Reputational risk assessment

Bankia's reputational impact is measured using a specifically designed approach that identifies and prioritises risk events on the basis of their impact on the Entity's reputation and the probability of such event leading to a loss of reputation.

We assess reputational risk events and the indicators linked to each identified event for the Entity's various stakeholder categories.

This assessment process encourages the emergence of a reputational risk culture and an awareness of the reputational impact of any decision taken by the Entity.

Main milestones in 2018

In June 2018, the Board of Directors approved a new version of the Reputational Risk Policies and Procedures Manual.

In 2018, work continued on one of the main pillars of Bankia's reputational risk model and on integrating it within the Bank's risk model.

The number of departments involved in the process has continued to rise with the appointment of new RRMCs. This will ultimately generate a clearer and more global picture while providing a more robust and complete risk management tool for decision-making.

2.3.12 Internal validation and internal control

Both functions are located in the Risk Control and Supervision Secretariat

Internal validation

The main goal of the Internal Validation Department is to issue an independent, complete, well-founded and updated opinion on whether the models work as planned and whether the results obtained are suitable for the different uses to which they are applied, both regulatory and management.

The scope of the work of the Internal Validation Department encompasses all the essential elements of an advanced risk management system: methodologies, data used, quantitative aspects, qualitative aspects (reporting, use test, role of senior management and internal controls), technological environment and documentation.

All this is done by a specific unit that is independent from the organisational units in charge of developing and implementing the models. The unit reports to the Risk Control and Supervision Secretary's Office, within the Corporate Risk Management Department, which in turn reports to the CEO.

The mission of the Internal Validation Department is to carry out the process in two ways:

- Regulatory requirements: to comply with the requirements of BIS II/III, CRR/CRD IV (Capital Requirements Regulation and Directive) and technical documents published by the EBA, IFRS9 and guide to the targeted review of internal models (TRIM).
- Management requirements: given the increased complexity of risk management, it is necessary for the Bank itself to follow the functioning of the models and check that they are useful for the internal uses expected of them.

The Internal Validation functions at the Entity are:

- Preparation and issuance of validation process reports.

As required by regulations, the validation process has a regular annual cycle that ensures that the opinions of the Internal Validation Department are valid at this frequency. Planning is produced annually, using information on the activities that are to be undertaken over the course of the year.

As stated in DV2 and in Article 11 of the EBA Directive (EBA/RTS/2016/03 EBA: Final Draft Regulatory Technical Standards: on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach), the corresponding reports reach at least as far as the top management of the validated areas, as well as Internal Audit and any committee involved in risk management.

- Involvement in model approvals and modifications

In accordance with the provisions of the protocol for the approval of internal models

- Issuance and follow-up of recommendations for improvement

Bankia's Internal Validation Department issues and monitors recommendations for improvement that it considers appropriate in each validation process. Recommendations for improvement that are thought necessary are issued with each validation process.

The Department also draws up a follow-up report on the recommendations issued, which is presented:

- At meetings to follow up on recommendations held between the Audit Department and Risk Departments.
- At the Risk Advisory Committee.

The scope of Internal Validation work is limited to the following areas:

- Credit risk:
    - Rating and scoring models.
    - Risk parameters: PD, LGD and EAD/ CCF.
    - Risk outputs: expected loss and regulatory capital.
    - IFRS9 models.
- Market risk: VaR model, sVaR, IRC, hypothetical portfolios and pricer.
- Counterparty risk: exposure calculation, capital requirement and CVA.
- Liquidity risk: review of the LCR indicator, stress scenarios and revision of the FTP estimation process.
- Structural risk: validation of assumptions, parameters and models.

As a result of the validation, a four-tier assessment is arrived at based on the relevance and impact of the identified weaknesses, under the following criteria:

- The model is considered suitable for use. The model presents a low risk, without deficiencies or with minor deficiencies.
- The model is considered suitable for use. The model presents a medium-low risk, or with moderate deficiencies.
- The model is considered suitable for use.The model presents a medium-high risk, or with high deficiencies.
- Serious deficiencies in the model render it unfit for management/regulatory purposes until the shortcomings are resolved.

Internal control

Internal control of risks is defined as the set of continuous processes over time that are carried out to secure a reasonable assurance in the target business areas in three respects:

- Adequate risk management in accordance with strategic objectives.
- Effectiveness and efficiency in the established processes and controls.
- Compliance with applicable laws and regulations on risks and with internal policies and procedures.

The BFA-Bankia Group sees internal control as a function whose performance requires the involvement and commitment of all members of the organisation. The Internal Control area is accordingly divided into three lines of defence, where the first line of defence is made up of the operating areas, business lines or support units, the second line of defence is Internal Control itself, and the third is Internal Audit. The roles and responsibilities are as follows:

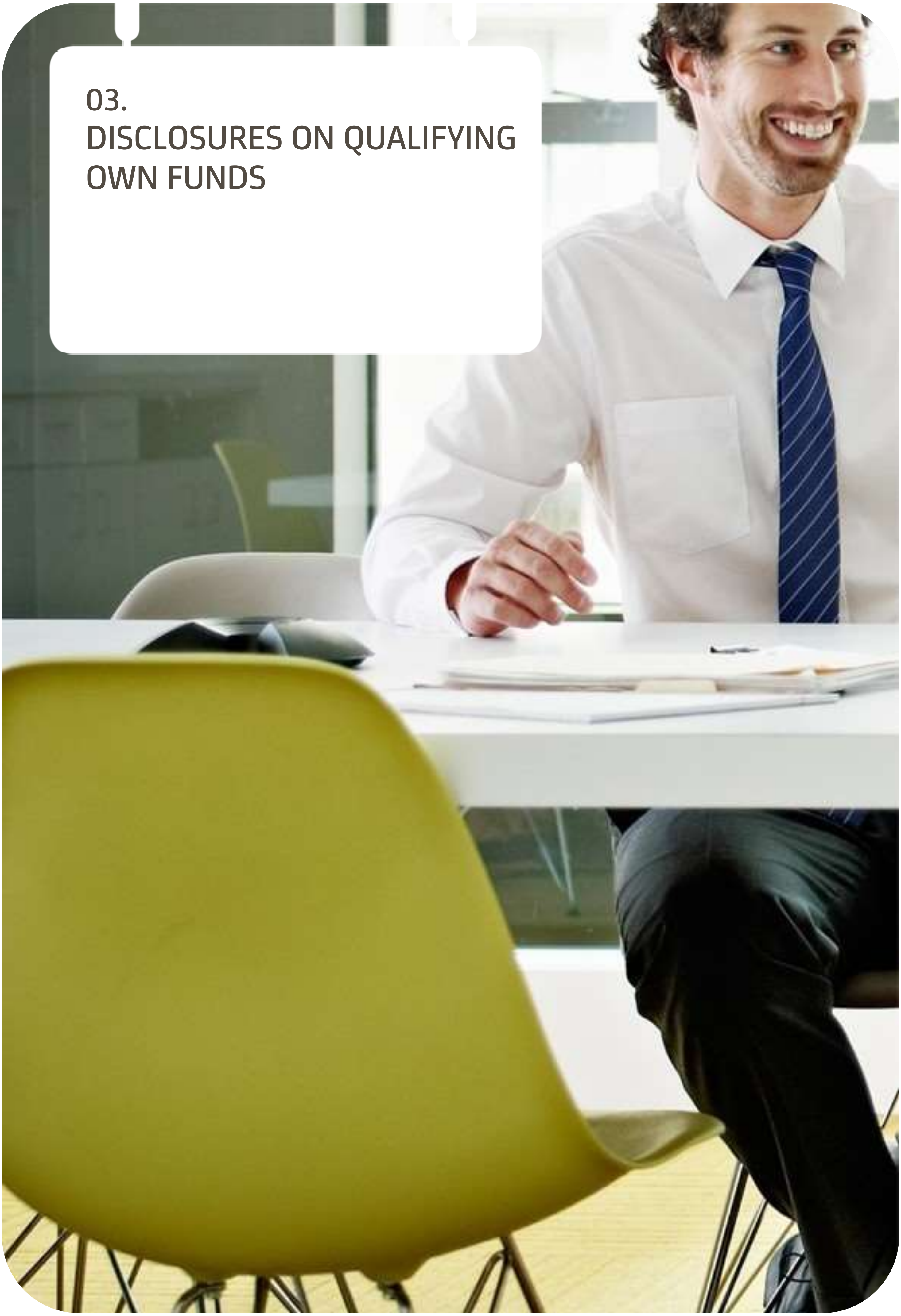
- The first line of defence entails operational areas, business lines or support units, as well as risk areas that directly service the business. They are responsible for the application of Internal Risk Control procedures in each of the processes in which they are involved and for which they are responsible, and they take on the management of the risks arising from these processes.
- The second line of defence, risk control, consists of the Centralised Risk Management Units, including the Internal Validation and Internal Risk Control Departments. Internal Risk Control must be independent from the areas mentioned above for the implementation of the Internal Risk Control function. It is responsible for defining applicable policies and procedures, coordinating and supervising evaluation and control activities, implementing action plans, and generating management reports to departments and governing bodies.
- The third line of defence is the Internal Audit area, as the independent evaluator in charge of supervising the correct functioning of the Internal Risk Control system, compliance with policies and procedures, and final assessment of the effectiveness of implemented action plans and initiatives.

In 2018 the Internal Control Department fulfilled the following main functions in the domain of risks:

- Control of monitoring activity in relation to Credit Risk Policies, reporting the results to the Risk Advisory Committee.
- The project is under way to implement a new internal risk control model and meetings have now been held with the Risk departments to analyse the different processes and identify the associated risks and controls so as to be able to quantify and monitor the control environment and thus achieve continuous improvements in risk management at the Bank.
- Helping to perform activities considered critical within risk management.

Internal Audit reviews the internal control framework as a “third line of defence”. It forms part of the Bank’s internal control environment and remains fully independent from the operating, business and support areas.

03.
DISCLOSURES ON QUALIFYING OWN FUNDS



CHAPTER 3. DISCLOSURES ON QUALIFYING OWN FUNDS

3.1 Main features of the Group's own funds

The Group's own funds that qualify under Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 comprise the following elements:

- Common Equity Tier 1 capital. This includes share capital, share premium accounts, explicit and effective reserves, qualifying earnings that are intended to increase reserves, unrealised gains on available-for-sale financial assets and the qualifying portion of minority interests. Common Equity Tier 1 capital is adjusted downward by the following deductions: goodwill items and other intangible assets, net tax assets that rely on future profitability, holdings of own Tier 1 capital instruments, the shortfall of provisions with respect to expected loss on IRB exposures and the expected loss on capital instruments.

- Additional Tier 1 capital. This includes Additional Tier 1 minority interests, adjusted downward by the residual amount of intangible assets (including goodwill). The Group does not hold any debt instruments that qualify in the BFA's Tier 1 Capital. The convertible debt issued by Bankia, S.A. in 2017 and 2018 qualifies in Group's Tier 2 capital.

- Tier 2 capital. This includes debt instruments that satisfy the requirements to qualify in this category; mainly, preferred debt and convertible debt issued by Bankia and the qualifying portion of minority interests within this tier. Throughout 2018, the Group has issued Tier 2 Capital instruments of BFA Group amounting to 500 million of euros.

3.2 Qualifying own funds

The main elements and deductions determining the Group's qualifying own funds at 31 December 2018 and 2017 are described below:

Table 10. Common Equity Tier 1 capital (CET1)

Million €

	TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE	2017	2018
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	2,335	2,335
	of which: Instrument type 1	2,335	2,335
	of which: Instrument type 2	0	0
	of which: Instrument type 3	0	0
2	Retained earnings	282	250
3	Accumulated other comprehensive income (and other reserves)	7,195	6,792
3a	Funds for general banking risk	0	0
5	Minority interests (amount allowed in consolidated CET1)	3,364	3,183
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	0
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**13,175**	**12,561**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	52	22
8	Intangible assets (net of related tax liability) (negative amount)	287	502
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	1,844	2,009
11	Fair value reserves related to gains or losses on cash flow hedges	-6	-1
12	Negative amounts resulting from the calculation of expected loss amounts	95	1
20a	Exposure amount of the following items which quality for a RW of 1250%, where the institution opts for the deduction alternative	14	6
20c	of which: securitisation positions (negative amounts)	14	6
26	Regulatory adjustments applied to Common Equity Tier 1 as to amounts subject to pre-CRR treatment	-1,239	-1,161
26a	Regulatory adjustments as to unrealised gains and losses under Articles 467 and 468	89	0
	Of which: ... unrealised gains filter 1	86	0
	Of which: ... unrealised gains filter 2	3	0
26b	Amount to be deducted or added to Common Equity Tier 1 in respect of other filters and deductions required pre-CRR	-1,328	-1,161
	Of which: ... Intangible assets	-57	0
	Of which: ... Deferred tax assets that rely on future profitability	-1,257	-1,162
	Of which: ... Expected loss	-19	0
	Of which: ... Cash flow hedges	6	1
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET 1)**	**1,047**	**1,377**
29	**Common Equity Tier 1 (CET1) capital**	**12,128**	**11,184**

At the date of issue of the COREP capital adequacy of December 2017 statements the Group had not requested authorisation from the Supervisor for early inclusion of 2017 earnings in Common Equity Tier 1 capital. Those earnings automatically qualified once they have been formally adopted by the Entity.

Table 11. Additional Tier 1 capital (AT1) and Tier 1 capital

Million €

	Own funds disclosure template	dec.-17	dec.-18
	Additional Tier 1 (AT1) capital: instruments		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	399	470
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**399**	**470**
	Additional Tier 1 (AT1) capital: regulatory adjustments		
41a	Residual amounts deducted from Additional Tier 1 capital with respect to the deduction of Common Equity Tier 1 in the course of the transitional period under Article 472 of Regulation (EU) 575/2013	67	0
	Of which: Intangible assets and goodwill	57	0
	Of which: Expected loss	10	0
	Of which: Excess AT 1 deductions	0	0
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**67**	**0**
44	**Additional Tier 1 (AT1) capital**	**332**	**470**
45	**Tier 1 capital (T1=CET1 + AT1)**	**12,460**	**11,654**

Table 12. Tier 2 (T2) capital and total capital

Million €

	TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE	dec.-17	dec.-18
	Tier 2 (T2) capital: instruments and provisions		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	1,826	1,837
50	Credit risk adjustments	0	191
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,826**	**2,028**
	Tier 2 (T2) capital: regulatory adjustments		
56a	Residual amounts deducted from Tier 2 capital with respect to the deduction of Common Equity Tier 1 in the course of the transitional period under Article 472 of Regulation (EU) 575/2013	10	0
	Of which: Expected loss	10	0
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**10**	**0**
58	**Tier 2 (T2) capital**	**1,817**	**2,028**
59	**Total capital (TC= T1 + T2)**	**14,277**	**13,681**
60	**Total risk weighted assets**	**87,065**	**83,246**

Table 13. Capital ratios and buffers, thresholds, limits and instruments subject to phase-out

EUR million and %

TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE		dec.-17	dec.-18
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.9	13.4
62	Tier 1 (as a percentage of total risk exposure amount)	14.3	14.0
63	Total capital (as a percentage of total risk exposure amount)	16.4	16.4
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.4	6.9
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	153	74
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	333	388
74	Empty set in the EU	0	0
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	455	565
Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	230	318
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	0
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	244	249
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangement	N/A	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	N/A

At the date of issue of the COREP capital adequacy of December 2017 statements the Group had not requested authorisation from the Supervisor for early inclusion of 2017 earnings in Common Equity Tier 1 capital. Those earnings automatically qualified once they have been formally adopted by the Entity.

The Group's capital ratios excluding profit for 2017 are 13.62% for Common Equity Tier I capital, 14.00% for Tier I capital, 2.10% for Tier II capital and 16.10% for total capital.

04.
DISCLOSURES ON OWN FUNDS REQUIREMENTS

CHAPTER 4. DISCLOSURES ON OWN FUNDS REQUIREMENTS

Under Article 92 of the CRR, institutions must satisfy the following own funds requirements:

- Common Equity Tier 1 capital ratio of 4,5 %, being the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
- Tier 1 capital ratio of 6 %, being the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount.
- Total capital ratio of 8%, being the own funds of the institution expressed as a percentage of the total risk exposure amount.

Capital requirements are assessed mainly on the basis of the following risk items:

Credit risk and dilution risk

A measure of the probability of financial loss due to breach by a customer of contractual obligations by reason of insolvency.

Counterparty risk

The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. This risk arises from derivatives, sale and repurchase transactions, securities lending and long-settlement transactions.

Market risk

This risk relates to the trading book, and its key factors are changes in interest rates, currency exchange rates, share prices, credit spreads and commodity prices.

Credit valuation adjustment risk

Own funds requirements are calculated in respect of credit valuation adjustment risk for OTC derivative instruments other than credit derivatives recognised to reduce risk-weighted exposure amounts for credit risk of the financial counterparts.

Operational risk

The risk of loss resulting from inadequate or failed internal processes, people and internal systems or from external events, including legal risk. Own funds requirements are determined in accordance with Title III of the CRR for operational risk.

4.1 Total amount of minimum own funds requirements

Capital requirements at 31 December 2018 and risk-weighted assets at 31 December 2018 and 2017 are summarised below on the basis of the measurement approach used for the items referred to above:

Table 14. Overview of RWA (OV1)

million €

Risk type	RWAs (*)		Annual RWA variation	Capital requirements (**)
	dec.-18	dec.-17		dec-18
Credit risk (excluding counterparty credit risk)	70,529	74,076	-3,547	5,642
Of which: Standardised Approach (SA)	30,788	34,949	-4,161	2,463
Of which: FIRB (Foundation Internal Rating Based)	3,419	3,518	-99	274
Of which: AIRB (Advanced Internal Rating Based)	36,079	35,393	686	2,886
Of which: equity IRB under the simple risk-weighted approach or the IMA	242	215	27	19
Counterparty credit risk	2,312	2,290	21	185
Of which: Standardised Approach for counterparty credit risk (SA)	51	128	-77	4
Of which: Internal Rating-Based (IRB) Approach	2,031	1,878	153	162
Of which: Credit Value Adjustment risk (CVA)	230	284	-54	18
Settlement risk	0	0	0	0
Securitisation exposures in banking book	416	482	-66	33
Of which: IRB ratings-based approach (RBA)	47	84	-37	4
Of which: Standardised Approach (SA)	369	398	-29	30
Market risk	1,579	1,608	-29	126
Of which: Standardised Approach (SA)	0	139	-139	0
Of which: Internal Model Approach (IMA) (***)	1,579	1,469	110	126
Large Exposures	0	0	0	0
Operational risk	6,028	6,635	-607	482
Of which: Basic Indicator Approach	147	158	-11	12
Of which: Standardised Approach	5,881	6,476	-595	470
Amounts below the thresholds for deduction (subject to 250% risk weight)	2,383	1,975	408	191
Floor adjustment	0	0	0	0
Total	83,246	87,065	-3,819	6,660

(*) Risk weighted assets in transitory period
(**) Capital requirements have been calculated as 8& of the RWA according to Article 92 of the CRR.
(***)Includes regulatory models-based surcharge of €626 million at December 2018 and of €723 million at December 2017

The main differences between both periods would be observed in credit risk due to the reduction in RWAs in the book under the standardised approach (mainly due to the recurring amortisation of the book, sale of portfolios and the renewal of positions originating from BMN and transferred to Bankia under advanced approaches). Meanwhile, the reduction in RWAs due to operational risk is the result of considering the relevant indicator for 2018, replacing the one used in 2015.

The minimum capital requirements ratio has been calculated as 8% of risk-weighted assets, with no adjustments to the basic formula being required.

Impact of Basel III

After the entry into force on 1 January 2014 of the new regulation that introduces the Basel III rules to European Union law (Regulation (EU) No 575/2013), the BFA Group has seen a significant impact on the treatment of deferred tax assets. The impact as at 31 December 2018 came to 766.2 million euros in terms of capital requirements, located in the central government bodies segment under the standardised approach. These requirements reflect:

- Deferred tax assets arising from temporary differences, which are monetisable in accordance with Royal Decree-Law 14/2013 29 November, on urgent measures to adapt Spanish law to European Union law on the supervision and solvency of financial institutions, that weight 100% and

- Non-monetisable deferred tax assets arising from temporary differences, net of the portion of corresponding tax liabilities, that do not reach the threshold of 17.65% of the qualifying items to be deducted in CET1 and that, thus, are weighted 250% in accordance with Article 48 of Regulation (EU) No 575/2013.

Moreover, the treatment of significant investments in financial sector entities, which are weighted at 250% under the standardised approach of the aggregate amount not exceeding the threshold of 17.65% of the qualifying items to be deducted in CET1 under Article 48 of the CRR, had an impact at 31 December 2018 of 77.7 million euros and, in 2017, of 66.5 million euros

4.2 Tiers of capital and evaluation of internal capital adequacy

On 26 June 2013, Regulation No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the “CRR”), and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “CRD”) were passed into law. They entered into force on 1 January 2014 and will be phased in gradually until 1 January 2019.

The CRR establishes minimum capital requirements (Pillar 1) for each of the three tiers of own funds (a Common Equity Tier I capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%).

In addition, the CRD, within the oversight responsibilities, states that the Competent Authority may require credit institutions to maintain a larger amount of own funds than the minimum requirements set out in the CRR (known as Pillar 2).

Finally, over and above these two levels of minimum regulatory requirements (Pillar 1 and Pillar 2), the CRD introduces additional capital requirements termed the “combined buffer requirement”. If the combined buffer requirement goes unmet, restrictions apply to discretionary distributions of earnings (dividends, payment of interest on AT1 instruments, variable remuneration, etc…).

In addition, at year-end 2017, the European Central Bank had notified the BFA Group of the capital requirements applicable to it in 2018, specifically a minimum common equity tier 1 ratio of 8.563% and a minimum total capital ratio of 12.063%, both of which taking into account transitional arrangements, i.e., on a phase-in basis. These thresholds include the minimum required under Pillar I (4.5% in terms of common equity tier 1 capital and 8% at the Total Capital Level), the Pillar II requirement (2%) and the combined buffers applicable to the Group (2.063%).

In February 2019, the European Central Bank notified the BFA Group of the capital requirements applicable to it in 2019: a minimum Common Equity Tier 1 ratio of 9.25% and a minimum Total Capital ratio of 12.75%, both measured in relation to its transitional (phase-in) regulatory capital. These thresholds include the minimum required under Pillar I (4.5% in terms of common equity tier 1 capital and 8% at the Total Capital level), as well as the Pillar II requirement (2%) and the combined buffers applicable to the Group (2.75%).

The combined buffer requirements (2.75%) include the amount of the 2.50% capital conservation buffer used by all financial institutions, plus a further buffer of 0.25% of the total amount of its exposure to risk on a consolidated basis, seeing as though the Bank of Spain included Bankia in its list of “Other Systemically Important Institutions” (O-SII) in 2018. The Group’s own countercyclical buffer, calculated based on the geographical location of its exposures, is 0%. This is because the Group’s exposures are located in countries (mainly Spain) whose supervisors have established the buffer at 0% for exposures in their territories.

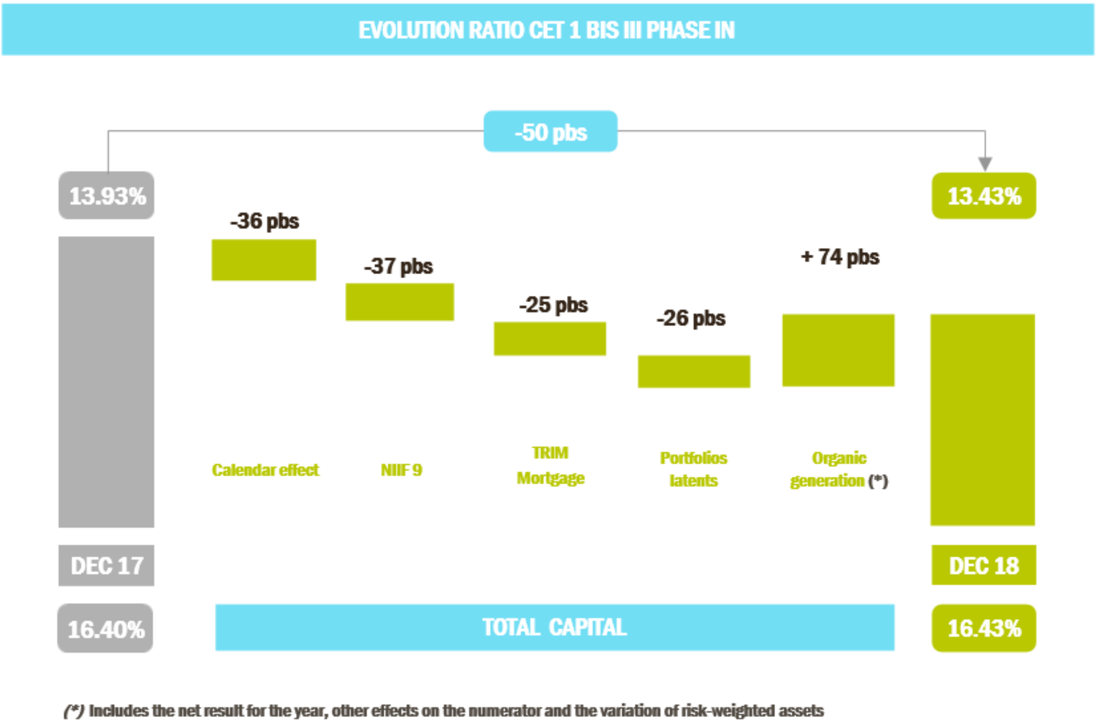
Therefore, as mentioned previously and taking account of the transitional period set out in Law 10/2014, the combined buffer requirements for the Bank in 2018 came to 2.063%, accounting for 75% of the total (2.75%). The transitional period will end in 2019, whereupon the requirement will become the full 2.75%.

At 31 December 2018, the BFA Group had reached a CET 1 ratio of 13.43% and a total capital ratio of 16.43%, on a phased-in basis. These capital ratios imply surpluses above the 8.563% minimum Common Equity Tier 1 capital ratio requirement for 2018 of 4,056 million euros and above the 12.063% minimum Total Capital ratio requirement of 3,640 million euros. In fully-loaded terms, the BFA Group has attained a Common Equity Tier 1 ratio of 12.83% and a Total Capital ratio of 16.07%.

In 2018, the organic generation of Common Equity Tier 1 (+74 basis points) partially offset the following impacts to have adversely affected the Group's solvency:

- Calendar effect of the fiscal year change, which has reduced Common Equity Tier 1 by 36 bps.
- Entry into force of IFRS 9: for solvency purposes, the Group has opted to fully implement the negative impact of this standard, estimated at -37 basis points. In this respect, the Group has chosen not to avail itself of the voluntary transitional period provided for in article 473 bis of the CRR in relation to the impact on capital of the entry into force of the regulation.
- The European Central Bank has launched a review of internal models for calculating capital requirements in a bid to reduce inconsistency and variability between institutions in the average weightings of their risk exposures not attributable to their risk profile. This process, known as the Targeted Review of Internal Models (TRIM), focused on reviewing the models associated with the mortgage portfolio in 2018, leading to an increase in the Group’s risk-weighted assets and an ensuing impact on the CET1 ratio of -25 basis points.
- The performance of the wider market in 2018 and the Group's portfolio rotation strategy generated a negative impact of -26 bps.

The following diagram shows changes in Common Equity Tier I due to the factors mentioned above:



Highlights in relation to Total Solvency included the issue, by Group subsidiary Bankia in September 2018, of 500 million euros in contingent perpetual bonds convertible into common shares of Bankia. This amount, once reduced by the portion attributable to minority interests, is eligible as Tier 2 capital at BFA Group level. Further highlights included the generation of excess provisions versus expected losses eligible as Tier 2, following the increase in provisions due to the entry into force of IFRS 9, as discussed previously.

Under Pillar 2, the BFA Group conducts an annual Internal Capital Adequacy Assessment Process (ICAAP). The internal capital adequacy assessment process is warranted by to the need for capital adequacy both from a regulatory and economic perspective, to ensure the Bank's survival over time.

The process includes:

- Three-year regulatory capital planning, which analyses capital adequacy not only under an expected or baseline scenario, but also under adverse macroeconomic scenarios.
- Identification of any other risks not covered under Pillar 1 (credit, operational and market risk) and to which the Group may be exposed (business risk, interest rate risk, reputational risk, sovereign risk, etc.).
- Quantification of the economic capital requirements for both Pillar 1 risks and any other risks that may have been identified affecting the Group as at the last closing date. Economic capital requirements are a complement to regulatory capital calculations and are there to obtain a more reliable picture of the Bank's risk profile.

The actions carried out as part of the capital planning processes are based on risk management that complies with regulatory requirements for both Pillar 1 (credit risk, market risk and operational risk) and Pillar 2 (other risks: business, reputational, etc.), including not only "Requirements" but also

"Guidance" and capital buffers. They are also geared towards integrated management of risks extended by the Bank in the scope of its corporate governance, the nature of the business, management of strategic planning and market demands, among other areas. Decision-making on capital management considers this enterprise-wide impact, whereby decisions are aligned with capital adequacy targets.

4.3 Leverage ratio

The leverage ratio was designed by the Basel Committee on Banking Supervision. It is described in the Committee's Capital Framework text of December 2010 as a ratio that supplements solvency requirements; its hallmark is that it is not sensitive to risk. So, the leverage ratio places an entity's Tier 1 capital ratio in relation to its non-risk-weighted size (exposure).

In particular, the leverage ratio is defined as the quotient of Tier 1 capital and total exposure, calculated as the sum of:

- Total assets on the balance sheet adjusted by the accounting balance of derivatives and assets already deducted from Tier 1 capital (numerator of the ratio), such as tax assets, goodwill, intangible assets, etc.

- Exposure to derivatives, defined as the positive market value of derivatives after application of netting agreements where applicable and deducting the amount of collateral received/delivered in cash. An additional amount is included for potential future exposure in connection with each derivative.

- Counterparty risk exposure (difference between cash delivered/received and the value of collateral received/delivered) in securities financing transactions (repos, securities lending), including off-balance sheet transactions.

- Off-balance sheet exposure, relating to credit risk recorded in memorandum accounts, such as bank guarantees, available credit facilities, etc. multiplied by the correction coefficients under the standardised approach for calculating risk-weighted assets, with a minimum correction coefficient of 10%.

From the regulatory standpoint, the entry into force of the CRR imposed on entities an obligation to calculate and report the leverage ratio to the Supervisor quarterly from January 2014 onwards, and to publicly disclose the ratio as from 1 January 2015. The CRR does not require compliance with a minimum level. Since January 2014, there is only an indicative reference level of 3% of Tier 1 capital established by the Basel Committee on Banking Supervision.

The proposed banking reforms, which will become effective in early 2019, in line with Basel recommendations, establish a binding leverage ratio requirement of 3% of Tier 1 capital.

From the corporate governance standpoint, the leverage ratio – both from the phased-in and fully loaded (more stringent) regulatory perspectives – has been introduced as a level I indicator in the Group's risk appetite framework. The phased-in and the fully loaded leverage ratios are calculated monthly and reported to the Group's Capital Committee for analysis and monitoring.

At 31 December 2018, the BFA Group had a phase-in leverage ratio of 5.56%. The level attained is down 17 bps on the same period of the previous year, mainly due to the reduction in Tier I capital, which was partially offset by a decrease in risk exposure. In fully-loaded terms, the ratio was 5.35% at 31 December 2018.

We set out below an itemised disclosure of the BFA Group's leverage ratio at 31 December 2018 on a phased-in basis following the guidelines under Commission Implementing Regulation (EU) 2016/200 of February 2016. Tier 1 capital includes profit for the year.

Table 15. Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)

Millions of €		dec.-18	dec.-17
		Applicable amounts	
1	Total assets as per published financial statements	207,667	217,910
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-330.2	9.5
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429(11) of Regulation (EU) NO. 575/2013	0	0
4	Adjustments for derivative financial instruments	-7,929	-9,555
5	Adjustments for securities financing transactions	3,966	3,322
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7,574	6,867
UE-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0	0
UE-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0	0
7	Other adjustments	-1,372	-1,012
8	Total leverage ratio exposure	209,576	217,542

Table 16. Split-up of on balance sheet exposures (excluding derivatives and SFTs) (LRSpl)

Millions of €		dec.-18	dec.-17
		CRR leverage ratio exposures	
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**195,273**	**206,202**
EU-2	**Trading book exposures**	0	0
EU-3	**Banking book exposures, of which:**	195,273	206,202
EU-4	Covered bonds	0	5
EU-5	Exposures treated as sovereigns	66,953	64,089
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	5,070	6,628
EU-7	Institutions	6,424	12,735
EU-8	Secured by mortgages of immovable properties	58,130	59,969
EU-9	Retail exposures	14,503	14,341
EU-10	Corporate	30,957	30,638
EU-11	Exposures in default	7,608	9,392
EU-12	Other exposures (ex. equity, securitisations, and other non-credit obligation assets)	5,628	8,404

Table LRQua

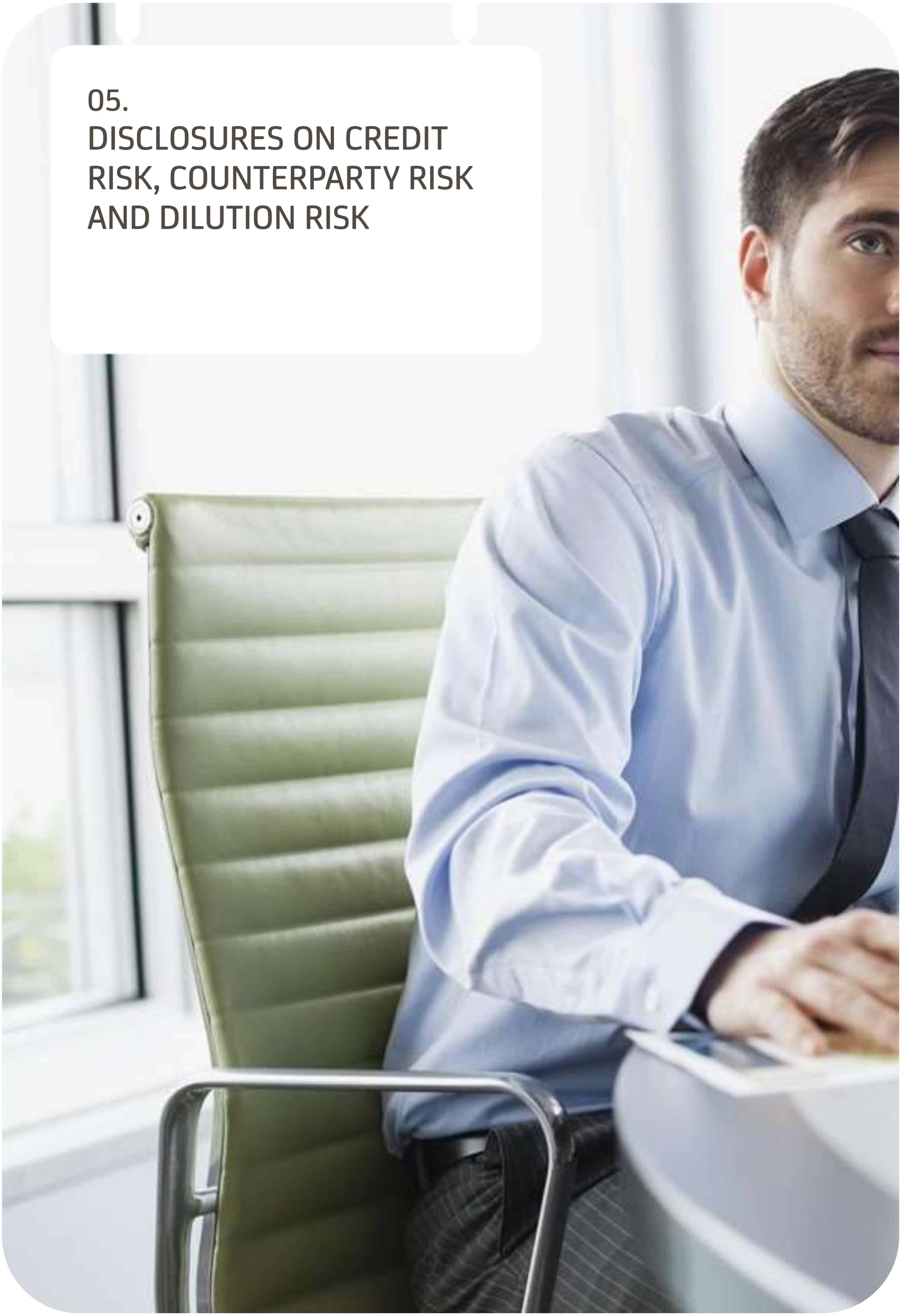
Description of the processes used to manage the risk of excessive leverage	**The leverage ratio is a management indicator that forms part of the Bank's Risk Appetite Framework and is monitored on a regular basis.**

The following table itemises the exposures that give rise to the Group's leverage ratio:

Table 17. Leverage ratio common disclosure (LRCom)

Millions of €		dec.-18	dec.-17
		CRR leverage ratio exposures	
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs and fiduciary assets, but including collateral)	196,644	207,213
2	(Asset amounts deducted in determining Tier 1 capital)	-1,372	-1,012
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	195,273	206,202
	Derivative exposures		
4	Replacement cost associated with derivatives transactions	1,907	2,051
5	Add-on amounts for PFE associated with derivatives transactions	610	191
UE-5a	Exposure determined under Original Exposure Method	0	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-1,796	-2,032
8	(Exempted CCP leg of client-cleared trade exposures)	0	0
9	Adjusted effective notional amount of written credit derivatives	0	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
11	Total derivative exposures	721	210
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	2,043	942
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk exposure for SFT assets	3,966	3,322
UE-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0	0
15	Agent transaction exposures	0	0
UE-15a	(Exempted CCP leg of client-cleared SFT exposure)	0	0
16	Total securities financing transaction exposures	6,009	4,263
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	30,912	28,832
18	(Adjustments for conversion to credit equivalent amounts)	-23,338	-21,965
19	Other off-balance sheet exposures	7,574	6,867
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off-balance sheet)		
UE-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0	0
UE-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0	0
	Capital and Total Exposures		
20	Tier 1 capital	11,654	12,460
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	209,576	217,542
	Leverage Ratios		
22	Leverage Ratio	5.56%	5.73%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	YES	YES
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	0	0

05.
DISCLOSURES ON CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK



CHAPTER 5. DISCLOSURES ON CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK

5.1 General requirements

5.1.1 General aspects

As indicated earlier, the main risk faced by the Group is credit risk. The details on measurement, management and classification of credit risk are available in section 2.3.5 of this report. The following distribution tables show that the Group's risk mainly concentrates in Spain, and mainly among retail and business borrowers. These concentrations intensified with the merger with BMN, whose core businesses were mortgages and lending to small and medium-sized enterprises.

Credit risk is quantified through two measures: expected loss on the portfolio, which reflects the average amount of losses and is related to the calculation of provisioning requirements, and unexpected loss, which is the possibility of incurring substantially higher losses over a period of time than expected, affecting the level of capital considered necessary to meet objectives; i.e. economic capital.

The credit risk measurement parameters derived from internal models are exposure at default (EAD), probability of default (PD) based on the rating and loss given default (LGD) or severity.

Expected loss, obtained as a product of the previous parameters, represents the average amount expected to be lost on the portfolio at a given future date. This is the key metric for measuring the underlying risks of a credit portfolio as it reflects all the features of transactions and not only the borrower's risk profile. Expected loss allows a constrained assessment of a specific, real or hypothetical economic scenario or refers to a long-time period during which a full economic cycle may have been observed. Depending on the specific use, it is better to use one or the other expected loss.

The entry into force of IFRS 9 has led to substantial changes in estimating credit risk allowances, moving from an incurred loss to an expected loss approach, which includes the use of forecasts for future economic conditions.

In accordance with applicable regulations and required approval by the Board of Directors and the prior internal valuation process, at 1 January 2018 the Group implemented the use of internal methods to carry out collective estimates of allowances for credit losses. In line with the Group's internal models for estimating capital requirements, this internal methodology includes the calculation of losses, based on internal data, through in-house estimates of credit risk parameters.

With the economic capital model, extreme losses can be determined with a certain probability. The difference between expected loss and value at risk is known as unexpected loss. The Group must have sufficient capital to cover potential losses therefore, the higher the cover, the higher the solvency. This model simulates the default events, so it can quantify concentration risk.

5.1.2 Main accounting definitions

The accounting definitions of the Group's doubtful and impaired positions are in line with current regulations, that is, in IFRS 9 Financial instruments and Bank of Spain Circular 4/2017 on the rules on public and confidential financial reporting and on model financial statements.

5.1.2.1 Impairment of financial assets

As disclosed in Note 2.9 to the consolidated financial statements of BFA, the entry into force of IFRS 9 has resulted in a substantial change to the impairment model, replacing the incurred loss approach set out in IAS 39 with an expected loss approach.

The new impairment model is applicable to debt instruments at amortised cost, debt instruments measured at fair value through other comprehensive income, and other exposures that give rise to credit risk, such as loan commitments given, financial guarantees given, and other commitments given.

The criteria for analysing and classifying transactions in consolidated financial statements in accordance with their credit risk includes credit risk attributable to insolvency and credit risk attributable to any country risk to which the transactions are exposed. If there are reasons for rating credit exposures in terms of credit risk due to both risk attributable to the borrower and country risk, that transaction is classified in the category of the risk attributable to the borrower, unless a less favourable country-risk category applies, without prejudice to impairment losses for risk attributable to the borrower being calculated by the procedure for country risk when this entails stricter criteria.

Classification of transactions for credit risk attributable to insolvency

- Stage 1 – Standard exposure: the risk of a default event has not increased significantly since initial recognition of the transaction. The amount of the loss allowance for this type of instrument is equal to 12-month expected credit losses.
- Stage 2 – Standard exposure under special monitoring: the risk of a default event has increased significantly since initial recognition of the transaction. The amount of the loss allowance for this type of instrument is equal to estimated lifetime expected credit losses.
- Stage 3 – Doubtful exposure: a default event in the transaction has occurred. The amount of the loss allowance for this type of instrument is equal to estimated lifetime expected credit losses.
- Write-off: transactions in which the Group has no reasonable expectations of recovery. The amount of the loss allowance for this type of instrument is equal to its carrying amount and entails the full write-off of the asset.

The Group uses the following definitions for the purpose of classifying a financial instrument into one of the preceding categories:

Significant increase in credit risk

A significant increase in credit risk is deemed to have occurred in transactions involving any of the following circumstances:

- More than 30 days past due rebuttable assumption, based on reasonable and supportable information. The Group has not applied a longer period of time for these purposes.
- Refinancing or forbearance that does not present evidence of impairment.

- Special debt sustainability agreement that does not present evidence of impairment until curing criteria are applied.
- Repeat default or increase in the scale of default that does not present evidence of impairment of mortgage loans granted to natural persons.
- Transactions with companies classified in risk-monitoring levels I and II, provided they are not classified as doubtful or assessed collectively.
- Transactions in which it is considered that there has been a significant increase in risk caused by an increase in PD from the grant date (increase established in the Bank's policies).

Default and credit-impaired financial assets

The Group considers that default occurs in credit exposures when any of the following circumstances exists:

- Over 90 days past due. This includes all transactions of a holder when the amount of balances more than 90 days past due exceeds 20% of the amount outstanding.
- There are reasonable doubts that the full amount of the asset will not be repaid.

A financial instruments is considered credit-impaired when one or more events that have a detrimental impact on its estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- Breach of contract, such as a default or past-due event.
- Grant by the lender, for economic or contractual reasons relating to the borrower's financial difficulty, of a concession(s) or advantages to the borrower that it would not otherwise consider and that present evidence of impairment. Appendix X shows the classification and coverage policies and criteria applied by the Group in this type of transaction.
- It is becoming probable that the borrower will enter bankruptcy or other form of financial reorganisation.
- The disappearance of an active market for that financial instrument because of the issuer's financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Approaches for estimating expected credit losses attributable to insolvency

The estimation of expected credit losses considers, among other things, the following:

- The existence of several possible outcomes for determining the various weightings, based on the probability of occurrence of the various scenarios.
- The time value of money.

- The latest available information without undue cost or effort, reflecting past events, current conditions and forecasts of future economic conditions.

The process for estimating expected credit losses on an individual or collective basis.

Individual estimation of allowances and provisions

The Group takes into consideration the following characteristics to identify borrowers which, due to their credit exposure and level of risk, require individual assessment:

- Individual assessment to determine accounting classification: in this case, all borrowers exceeding the EUR 5 million EAD threshold, excluding those identified as having low credit risk, except for those classified as Stage 3 – Doubtful exposure.

- Individual estimation of allowances and provisions, in this case for:

    - All borrowers that exceed the aforementioned threshold and are classified as Stage 3 - Doubtful exposure, as well as those below the threshold classified as Stage 3 - Doubtful exposure and determined by expert judgment, including borrowers classified as Stage 3 – Doubtful exposure for reasons other than arrears, or as Stage 2 – Standard exposure under special monitoring, except those classified on the basis of automatic sorting factors.
    - Also, subject to individual assessment are borrowers with transactions identified as having low risk classified as Stage 3 – Doubtful exposure, even though they may be the threshold of significance.

The approach by which the Group estimates expected credit losses of debt instruments is the negative difference between the present value of estimated future cash flows discounted at the effective interest rate and the respective amounts of credit exposure:

- Forecast future cash flows: considering all amounts the Group expects to obtain over the instrument's remaining term. For this, it considers both going concern and gone concern; i.e. settlement and enforcement of collateral.

- Credit exposure: carrying amount of transactions at the calculation date and off-balance sheet amounts expected to be disbursed in the future. To estimate the amounts of off-balance-sheet exposures expected to be disbursed bearing credit risk, a credit conversion factor (CCF) is applied to the nominal amount of the transaction.

The assessment of the effectiveness of collateral considers, among other things, the time required to enforce, and the ability to realise, the collateral. Collateral or guarantees whose effectiveness depends substantially upon the credit quality of the debtor, or of any economic group to which the debtor may belong, are not eligible. The Group has policies and procedures for evaluating collateral in accordance with applicable regulations.

Allowances for large borrowers for which no significant increase in credit risk or evidence of impairment has been determined, and have therefore been classified in Stage 1 - Standard exposure, are estimated collectively. The Group also collectively estimates expected credit losses on transactions assessed individually and classified in Stage 2 - Standard exposure under special monitoring solely on the basis of automatic classification factors or where no other factor has had a significant influence.

Collective estimation of allowances and provisions

The estimation of expected credit losses for all credit exposures not assessed individually is made collectively.

The calculation of collective allowances of significant portfolios for which sufficient information is available is made using internal models.

In accordance with applicable regulations and required approval by the Board of Directors and the prior internal valuation process, at 1 January 2018 the Group implemented the use of internal methods to carry out collective estimates of allowances for credit losses. In line with the Group's internal models for estimating capital requirements, this internal methodology includes the calculation of losses, based on internal data, through in-house estimates of credit risk parameters.

When calculating expected losses on a collective basis using internal methods, the Group considers the following:

- Criteria for grouping transactions

The Group distributes financial assets with credit risk in homogeneous groups based on the similar risk characteristics of the instruments included in the group. The criteria considered for this segmentation are representative of the patterns of estimated losses of each group.

The main factors used by the Group to carry out these groupings include the type of borrower or issuer, the type of transaction, the type of collateral and the time to have elapsed since classification as Stage 3 - Doubtful exposure.

- Risk parameters

The aggregate amount of expected credit losses is determined using the following parameters:

    - Exposure at default (EAD): the Group's risk exposure at the time of the borrower's default.
    - Probability of default (PD): the probability of a default occurring.
    - Loss given default (LGD): the percentage of exposure at risk that is not expected to be recovered in the event of default.

- Scenarios and use of forecasts of future economic conditions.

Expected credit losses recognised in the consolidated financial statements are the result of a series probability-weighted scenarios.

When making the estimate, the Group takes the most likely scenario (baseline scenario) as the starting point. The baseline scenario is consistent with the scenario used for the Group's internal planning processes.

Taking the baseline scenario, a series of assumptions are made regarding the performance of macroeconomic variables, resulting in two additional scenarios: a more positive scenario and a more adverse scenario. Specifically, the Group has considered three macroeconomic scenarios: a baseline scenario, an adverse scenario and a favourable scenario, which have been defined at Group level, with probabilities of occurrence of 60%, 20% and 20%, respectively.

The key macroeconomic variables vary across portfolios. However, the Group considers the most important macroeconomic variables to be:

- Gross domestic product (GDP).
- No. of Social Security registrations.
- House prices.

Credit risk arising from country risk

Country risk is a risk that affects counterparties resident in a given country due to circumstances other than customary commercial risk.

Doubtful assets attributable to country risk include transactions with ultimate obligors resident in countries that have long-standing difficulties servicing their debt, with the possibility of recovering such debt as doubtful, and off-balance sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

The Group does not have any significant exposures to credit risk attributable to country risk, so the level of provisions in this connection is not significant relative to total impairment allowances set aside by the Group.

Refinancing transactions

The Group uses the definition of restructured exposure set out in Annex V of Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards, as implemented by the Bank of Spain in Circular 2/2016 and in Circular 4/2017, as indicated in Annex X to the Group's consolidated financial statements:

As to the accounting treatment of restructuring and refinancing transactions, the Group follows Bank od Spain's Circular 4/2017, in line with the guidelines and recommendations issued by the EBA and the European Central Bank. Certain rules are stablished for the original classification and the general conditions that must be satisfied for a restructured or refinanced exposure to be regarded as having been cured and, therefore, re-classifiable to a lower risk level.

A transaction is deemed to be a restructuring or refinancing when:

- Some or all of the payments of the modified transaction have been due for more than 30 days (without being classified as doubtful) at least once in the three months preceding its modification, or would be due for more than 30 days without said modification.

- Simultaneously or nearly simultaneously with the granting of additional financing by the Entity, the borrower has made payments of the principal or interest on another transaction with it, on which some or all of the payments have been due for more than 30 days at least once in the three months prior to the refinancing.

- When the Entity approves the use of implicit restructuring or refinancing clauses in relation to borrowers with outstanding amounts 30 days or more than 30 days past due if such clauses have not been exercised.

5.1.3 Value of exposures (standardised and IRB approaches) and requirements.

Risk-related information shows the following parameters as the value of exposures:

- The Original Exposure used to produce the COREP statements, defined as “the value of the exposure before value adjustments for impairment of assets and provisions and disregarding the conversion factors for off-balance sheet items and credit risk mitigation techniques, except the effect of credit risk protection by proprietary collateral or similar instruments under netting arrangements”.

- Net Exposure, calculated as Original Exposure after applicable credit adjustments.

- Value of Exposure defined as exposure after value adjustments and corrections, credit conversion factors and credit risk mitigation techniques, as applicable, for the standardised and IRB approaches, also termed EAD (Exposure at Default).

5.1.3.1 Net value of exposures (standardised and IRB approaches)

5.1.3.1.1 Total and average net amount of exposures by COREP category

The following table reports the net value of the Group's as at December 2018 exposures (including counterparty risk exposures) under both the standardised and the advanced approaches for each category of exposure:

Table 18. Total and average net amount of exposures (CRB-B)

Million €	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	1,124	1,243
Institutions	26,210	26,559
Corporates	51,615	52,136
Of which: Specialized lending	4,517	4,539
Of which: SME	16,514	17,596
Retail	53,218	53,593
Residential Mortgage	41,979	42,546
SME	1,621	1,987
Non-SME	40,358	40,559
Retail - Qualifying Revolving	4,581	4,301
Other Retail	6,658	6,745
SME	2,408	2,830
Non-SME	4,250	3,915
Equity	149	119
Total - IRB approach	**132,316**	**133,650**
Central governments or central banks	43,941	44,565
Regional governments or local authorities	4,135	4,232
Public sector entities	1,994	2,084
Multilateral development banks	0	0
International organisations	0	0
Institutions	5,445	5,682
Corporates	2,062	2,562
Of which: SME	1,566	1,866
Retail exposures	6,443	7,263
Of which: SME	1,356	1,555
Exposures secured by mortgages on immovable property	24,971	25,768
Of which: SME	1,356	1,424
Exposures in default	2,265	2,466
Exposures associated with particularly high risks	57	68
Covered bonds	0	5
Claims on institutions and corporates with a short-term credit assessment	0	0
Collective investments undertakings	17	14
Equity exposures	468	467
Other assets	8,745	8,400
Total - SA approach	**100,543**	**103,576**
Total	**232,858**	**237,226**

"Institutions" category includes SAREB's bonds (Sociedad de Gestión de Activos Procedentes de la Restructuración Bancaria, which is a divestment company dedicated to managing the most problematic bank assets -Spain's "bad bank"-), which under the IRB approach come to 17,790 million euros and under the standardised approach come to 3,063 million euros.

5.1.3.1.2 Geographical breakdown of exposures

Most of the Original Exposure portfolio comprises customers within the European Union, specifically, 99.3% at 31 December 2018, with 91.6% being accounted for by business in Spain.

The geographical distribution of portfolios under the standardised and the IRB approaches – except securitisations – is shown below:

Table 19. Geographical breakdown of exposures (CRB-C)

Million €	EUROPE							NORTH AMERICA				OTHER AREAS	TOTAL
	TOTAL EUROPE	*Spain*	*France*	*United Kingdom*	*Italy*	*Germany*	*Other countries in Europe*	TOTAL NA	*USA*	*Mexico*	*Other countries of NA*		
Central governments or central banks	**1,124**	1,124	0	0	0	0	0	**0**	0	0	0	**0**	**1,124**
Institutions	**25,878**	19,610	2,145	3,093	11	549	471	**116**	113	0	3	**216**	**26,210**
Corporates	**50,905**	48,422	212	169	71	162	1,868	**489**	169	257	64	**221**	**51,615**
Retail	**53,048**	52,657	36	168	16	40	130	**56**	35	14	7	**114**	**53,218**
Equity	**125**	124	0	0	0	0	1	**24**	24	0	0	**0**	**149**
Total IRB Approach	131,079	121,937	2,393	3,430	98	751	2,469	685	341	271	73	552	132,316
Central governments or central banks	**43,836**	37,630	774	0	5,421	0	11	**1**	1	0	0	**103**	**43,941**
Regional governments or local authorities	**4,135**	4,135	0	0	0	0	0	**0**	0	0	0	**0**	**4,135**
Public sector entities	**1,994**	1,994	0	0	0	0	0	**0**	0	0	0	**0**	**1,994**
Multilateral development banks	**0**	0	0	0	0	0	0	**0**	0	0	0	**0**	**0**
International organisations	**0**	0	0	0	0	0	0	**0**	0	0	0	**0**	**0**
Institutions	**5,445**	3,594	906	460	0	397	88	**0**	0	0	0	**0**	**5,445**
Corporates	**2,060**	2,045	0	0	0	0	14	**0**	0	0	0	**2**	**2,062**
Retail exposures	**6,418**	6,344	3	39	3	10	19	**4**	3	1	1	**21**	**6,443**
Exposures secured by mortgages on immovable property	**24,812**	24,161	22	410	6	48	165	**21**	13	2	5	**139**	**24,971**
Exposures in default	**2,245**	2,193	1	37	1	1	11	**1**	0	0	0	**20**	**2,265**
Exposures associated with particularly high risks	**57**	57	0	0	0	0	0	**0**	0	0	0	**0**	**57**
Covered bonds	**0**	0	0	0	0	0	0	**0**	0	0	0	**0**	**0**
Claims on institutions and corporates with a short-term credit assessment	**0**	0	0	0	0	0	0	**0**	0	0	0	**0**	**0**
Collective investments undertakings	**17**	17	0	0	0	0	0	**0**	0	0	0	**0**	**17**
Equity exposures	**468**	468	0	0	0	0	0	**0**	0	0	0	**0**	**468**
Other assets	**8,745**	8,745	0	0	0	0	0	**0**	0	0	0	**0**	**8,745**
Total Standardised approach	100,231	91,382	1,707	946	5,430	457	309	27	17	3	6	285	100,543
Total	231,309	213,318	4,100	4,377	5,528	1,208	2,778	712	358	274	79	837	232,858

5.1.3.1.3 Distribution of exposures by sector or counterparty (CRB-D)

The highest concentration by sector is seen in the retail portfolio, reported in “Physical persons and others” sector, which is one of the cornerstones of the Entity’s business model. Specifically, Net Exposure accounts for 43.9% of the total, followed by “Public Administration” sector (14.8%).

The distribution of exposures by sector is reported based on the NACE code attributed to each borrower.

The portfolios that are subject to the standardised approach and to the IRB approach (except securitisations) as to December 2018 are shown below:

Table 20. Concentration of exposures by industry or counterparty types (CRB-D)

Million €	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Commerce	Transport and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Activities of households	Activities of extraterritorial organisations and bodies	Physical persons and others	Total
Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0	0	2	0	1,117	0	0	0	5	0	0	0	1,124
Institutions	0	0	1	0	68	148	1	132	0	0	21,912	6	6	0	59	0	1	2	3	0	0	3,871	26,210
Corporates	652	883	10,673	5,506	970	5,867	8,634	3,971	1,646	2,164	2,721	1,578	2,120	1,546	0	366	723	589	880	0	0	126	51,615
Retail	382	17	845	258	19	1,058	2,491	785	799	269	217	743	1,311	422	0	148	469	194	523	2	0	42,267	53,218
Equity	0	0	0	0	0	0	0	0	0	0	115	0	13	19	0	0	0	0	0	0	0	1	149
Total IRB approach	**1,034**	**900**	**11,518**	**5,764**	**1,057**	**7,073**	**11,126**	**4,889**	**2,445**	**2,433**	**24,965**	**2,327**	**3,451**	**1,987**	**1,176**	**515**	**1,193**	**785**	**1,411**	**2**	**0**	**46,266**	**132,316**
Central governments or central banks	0	0	14	0	0	0	0	0	0	0	3	0	0	0	43,920	0	0	0	0	0	2	0	43,941
Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4,076	0	0	0	1	0	0	57	4,135
Public sector entities	1	1	197	0	30	152	2	653	2	2	47	0	411	14	346	20	9	41	67	0	0	0	1,994
Institutions	0	0	0	0	0	0	0	0	0	0	4,925	0	0	0	0	0	0	0	0	0	0	520	5,445
Corporates	118	6	341	29	15	261	427	66	202	23	7	141	107	41	0	19	61	25	51	0	0	123	2,062
Retail exposures	198	7	162	37	6	171	345	98	151	28	6	159	124	120	0	21	58	29	165	0	0	4,557	6,443
Exposures secured by mortgages on immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	24,971	24,971
Exposures in default	36	3	66	1	2	178	104	20	65	10	6	84	40	43	1	4	5	7	54	0	0	1,535	2,265
Exposures associated with particularly high risks	0	0	0	0	0	0	0	0	0	0	57	0	0	0	0	0	0	0	0	0	0	0	57
Collective investments undertakings	0	0	0	0	0	0	0	0	0	0	17	0	0	0	0	0	0	0	0	0	0	0	17
Equity exposures	1	0	0	0	0	0	0	0	26	0	46	0	7	0	0	0	0	0	0	0	0	388	468
Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8,745	8,745
Total Standardised approach	**353**	**17**	**780**	**67**	**53**	**762**	**877**	**837**	**446**	**63**	**5,115**	**385**	**688**	**218**	**48,344**	**65**	**134**	**102**	**338**	**1**	**2**	**40,897**	**100,543**
Total	**1,387**	**917**	**12,298**	**5,831**	**1,110**	**7,835**	**12,004**	**5,726**	**2,892**	**2,496**	**30,080**	**2,712**	**4,139**	**2,204**	**49,520**	**579**	**1,327**	**887**	**1,749**	**2**	**2**	**87,162**	**232,858**

5.1.3.1.4 Distribution of exposures by residual maturities (CRB-E)

The exposures by residual maturities for regulatory purposes of the portfolios subject to the standardised and IRB approaches (including, as in the cases above, both credit risk exposure and counterparty risk exposure) are set out in the following table:

Table 21. Maturity of exposures (CRB-E)

	Net exposure value					
Million €	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	0	166	194	762	1	1,124
Institutions	0	13,436	10,908	1,859	7	26,210
Corporates	3	28,584	10,131	11,255	1,643	51,615
Retail	29	2,589	7,756	42,819	26	53,218
Equity	0	149	0	0	0	149
Total IRB approach	**31**	**44,925**	**28,989**	**56,695**	**1,676**	**132,316**
Central governments or central banks	0	5,076	11,896	16,038	10,931	43,941
Regional governments or local authorities	0	976	1,415	1,743	0	4,135
Public sector entities	0	757	763	431	43	1,994
Institutions	0	5,143	68	235	0	5,445
Corporates	0	949	313	800	0	2,062
Regulatory retail exposures	7	611	878	4,794	153	6,443
Exposures secured by mortgages on immovable property	0	32	742	24,129	69	24,971
Exposures in default	2	322	134	1,807	0	2,265
Exposures associated with particularly high risks	0	13	41	3	0	57
Collective investments undertakings	0	17	0	0	0	17
Equity exposures	0	468	0	0	0	468
Other assets	0	0	0	0	8,745	8,745
Total SA approach	**9**	**14,363**	**16,249**	**49,980**	**19,941**	**100,543**
Total	**40**	**59,288**	**45,238**	**106,675**	**21,617**	**232,858**

Corporate exposure in the column headed “no stated maturity” mainly reflects account overdrafts and overlimits on credit facilities.

It can be seen that volumes are concentrated in retail (IRB) and mortgage-secured (standardised) with a maturity of more than 5 years. This is consistent with the Group’s retail- and mortgage-focused profile.

The following section details the credit quality of exposures distributed by exposure category and sector.

5.1.3.2 Credit quality of exposures

5.1.3.2.1 Itemisation of exposures by COREP category

In line with the definition set out at 5.1.2, the value of impaired exposures is the doubtful items amount recognised by the Group. The following table presents the distribution of exposures by COREP category for both the IRB approach and the standardised approach (including, as in the cases above, counterparty risk exposures).

Table 22. Credit quality of exposures by exposure classes and instruments (CR1-A)

	Gross carrying values of					
Million €	Defaulted exposures	Non-defaulted exposures (*)	Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period (**)	Net Values
Central governments or central banks	9	1,115	0	0	0	1,124
Institutions	174	26,141	105	0	-13	26,210
Corporates	4,544	49,395	2,324	0	-961	51,615
Of which: Specialised lending	743	4,188	414	0	-132	4,517
Of which: SMEs	1,912	15,544	942	0	-371	16,514
Retail	2,819	51,775	1,376	0	223	53,218
Secured by real estate property	2,532	40,501	1,054	0	170	41,979
SMEs	235	1,500	114	0	7	1,621
Non-SMEs	2,297	39,001	940	0	163	40,358
Qualifying revolving	19	4,609	47	0	28	4,581
Other retail	269	6,665	275	0	25	6,658
SMEs	184	2,376	151	0	36	2,408
Non-SMEs	85	4,289	124	0	-11	4,250
Equity	0	149	0	0	0	149
Total IRB approach	**7,546**	**128,574**	**3,805**	**0**	**-751**	**132,316**
Central governments or central banks	0	43,941	0	0	0	43,941
Regional governments or local authorities	1	4,134	0	0	0	4,135
Public sector entities	0	1,994	0	0	0	1,994
Multilateral development bank	0	0	0	0	0	0
International organisations	0	0	0	0	0	0
Institutions	0	5,467	22	0	0	5,445
Corporates	22	2,157	117	0	-58	2,062
Of which: SMEs	18	1,661	113	0	-24	1,566
Retail	0	6,553	110	0	13	6,443
Of which: SMEs	0	1,374	17	0	-4	1,356
Secured by mortgages on immovable property	0	25,000	29	0	7	24,971
Of which: SMEs	0	1,360	4	0	-1	1,356
Exposures in default	3,463	0	1,197	0	-126	2,265
Items associated with particularly high risk	0	58	0	0	0	57
Covered bonds	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Collective investments undertakings	0	17	0	0	0	17
Equity exposures	0	468	0	0	-22	468
Other exposures	0	10,443	1,698	0	-299	8,745
Total standardised approach	**3,486**	**100,230**	**3,174**	**0**	**-482**	**100,543**
Total	**11,032**	**228,804**	**6,978**	**0**	**-1,236**	**232,858**
Of which: Loans	9,334	126,850	6,433	0	-869	129,752
Of which: Debt securities	6	51,528	1	0	-3	51,533
Of which: Off-balance-sheet exposures	1,529	32,139	341	0	256	33,327

(*) Includes exposures in the Earth portfolio for which there is an agreement to sell, recognised under "Non-current assets and disposal groups classified as held for sale". For further information, see Note 18.5.1 to the consolidated financial statements of the BFA Group.
(**) Credit risk adjustment charges have been calculated as the change in provisions between December 2018 and December 2017.

5.1.3.2.2 Itemisation of exposures by economic sector

The distribution of exposures by sector, based on the NACE code attributed to each borrower, is shown in the following table, which also reports provisions allocated by sector.

Table 23. Credit quality of exposures by industry or counterparty types (CR1-B)

	Gross carrying values of					
Million €	Defaulted exposures	Non-defaulted exposures (*)	Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period (**)	Net Values
Agriculture, forestry and fishing	135	1,326	73	0	2	1,387
Mining and quarrying	24	903	10	0	-2	917
Manufacturing	920	11,834	456	0	-71	12,298
Electricity, gas, steam and air conditioning supply	245	5,725	138	0	2	5,831
Water supply	50	1,082	23	0	-19	1,110
Construction	1,603	6,958	725	0	-471	7,835
Wholesale and retail trade	961	11,513	471	0	24	12,004
Transport and storage	567	5,513	354	0	-177	5,726
Accommodation and food service activities	262	2,768	138	0	-18	2,892
Information and communication	89	2,450	44	0	-67	2,496
Financial and insurance activities	39	30,068	27	0	-111	30,080
Real estate activities	341	2,528	157	0	-38	2,712
Professional, scientific and technical activities	787	3,805	452	0	-82	4,139
Administrative and support service activities	161	2,121	78	0	2	2,204
Public administration and defence, compulsory social security	9	49,514	3	0	-4	49,520
Education	54	545	19	0	-2	579
Human health services and social work activities	82	1,285	40	0	-5	1,327
Arts, entertainment and recreation	329	727	169	0	5	887
Other services	194	1,634	79	0	6	1,749
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	0	2	0	0	0	2
Activities of extraterritorial organisations and bodies	0	2	0	0	0	2
No code informed	4,181	86,502	3,521	0	-211	87,162
Total	**11,032**	**228,804**	**6,978**	**0**	**-1,236**	**232,858**

(*) Includes exposures in the Earth portfolio for which there is an agreement to sell, recognised under "Non-current assets and disposal groups classified as held for sale". For further information, see Note 18.5.1 to the consolidated financial statements of the BFA Group.
(**) Credit risk adjustment charges have been calculated as the change in provisions between December 2018 and December 2017.

5.1.3.2.3 Itemisation of exposures by geographic area

The following table discloses exposure quality by geographical area.

Table 24. Credit quality of exposures by geography (CR1-C)

Million €	Gross carrying values of		Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of th period (**)	Net Values Defaulted exposures
	Defaulted exposures	Non-defaulted exposures (*)				
TOTAL EUROPE	**10,969**	**227,141**	**6,801**	**0**	**-1,133**	**231,309**
Italy	1	5,529	1	0	1	5,528
United Kingdom	77	4,334	34	0	12	4,377
France	9	4,098	7	0	4	4,100
Spain	10,625	209,327	6,634	0	-1,125	213,318
Germany	110	1,144	46	0	2	1,208
Other countries of Europe	146	2,711	79	0	-27	2,778
TOTAL NORTH AMERICA	**16**	**708**	**12**	**0**	**-212**	**712**
USA	3	359	3	0	-1	358
Mexico	12	270	8	0	-210	274
Other countries of NA	1	79	1	0	-1	79
OTHER AREAS	**48**	**955**	**166**	**0**	**110**	**837**
TOTAL	**11,032**	**228,804**	**6,978**	**0**	**-1,235**	**232,858**

(*) Includes exposures in the Earth portfolio for which there is an agreement to sell, recognised under "Non-current assets and disposal groups classified as held for sale". For further information, see Note 18.5.1 to the consolidated financial statements of the BFA Group.
(**) Credit risk adjustment charges have been calculated as the change in provisions between December 2018 and December 2017.

The total default percentage stands at around 4.6%, which is similar to the default rate for exposures in Spain. Exposures in Italy chiefly consist of investment in government bonds. Exposures in France and the United Kingdom comprise exposures to government debt, clearinghouses and securities lending, which explains the low default percentage in these three countries. In the rest of Europe, it is above, around 6%.

5.1.3.3 Age of past-due exposures

The following table provides a breakdown of the gross book value of past-due exposures by maturity and product type:

Table 25. Ageing of past-due exposures (CR1-D)

	Gross carrying values					
Million €	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	4,650	571	373	516	878	3,687
Debt securities	0	0	0	0	5	0
Total exposures	**4,650**	**571**	**373**	**516**	**883**	**3,687**

35% of the exposures have a maturity of more than one year compared to 52% with a maturity of less than 90 days.

It should be noted that the balance of accounts that are past due by more than 90 days and that are not impaired is currently 553.6 million euros.

5.1.3.4 Default exposures and restructured and refinanced exposures

The following table shows a breakdown of the Group's exposures by product type, portfolio situation (normal, doubtful, refinanced) and accumulated impairment losses on exposures.

Table 26. Non-performing and forborne exposures (CR1-E)

	Gross carrying amount of performing and non-performing exposures						Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing			On performing exposures		On non-performing exposures		Of which forborne exposures	On non-performing exposures
Million €				Total	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne		
Loans	130,645	647	4,133	7,749	7,749	4,740	-844	-204	-3,391	-1,941	3,442	0
Debt securities	51,008	0	0	9	9	0	-2	0	-6	0	0	0
Off-balance-sheet exposures	33,794	0	0	1,132	0	0	-89	0	-285	0	25	0
Total exposures	**215,447**	**647**	**4,133**	**8,891**	**7,759**	**4,740**	**-935**	**-204**	**-3,862**	**-1,941**	**3,468**	**0**

Doubtful exposures secured by collateral amount to 39% of the total.

5.1.3.5 Changes in the balance of credit risk adjustments

Table CR2-A reports changes in value adjustments over the year for the Group's balance sheet lines connected with credit risk for loans and debt securities:

Table 27. Changes in stock of general and specific credit risk adjustments (CR2-A)

Million €	Accumulated credit risk adjustment
Opening balance (12/31/2017)	**-5,840**
Increases due to amounts set aside for estimated loan losses during the period	-858
Decreases due to amounts reversed for estimated loan losses during the period	352
Decreases due to amounts taken against accumulated credit risk adjustments	1,979
Transfers between credit risk adjustments	0
Impact of exchange rate differences	-8
Business combinations, including acquisitions and disposals of subsidiaries	0
Other adjustments (*)	130
Closing balance (12/31/2018)	**-4,245**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	108
Specific credit risk adjustments directly recorded to the statement of profit or loss	0

(*) Includes First Application IFRS 9 Adjustments.

5.1.3.6 Changes in the balance of defaulting and impaired loans and debt securities

The table below shows the annual change in impaired doubtful items (defined as those linked to a non-zero provision) for the Group's loan and debt securities items.

Table 28. Changes in stock of defaulted and impaired loans and debt securities (CR2-B)

million €	Gross carrying value of defaulted exposures
Opening balance (12/31/2017)	10,578
Loans and debt securities that have defaulted or impaired since the last reporting period	1,660
Returned to non-defaulted status	-3,585
Amounts written off	-380
Other changes	-942
Closing balance (12/31/2018)	7,331

"Other changes" reflects a decrease in doubtful items through repossessions, acquisitions and disposals and the allowance of 653 million euros in adjustments due to the first-time adoption of IFRS 9 (see Note 1.3.2.3 to the consolidated financial statements of the BFA Group).

5.1.3.7 Disclosure of impairment losses and reversals of previously recognised losses

The notes to the Group's consolidated financial statements provide further information on impairment losses on financial assets, reversals of previously recognised losses, and financial assets removed from the balance sheet by reason of impairment in 2018. This information does not differ significantly from the data on credit institutions within the Group's scope of consolidation for prudential purposes.

5.1.3.8 Credit risk mitigation techniques

The use of collateral as a credit risk mitigation technique is a key aspect of measuring regulatory capital in so far as collateral affects the value of the risk parameters used to determine risk-weighted assets under both the standardised and the IRB approaches.

Mitigation techniques are used to ensure the validity of the collateral, and only where collateral is eligible for prudential purposes.

5.1.3.8.1 Validity of collateral

In its approach to validating, measuring and managing collateral, the Group has specific policies in place (the general requirements under "General Statement of Policies, Methods and Procedures for Credit Risk" must be satisfied) that provide a detailed statement of the Entity's risk appetite and strategic and tactical planning. Among other matters, the policies address the criteria for accepting collateral, corporate methods for managing and appraising the value of collateral, and corporate management tools that further enhance the mitigation effect of the collateral on the Entity's risk exposure.

5.1.3.8.2 Monitoring of collateral

The Entity continuously monitors the quality of available information on collateral on our systems, mainly:

Stock

The Entity operates a system of alerts and notices that gives warning when collateral is affected by an incident, e.g., the amount or percentage of debt is not fully covered in accordance with the contract; or the balance securing the risk transaction must be wholly or partly blocked. The criteria are set out in the document "Alert Resolution Guide".

In addition, controls are in place on the quality of information on record in databases to ensure that the assets constituting collateral are properly identified and linked to the respective transactions.

Occasional screening of the data quality for collateral sharing certain common features is carried out.

New collateral

To ensure that new collateral is properly recorded in accordance with the information set out in the contract random checks are run after transactions have been signed. For these purposes, we produced a "Collateral Testing Manual".

5.1.3.8.3 Eligibility of collateral for prudential purposes

Having regard to prevailing regulations, the Group operates on the basis that eligible collateral/guarantees are the proprietary and personal guarantees established under contract to secure compliance with an obligation or payment of a debt, so that if the borrower fails to pay, the collateral/guarantee will reduce the losses deriving from the transaction.

Several key requirements must be met:

- Legal certainty. Risk protection contracts must meet all the legally required conditions to ensure their validity and effectiveness. Agreements must be properly documented, establishing clear and robust procedures for the timely collection of the collateral.

- Collateral contributed in each transaction must be properly entered and assessed by the Entity's Corporate System, as it forms the basis for quality information. This is of crucial importance in processes such as customer monitoring and recovery in the event of default by the borrower and is stipulated in the circulars on data quality in asset transactions

Property that depends substantially upon the credit quality of the debtor or of any economic group to which the debtor may belong is ineligible as effective collateral. At least in the following circumstances, an adverse correlation exists for the entity between the effectiveness of the collateral/guarantees and the credit quality of the debtor:

- When shares or other negotiable securities of the borrower, or any economic group to which it may belong, are pledged.

- When the value of the collateral is highly dependent upon the continued operation of the party giving the guarantee, as in the case of some industrial buildings or non-general-purpose elements. In these cases, only an asset appraisal not based on the generation of operating cash flows is considered effective.

- The case of cross guarantees, in which the guarantor in one transaction is, in turn, guaranteed by the borrower in another transaction

Below the main forms of collateral relied on by the Group are described:

5.1.3.8.3.1 Mortgages

Mortgages on property are effective if they are first-ranking and have been properly constituted and registered for the benefit of the Entity (*Point 71. CBE 4/2017)*.

Mortgaged properties include:

(i) Buildings and parts of finished buildings, distinguishing among:

  - Housing;
  - Offices, commercial premises, and general-purpose industrial premises;
  - Other buildings, such as special-purpose industrial premises and hotels

(ii) Regulated urban or buildable land: i.e., level I land as defined in Order ECO/805/2003 of 27 March, on property surveying standards and certain rights for certain financial purposes.

(iii) Other buildings, including, among others, buildings and parts of buildings under construction, such as developments in progress or at a halt, and other land, such as rural property.

Mortgaged property must satisfy the following requirements to qualify as effective collateral (*Point 70. CBE 4/2017)*:

- The value of the property does not depend substantially upon the credit quality of the debtor, or of any economic group to which the debtor may belong. In the following circumstances, an adverse correlation exists for the entity between the effectiveness of the collateral/guarantees and the credit quality of the debtor:
    - When shares or other negotiable securities of the borrower, or any economic group to which it may belong, are pledged.
    - When the value of the collateral is highly dependent upon the continued operation of the party giving the guarantee.
    - The case of cross guarantees, in which the guarantor in one transaction is, in turn, guaranteed by the borrower in another transaction
- The risk assumed in respect of the borrower, as provided in these policies, does not depend substantially on the potential return the borrower may obtain on the mortgaged property, but rather the borrower's ability to pay the debt by other means.

For leased properties specifically, repayment of the exposure must not substantially depend on cash flows generated by the mortgaged property.

- Legal certainty must be present. Mortgages must be legally valid and effective in all relevant jurisdictions and be properly documented in a timely fashion and in the correct form.

Where encumbrances are created, all requirements for their full validity it must be satisfied. The protection agreement and the legal process underpinning it must enable the institution to realise the value of the mortgaged asset within a reasonable timeframe.

- The surveyed value of the properties must be ascertained.
- Insurance. The mortgaged property must be properly insured against fire and other damage risk to the extent required by the laws and regulations governing the mortgage market for properties in Spain or to the equivalent standard in other jurisdictions.
- Valuation rules: The value of a proprietary guarantee is determined by surveyed value, which must be equal to the market value of the mortgaged property

A promise to grant a mortgage does not qualify as a mortgage security interest for the purposes of mitigation of credit risk or of capital consumption.

Properties securing transactions are valued by the procedures set out in CBE 4/2017 Points 78 to 85 and 116:

a. New transactions:

- Complete individual surveys conducted by approved firms of surveyors or surveying services.
- For syndicated loans, the surveyed value validated by the group of lender institutions will be accepted.

b. Stock transactions:

- Complete individual surveys conducted by approved firms of surveyors or surveying services.
- Automated valuation models (AVMs) developed by approved and independent firms of surveyors on record in the Bank of Spain's official register of surveyors

5.1.3.8.3.2 Pledged securities

The following assets are eligible as collateral in the form of pledged securities:

- Debt securities issued by central governments or central banks, institutions, companies or securitisation special purpose vehicles (Point 71. CBE4/2017). Subordinated or preferred debt is eligible on an exceptional basis. Convertible debt is ineligible.
- Quoted shares (regularly quoted on an organised exchange that is officially recognised in Spain).
- Shares and units of collective investment schemes (CISs), provided that they have a daily marking to market that allows repayment to be obtained and the CIS invests only in the assets described above, cash deposits or gold

Collateral for which an active market exists must be measured at least quarterly, at fair value (Point 76. CBE 4/2017).

5.1.3.8.3.3 Pledged cash

The following assets are eligible as collateral in the form of pledged cash:

- Cash deposits, certificates of deposit issued by Bankia or similar instruments held by the Entity.
- Cash deposits, certificates of deposit or similar instruments held with third entities other than Bankia, when pledged to Bankia

5.1.3.8.3.4 Bank guarantees

The guarantee must satisfy the following requirements:

- Protection must be direct and may not contain clauses that:
    - Allow the protection provider to unilaterally cancel the protection or reduce its term.
    - Increase the effective cost of the protection as a result of a deterioration in the credit quality of the protected exposure.
    - Could prevent the protection provider from being obliged to pay out in a timely manner if the borrower fails to make any protected payments due.
- Operating requirements: The guarantee must be express and evidenced in writing.
- Enforcement of collateral: On default by the counterparty, the Entity has the right to pursue the guarantor for any monies due under the claim in respect of which the protection is

provided and the payment by the guarantor shall not be subject to the lending institution first having to pursue the debtor.

As a result of replacement of the direct borrower by the guarantor who has granted an effective personal guarantee, amounts guaranteed by the following legal persons are treated as transactions without appreciable risk for the purposes of estimating protection (*Point 139 CBE 4/2017*):

- Transactions with central banks
- Transactions with government institutions of EU countries
- Transactions with the central governments of countries classified in Group 1a for the purposes of country risk
- Transactions on behalf of deposit guarantee funds and resolution funds whose credit quality is comparable to that of EU counterparts.
- Bodies with unlimited guarantee from the government authorities of European Union countries and, in general, the central governments of countries in group 1 for country risk purposes.
- CESCE or other public corporations or undertakings in countries classified in Group 1 for country risk purposes whose main activity is credit insurance or guarantee.
- Spanish credit institutions, financial credit undertakings and mutual guarantee societies, provided that personal guarantees can be claimed at first demand.

Therefore, if full or partial personal guarantees have been given by guarantors without appreciable risk, the specific protection of the guaranteed transactions may be estimated individually.

5.1.3.8.3.5 Pledged receivables

The following assets are eligible as collateral in the form of pledged receivables:

- Receivables relating to one or more commercial transactions
- Bills of exchange
- Commercial paper
- Any other similar receivables

Receivables pledged by a borrower shall be diversified and not be unduly correlated with that borrower.

Receivables from affiliates of the borrower are not eligible as a credit risk mitigation technique.

For credit risk mitigation purposes, the Group does not consider receivables that are securitised, shared in or protected with credit derivatives, or those related to amounts owed by Group entities, to be eligible.

These assessments are updated at least annually.

In the validation and monitoring of eligible collateral used to mitigate risk, the Group has not identified any counterparty concentration that might prevent these instruments from being effective.

Bankia calculates capital requirements by the both standardised and the IRB (portfolio-based) approaches, using risk mitigation techniques under both approaches.

The mitigation process for both the standardised and IRB approaches is summarised below.

5.1.3.8.4 Mitigation techniques for transactions not subject to netting agreements

(i) Under the standardised approach: The entity uses risk mitigation techniques (hereinafter, RMT) for the net exposure for the part covered by the RMT in accordance with applicable regulations. Net exposure is calculated by adjusting the Original Exposure (on-balance sheet and off-balance sheet exposures) - adjusted for volatility, if applicable - with the relevant provision.

The adjusted value of an RMT is calculated differently for each technique. There are two distinct categories:

- Financial collateral
- Guarantees and credit derivatives (there are no credit derivatives at Bankia)

(ii) Under the IRB approach: Under the advanced IRB approach, RMTs modify capital requirements by adjusting PD and LGD. The adjustment of one variable or the other is determined by the type of mitigation technique.

Certain quantitative conditions must be met in the advanced IRB approach for the mitigation technique to be recognisable for the purpose of calculating RWAs (ratio between the residual maturity of the RMT and exposure). Qualitative conditions also apply.

The adjusted value of an RMT is calculated differently for each technique. There are three distinct categories:

- Financial collateral
- Guarantees and credit derivatives (there are no credit derivatives at the Group)
- Other eligible collateral under the IRB approach (real property, receivables, other physical collateral, etc

5.1.3.8.5 Mitigation techniques for transactions subject to netting agreements

“Netting” is the practice of calculating the net balance of transactions with one and the same counterparty, where a legal obligation is present and exposure to the counterparty can be reduced by offsetting all credit and debit balances across the different positions facing that counterparty and across all product types within the scope of the netting agreement. There are three main categories of netting agreements. Exposure under netting agreements is calculated differently for each category:

- OTC derivatives

- Repos
- Other on-balance sheet transactions

After calculating the exposure under a netting agreement, the relevant risk weighting is applied to the netting agreement counterparty. Next, after calculating exposure under netting agreements, if there is any supporting financial collateral the relevant treatment would be applied to the exposure under netting agreements.

Below the Group's exposure (under both the standardised and the IRB approaches) secured on property, financial guarantees and other proprietary collateral is summarised.

Table 29. Credit risk mitigation techniques – overview (CR3)

Millions €	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by immovable property	Exposures secured by credit derivatives
Total loans	92,134	67,575	231	0	67,344	0
Total debt securities	51,533	0	0	0	0	0
Total exposures	**143,667**	**67,575**	**231**	**0**	**67,344**	**0**
Of which defaulted	3,718	2,336	4	0	2,332	0

Of total debt securities, 97% are positions held with central governments, the public sector and SAREB.

Additionally, the Group does not use credit derivatives as protection in risk mitigation techniques.

5.1.4 Standardised approach

To calculate risk-weighted assets under the standardised approach, the risk weighting is established on the basis of the credit quality of the exposure.

5.1.4.1 Identification of external credit assessment institutions (ECAI)

External ratings are obtained from the information provided by three external credit assessment institutions:

- Standard & Poor's
- Moody's
- Fitch

5.1.4.2 Types of exposure to which ECAI ratings apply

The exposures for which ECAI ratings are used are those in wholesale portfolios, mainly governments and central banks of developed countries and financial institutions, and in the corporate portfolio as a result of the merger with BMN.

5.1.4.3 Mapping of ratings of public issues of securities to comparable assets (not included in the trading book)

As part of the external rating treatment, the BFA Group uses ratings assigned by the rating agencies S&P's, Moody's and Fitch.

If for a rated exposure there is available:

- a single credit rating issued by one of the ECAIs, then that rating is used to determine the risk weighting of the exposure.
- two credit ratings by ECAIs, and those ratings determine two different risk weightings, then the highest risk weighting (worse rating) is applied to the exposure.
- more than two credit ratings by ECAIs, then the two assessments that determine the lowest risk weightings (highest rating) are applied. If the two lowest risk weightings are different, the higher risk weighting is assigned (worse rating). If the two lowest risk weights are the same, that risk weighting is assigned.

External ratings are obtained from the information provided by the three external credit assessment institutions referred to above. In outline, the procedure for each ECAI is as follows:

- Standard & Poor's: BFA/Bankia subscribes to the RatingsXpress service provided by Standard & Poor's. The service consists of daily distribution of files to the Entity's systems, stating the ratings and outlook for issuers rated by the agency.
- Moody's: BFA/Bankia subscribes to the Issuer Rating Delivery Service, which consists of daily distribution of files to the Entity's systems, stating the ratings of the issuers rated by the agency.
- Fitch: BFA/Bankia subscribes to the Fitch Credit Rating Data service. The data is received daily and stored on the Entity's systems.

Rating changes, additions or removals that have taken place in the last 24 hours are received on a daily basis. Ratings are stored on the corporate system, generating an external rating history for each customer.

5.1.4.4 Credit risk exposures and effects of credit risk mitigation

The following is a breakdown of the Group's exposure and risk-weighted assets calculated under the standardised approach by exposure category (other than derivative instruments, repurchase agreements, securities or commodities lending or borrowing transactions, long settlement transactions and collateral financing transactions subject to Part III, Title II, Chapter 6 of the CRR or subject to Article 92(3)(f) of the CRR, which are already covered in the analogous table CCR3).

Table 30. Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

Millions €	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density (%)
Central governments or central banks	43,905	36	66,609	83	9,659	14.5%
Regional government or local authorities	3,803	318	3,795	100	12	0.3%
Public sector entities	1,564	332	770	42	190	23.4%
Multilateral development banks	0	0	199	5	0	0.0%
International organisations	0	0	0	0	0	0.0%
Institutions	3,553	89	566	15	190	32.7%
Corporates	1,478	583	1,430	90	1,354	89.1%
Retail	5,197	1,245	5,141	497	4,080	72.4%
Secured by mortgages on immovable property	24,924	48	24,924	24	8,729	35.0%
Exposures in default	2,111	154	2,108	48	2,273	105.4%
Higher-risk categories	57	1	57	0	85	150.0%
Covered bonds	0	0	0	0	0	0.0%
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0.0%
Collective investment undertakings	17	0	17	0	17	100.0%
Equity	468	0	468	0	1,051	224.4%
Other items	5,791	2,954	5,791	0	5,532	95.5%
Total	**92,868**	**5,761**	**111,872**	**902**	**33,171**	**29.4%**

The above table shows that the average total conversion factor is 15.7%. This is because the increased volume of off-balance sheet items reflects drawable amounts for credit cards, loans and credit facilities with a maturity of less than one year.

The positive variation of exposures after and before applying credit conversion factors to central government institutions is due to the treatment given to the Bankia Group's SAREB bond (17,790 million euros), which originates as an exposure under the IRB approach but is assessed under the standardised approach when applying risk mitigation techniques.

5.1.4.5 Exposures and risk weightings under standardised approach

The following table shows the value of credit risk exposure by exposure category and weightings. As in the previous case, exposures carrying counterparty risk are excluded:

Table 31. Standardised approach (CR5)

	Risk weight																	
Millions €	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	TOTAL	Of which unrated
Central governments or central banks	57,881	0	0	0	0	0	0	0	0	8,246	0	565	0	0	0	0	66,692	8,737
Regional government or local authorities	3,835	0	0	0	60	0	0	0	0	0	0	0	0	0	0	0	3,895	60
Public sector entities	401	0	0	0	53	0	358	0	0	0	0	0	0	0	0	0	812	409
Multilateral development banks	203	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	203	0
Institutions	0	0	0	0	398	0	103	0	0	17	0	0	0	0	63	0	581	564
Corporates	0	0	0	0	0	0	3	0	0	1,516	0	0	0	0	0	0	1,519	1,497
Retail	0	0	0	0	0	0	0	0	5,637	0	0	0	0	0	0	0	5,637	5,637
Secured by mortgages on immovable property	0	0	0	0	0	24,195	752	0	0	0	0	0	0	0	0	0	24,947	24,947
Exposures in default	0	0	0	0	0	0	0	0	0	1,922	234	0	0	0	0	0	2,156	2,156
Higher-risk categories	0	0	0	0	0	0	0	0	0	0	57	0	0	0	0	0	57	42
Collective investments undertakings	0	0	0	0	0	0	0	0	0	17	0	0	0	0	0	0	17	17
Equity	0	0	0	0	0	0	0	0	0	80	0	388	0	0	0	0	468	462
Other items	0	0	0	0	324	0	0	0	0	5,467	0	0	0	0	0	0	5,791	5,791
Total	**62,320**	**0**	**0**	**0**	**834**	**24,195**	**1,216**	**0**	**5,637**	**17,264**	**292**	**953**	**0**	**0**	**63**	**0**	**112,775**	**50,321**

5.1.5 Internal Ratings Based (IRB) Approach

Caja de Ahorros y Monte de Piedad de Madrid, whose loan portfolio was added to the Entity's balance sheet in the course of the merger process completed on 1 January 2011, received authorisation from the Bank of Spain on 17 June 2008 to use internal models to calculate capital adequacy for credit risk.

In the authorisation, the Entity was informed that the Bank of Spain's Executive Committee, in accordance with articles 6(2) and 10 *bis*, paragraph 2(c) *Ley 13/1985* as amended by *Ley 36/2007* of 16 November 2007 and articles 31, 32 and 36 of Royal Decree 216/2008 of 15 February 2008; and in the twenty-second, twenty-fourth and one hundred and twentieth regulations of Bank of Spain Circular CBE 3/2008, of 22 May, at the behest of the Directorate General for Supervision, had agreed to authorise the Caja Madrid Group to use the IRB approach to calculate capital requirements for credit risk, and the proposed successive application plan and the application of the standardised approach on a permanent basis for government treasury departments and Autonomous Communities and for credit exposures of subsidiaries or jointly controlled entities.

In June 2009, the use of the internal equity model and the use of internal LGD estimates for the banks model were authorised.

In January 2015, the use of internal models was authorised for wholesale portfolios from the savings banks belonging to the BFA Group that used the standardised approach prior to their integration, which was implemented on 31 December 2014.

The Entity is therefore authorised to use internal models for the segments listed in the table below:

<table>
<tr><th colspan="3">IRB APPROACH</th></tr>
<tr><td rowspan="7">IRB Approach</td><td colspan="2">Central government</td></tr>
<tr><td colspan="2">Institutions</td></tr>
<tr><td colspan="2">Companies</td></tr>
<tr><td rowspan="4">Retail</td><td>- Mortgage</td></tr>
<tr><td>- Micro-enterprises</td></tr>
<tr><td>- Cards</td></tr>
<tr><td>- Other retail</td></tr>
<tr><td rowspan="2">Equities</td><td colspan="2">PD/LGD approach</td></tr>
<tr><td colspan="2">Simple approach</td></tr>
<tr><td>Risk-based approach. Securitisations</td><td colspan="2">Securitisations (investor positions)</td></tr>
</table>

5.1.5.1 Structure of the internal ratings system and relationship between external and internal assessments

The rating process comprises a set of methods, processes, controls and data collection systems that enable risk assessment.

The rating system operates in two dimensions:

- Borrower default risk: reflected in the PD (probability of default of the borrower) or rating grade.

- Transaction-specific factors: reflected in the LGD (severity of loss given default), such as guarantees or shares in different tranches of leveraged finance transactions. Timeframe is also a relevant factor.

The rating system distinguishes between:

- Exposures to companies, sovereign borrowers, institutions and banks: each exposure to the same borrower receives the same credit quality (called borrower grade), regardless of the nature of the exposures. This is the borrower's "rating".

- Retail exposures: the systems are oriented both to the intrinsic risk of the borrower and the characteristics of the transactions. This is termed "scoring".

For both the rating models and the scoring models, monthly monitoring is carried out to verify their predictive power and discriminant capacity. In addition, independently of the results referred to above, which may involve a review of models, all models are generally reviewed and updated every two years.

The rating system takes into account three types of rating:

- *External* rating: ratings given by external rating agencies. BFA/Bankia currently works with Standard & Poor's, Moody's and Fitch, with whom it has information supply subscriptions. Under these contracts, ratings are updated daily to reflect any changes.

- *Automatic* rating: obtained by means of internal models, depending on the segment to which the customer belongs.

- *Internal* rating: The final ratings assigned to customers once all available information has been reviewed (external rating, automatic rating and additional information of a mainly qualitative nature).

Ratings are assigned specifically and on a distinct basis, depending on the segmentation of each customer.

5.1.5.2 Uses of the rating system

In addition to calculation of own funds requirements, the main uses of internal rating systems:

- Use in risk portfolio management

This metric affects the way risk is managed, as it shifts from an individual portfolio approach to a portfolio-wide approach. Risk decisions on transactions and customers at the time of approval are individual but also affect the valuation of the portfolio after addition of the transaction or borrower.

The decision whether to accept a new transaction or borrower is made on the basis of two parameters: the individual assessment of the transaction; and the impact on the average rating of the portfolio under management.

Portfolio management takes on a greater timeframe dimension, as ratings vary over time: in the past because customer ratings may have changed, and in the future because ratings may migrate through expected changes depending on the long-term probability of default.

In this context, the manager must take decisions to improve the rating distribution curve of the portfolio and therefore improve the weighted average rating for probability of default over time or in the near future.

The risk portfolio being monitored is tailored to the different probabilities of default of a customer portfolio. Borrowers to be monitored must have a greater weighting than those rated as having a higher probability of default.

- Implementation in the system of powers and delegated authority

This approach to measuring risks has an impact on the system of powers and delegated authority, which is based on risk levels, or clustering of several grades within a single category. The better the level of risk, the larger the amounts of risk to be accepted from a customer, and the wider the powers delegated at each decision-making rung.

- Implementation in risk-return

As described in "Credit risk measurement and management tools", a rating can be used to determine the risk premium to be demanded of a customer or transaction for a given level of return on capital.

This relationship between the risk/return trade-off is already common practice in the business segment.

5.1.5.3 Process for managing and recognising credit risk mitigation

At present, State guarantees for investments in debt issued by central banks and credit institutions are being recognised.

In addition, State guarantees are recognised for bonds issued by SAREB.

These transactions are treated as securities issued by the State itself and are assessed in accordance with the standardised approach.

In addition to these guarantees, since 31 December 2016 the Entity has applied credit risk mitigation to:

- Risk transactions with companies secured on shareholdings, classified as financial collateral using internal approaches.
- Risk transactions with companies secured by personal guarantees, where the guaranteed borrower's rating is replaced with that of the guarantors.

5.1.5.4 Process of internal rating by exposure categories

The Entity has in place two rating systems based on customer segmentation (rating and scoring) that provide, through internal models, a rating for each borrower. There are six rating models and five scoring models.

The rating models are as follows:

- Banks: an internally designed model that replicates the Moody's model. The main features are: it distinguishes between private/public sector banks and includes variables for profitability, solvency, liquidity, asset quality, efficiency and size.

- Large companies: a model that replicates the Standard & Poor's model, which aims to assign an internal rating to companies with revenue of more than 150 million euros and developers with revenue and inventory of more than 150 million euros, classified as Large Companies and Developers according to our internal risk segmentation. The model rates a borrower using its financial information; both the borrower's business and the country where it is located are taken into account.

- Businesses: this model comprises three sub-models. It includes events that identify immediate defaults (alerts); takes into account the linkage and behaviour of the company as a BFA/Bankia customer (behaviour); and is based on balance sheet and income statement information. Older financial information is penalised (financial).

- Government institutions: this internally designed model assigns ratings based on existing financial data (annual budgets).

- Special financing: an expert model based on attribution criteria determined by the Supervisor. The criteria assess the behaviour of a number of qualitative variables, such as financial strength, political and legal environment, features of the transaction, supply risk and the robustness of the sponsor.

- Equities: not strictly a model in its own right. Ratings assigned to equity portfolio exposures are determined by the different models (described above) depending on the segmentation of each customer.

The credit rating ascribed by any of the previous models is dynamic over time, so consideration of certain factors (new financial information, change of rating by an ECAI, change in customer segmentation, etc.) updates the internal rating.

Our current scoring models are internally designed and address the specific features of each of the retail finance sub-sectors.

In risk transaction approvals, one of the main factors is approval scoring. When a transaction is requested, information is required on the borrower and his or her solvency situation, the collateral provided, the type of product and the purpose of the financing. The result of the scoring process is binding and is taken into account for the purposes of signing powers established by the Entity.

Credit approval models are adapted to risk segmentation, so models are available for:

- Self-employed workers and sole traders (loans, credit accounts, guarantees, leasing and bill discounting): The model is used for credit quality rating at the time of approval of personally guaranteed transactions requested by business customers.

We follow the hazard rate approach. The model is a complex grid structure that establishes dependencies among variables with different functions; explanatory variables and their weightings are calculated to predict defaults in a multivariate context.

- Micro-enterprises (loans, credit accounts, guarantees, leasing and bill discounting): used to assign a rating to private businesses classified as micro-enterprises (revenue below 1 million euros).

We follow the hazard rate approach. The model is a complex grid structure that establishes dependencies among variables with different functions; explanatory variables and their weightings are calculated to predict defaults in a multivariate context.

- Mortgage:
    - *Customer*: used for assessment at the time of approval of mortgage-backed transactions with existing customers.
    - *Non-customer:* used for assessment at the time of approval of mortgage-backed transactions with non-customers.

We follow the hazard rate approach. The model is a complex grid structure that establishes dependencies among variables with different functions; explanatory variables and their weightings are calculated to predict defaults in a multivariate context.

- Cards: This new version of the LTC model was built using the hazard rates modelling approach. The function that is modelled is default over a fixed period of time, usually one year, influenced by seasoning, i.e. the lifetime of the transaction that has elapsed so far.
- Consumer lending:
    - *Customer*: used for assessment at the time of approval of personal guarantee-backed transactions with existing customers.
    - *Non-customer:* used for assessment at the time of approval of personal guarantee-backed transactions with non-customers.

We follow the hazard rate approach. The model is a complex grid structure that establishes dependencies among variables with different functions; explanatory variables and their weightings are calculated to predict defaults in a multivariate context.

The Entity has rating systems in place based on the risk segments shown in the following figure:

List of segments subject to scoring and rating

	Segment	Features	Approach	Applicable internal models
Subject to scoring	**Retail**	Individual with NACE FAM code	Advanced IRB	• Consumer lending scoring • Mortgage scoring • Cards scoring
	Self-employed	Individual with NACE non-FAM code	Advanced IRB	• Self-employed scoring
	Micro-enterprises	Public- or private-sector corporations with annual revenue < €1 million	Advanced IRB	• Micro-enterprise scoring
Subject to rating	**Large companies**	Public- or private-sector corporations with annual revenue > €150 million	Advanced IRB	• Large companies rating
	Small and medium-size enterprises	Public- or private-sector corporations with annual revenue> € 1 million < €150 million	Advanced IRB	• Businesses rating
	Institutions	Treasury units	IRB (management) and standardised (regulatory)	• External rating
		Regional governments		
		Local governments	IRB Basic	• Government institutions rating
	Housing developers	Corporation with NACE code 4110 (developer) and financing to develop housing	Advanced IRB	• Rating for businesses (large companies, businesses) as applicable
	Specialised lending	Projects that satisfy the definition of specialised lending under the CRR 575/2013	Advanced IRB	• CRR 575/2013 risk weightings
	Banks and financial institutions	Banks	Advanced IRB	• Financial institutions rating
		Financial credit undertakings		• External ratings
		Insurance and reinsurance		

As part of the portfolio-building process, which requires risk management, proactive models are used that support pre-approvals in both the scoring and rating areas.

Proactive models have been designed for retail customers that allows the Entity to pre-approve a loan in line with the borrower's credit quality and ability to pay. For SMEs and micro-enterprises, use these models are used to roll out binding pre-approved lending lines. This enables to create a short-term financing framework for a wide range of products.

EAD percentages under the IRB and standardised approaches as of December 2018 are set out below, and will be more fully itemised later:

Table 32. EAD by calculation method

Approach	EAD Million€	EAD %
Advanced IRB	93,993	43.9%
Foundation IRB	5,339	2.5%
Standardised	114,745	53.6%
TOTAL	**214,077**	**100.0%**

The following table (EU CRE Table, under Article 452(c) of the CRR) specifies the models operated by the Entity for the entire IRB approach applied to performing portfolios (the above table —EAD by internal risk segments— also shows defaulted portfolios), including securitisations:

Table 33. Performing IRB Portfolio by internal risk segments

million € and %

SEGMENT	SUBSEGMENT	MODEL	EAD	RWA	RWA/EAD	Average PD	Average LGD
Public Bodies	**Public Bodies**	Local corporations	171	156	73.2%	4.1%	45.0%
		External rating	117	28	24.2%	0.3%	45.0%
		Total	**288**	**184**	**64,0%**	**2.2%**	**45.0%**
Banks and Financial Intermediaries	**Banks and Financial Intermediaries**	Banks	5,906	2,129	35.8%	0.3%	34.4%
		Total	**5,906**	**2,129**	**36.0%**	**0.3%**	**34.1%**
Companies	**Large companies**	Large companies	12,358	5,698	46.1%	0.9%	34.6%
	Small and medium size companies	Companies	17,997	9,090	50.5%	1.6%	37.0%
		Total	**30,348**	**14,786**	**48.7%**	**1.3%**	**36.3%**
Real estate developers	**Large real estate developers**	Large companies	157	123	78.5%	1,5%	43.9%
	Small and medium size real estate developers	Companies	508	456	89.8%	6,7%	36.8%
		Total	**664**	**579**	**87.1%**	**5.5%**	**37.2%**
Specialised lending	**Specialised lending**	Slotting Criteria	4,146	3,659	88.2%	2,0%	49.0%
		Total	**4,146**	**3,659**	**88.3%**	**2,0%**	**49.0%**
Mortgage	**Renegotiations**		7,118	7,139	100.3%	5,6%	30.2%
	Customer		23,041	4,018	17.4%	0.8%	20.5%
	Non-customer		9,144	2,262	24.7%	1.3%	18.6%
		Total	**39,303**	**13,420**	**34.1%**	**1.8%**	**25.8%**
Cards	**Batch and Pre-approvals**		2,796	596	21.3%	1.5%	49.8%
	Customer office		1,744	497	28.5%	1.6%	49.8%
	Non-customer office		72	34	46.5%	3.5%	49.8%
		Total	**4,612**	**1,127**	**24.4%**	**1.6%**	**49.8%**
Consumer lending	**Renegotiations**		190	173	92.0%	11.7%	47.7%
	Batch and Pre-approvals		2,704	1,606	59.4%	2.3%	48.7%
	Customer office		1,006	588	58.5%	2.8%	43.4%
	Non-customer office		123	96	78.0%	7.0%	47.6%
		Total	**4,023**	**2,463**	**61.2%**	**2.9%**	**47.4%**
Micro-enterprises	**Renegotiations**		255	213	83.8%	7.7%	35.7%
	Guarantees		82	14	16.6%	1.9%	17.2%
	Batch and Pre-approvals		12	8	60.8%	5.2%	50.7%
	Credit account		302	175	57.9%	4.7%	49.5%
	Bill discounting		125	47	38.0%	1.8%	47.7%
	Loans		1,596	739	46.3%	3.3%	38.2%
		Total	**2,372**	**1,196**	**50.4%**	**3.8%**	**39.4%**
Self-employed workers and sole traders	**Renegotiations**		150	115	76.5%	9.4%	26.0%
	Guarantees		35	5	13.6%	1.6%	16.0%
	Credit account		130	38	29.0%	4.5%	24.4%
	Bill discounting		19	6	29.4%	1.6%	47.8%
	Loans		897	346	38.6%	3.8%	23.8%
		Total	**1,232**	**509**	**41.3%**	**4.5%**	**24.6%**
TOTAL			**92,894**	**40,051**	**43.1%**		

The controls under the internal rating system also include the Internal Validation Department, which independently produces a periodic technical opinion on the adequacy of the models.

The scope of the work of the Internal Validation Department (as described in "Internal Validation and Internal Control" in this report) encompasses all the essential elements of an advanced risk management system: methodologies, data used, quantitative aspects, qualitative aspects (use and reporting tests, role of senior management and internal controls), technological environment and documentation.

Regular validation of the models uses indicators to assess the overall stability of the population, the discriminant power of variables, the information quality underpinning the variables and the discriminant strength of the model as a whole.

The outcome of the validation process is a validation report that is specific to the validated elements (rating models, risk parameters). Moreover, on a half-yearly basis the Internal Validation progress report is submitted to the Risk Advisory Committee.

5.1.5.5 Controls on the internal rating system

The internal ratings system – in both the scoring and rating domains – is regularly monitored from the statistical standpoint and from the point of view of its fit with the portfolios to be assessed. This enables early detection of deviations from intended outcomes and hence allows for corrective or preventive action. The body responsible for this task is the Models Committee.

The Models Committee is in charge of assigning internal ratings that are not ascertainable by automated procedures, either because the internal models that replicate external models assign different ratings, or because there is insufficient information available for accurately rating a borrower.

The Models Committee specifies the rating criteria for assigning an internal rating, which may or not differ from the outcome of automatically applying the model. The Committee also sets rating criteria for risk groups that cannot be assigned an internal rating automatically. Rating changes and updates are subject to the prioritisation of ratings approved by the Models Committee, higher responsible binding body.

The procedures for updating, reviewing and validating the effectiveness of a rating are described below:

	SEGMENT
Update of financial information	All segments
Alerts and behaviour	Small and medium-size enterprises and developers
Change in external rating	All segments
Expert judgement	All segments

Update of the internal rating

The internal rating is valid for 12 months from the date of assignment. This term applies to all portfolios except the Public Institutions portfolio, which remains valid for 24 months. After that date, the internal rating is no longer valid. This validity is applicable only to rating models, and not to scoring models.

On a monthly basis, the Models Committee is presented with a monitoring report which, through the Global Rating Report, includes a study of the main aspects of the portfolio subject to rating, such as:

- Duration/validity of the ratings
- Duration/validity of the financial statements
- Holders with no credit rating
- Holders qualified under expert criteria
- Holders in default
- Main intra-monthly changes in ratings
- Consistency between credit ratings and the management level assigned to borrowers.

In addition, the Committee monitors scoring models as follows:

- Review of systematic monitoring of the predictive power of models, use-test indicators and forcings.
- Presentation of the outcome of development of new models, updating existing ones, and the outcome of recurrent calibrations.
- Regular monitoring of the scoring-assessed credit portfolio
- Proposed changes in cut-off points and general approval criteria, later to be submitted to the relevant body.
- Follow-up of validation reports and compliance with recommendations and policies:
- Scoring decision validation report: This report explains how a scoring model works. The report evaluates the change over time of the average number of outstanding transactions and their default rate, the distribution of outstanding transactions according to scoring decisions and subsequent developments, the performance of the model's discriminant capacity, the trend of each data series, comparison between "Hazard Rate" and probability of default, and nominal and expected margins. This kind of analysis is conducted for all scoring models and for each significant sub-population within each segment (customer, non-customer, domestic, non-domestic, channel, etc).
- Scoring models approval report. This report sets out the performance of scoring models and each branch office in the face of new credit applications. The report enables us to analyse the performance of credit applications, their average score, their distribution on the basis of scoring decisions, the delegated signing powers and their performance.

5.1.5.6 Advanced exposures by probability of default category and interval

As indicated in the previous section, the Group evaluates some of its portfolios under foundation IRB and some under advanced IRB. Disclosures under both approaches are set out below, excluding specialised lending:

Table 34. IRB – Credit risk exposures by exposure class and PD range (CR6)

PD Scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors (units)	Average LGD (%)	Average maturity (years)	RWAs	RWA density (%)	EL	Value adjustment and provisions
Central Governments - FIRB												
0.00 to <0.15	414	0	0.0%	0	0.0%	5	0.0%	-	0	0.0%	0	
0.15 to <0.25	0	0	0.0%	0	0.0%	0	0.0%	-	0	0.0%	0	
0.25 to <0.50	469	124	75.6%	0	0.0%	347	0.0%	-	0	0.0%	0	
0.50 to <0.75	28	44	75.1%	0	0.0%	51	0.0%	-	0	0.0%	0	
0.75 to <2.50	33	4	88.3%	0	0.0%	92	0.0%	-	0	0.0%	0	
2.50 to <10.00	0	0	100.0%	0	0.0%	3	0.0%	-	0	0.0%	0	
10.00 to <100.00	0	0	0.0%	0	0.0%	0	0.0%	-	0	0.0%	0	
100.00 (Default)	8	0	75.0%	0	0.0%	9	0.0%	-	0	0.0%	0	
Total	**952**	**172**	**75.8%**	**0**	**0.0%**	**507**	**0.0%**	**-**	**0**	**0.0%**	**0**	**0**
Institutions – FIRB												
0.00 to <0.15	116	1	79.6%	120	0.1%	9	44.3%	10.3	28	23.8%	0	
0.15 to <0.25	8	8	75.2%	14	0.2%	5	45.0%	3.4	7	52.0%	0	
0.25 to <0.50	100	20	92.4%	75	0.4%	77	45.8%	7.7	48	64.1%	0	
0.50 to <0.75	39	1	76.3%	40	0.5%	12	45.0%	7.4	30	76.1%	0	
0.75 to <2.50	29	2	88.4%	28	1.6%	27	45.0%	14.5	32	114.3%	0	
2.50 to <10.00	29	0	95.9%	29	3.9%	8	45.0%	13.0	42	144.8%	1	
10.00 to <100.00	2	0	75.0%	2	14.4%	6	45.0%	4.0	5	232.0%	0	
100.00 (Default)	158	3	98.9%	160	100%	39	45.0%	7.4	0	0.0%	72	
Total	**482**	**36**	**88.1%**	**468**	**34.6%**	**183**	**44.9%**	**8.8**	**194**	**41.5%**	**73**	**-91**

PD Scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	RWA	RWA density	EL	Value adjustment and provisions
Institutions - AIRB												
0.00 to <0.15	114	303	99.6%	372	0.1%	26	35.3%	0.3	66	17.8%	0	
0.15 to <0.25	2,415	2,976	100.0%	3,540	0.2%	54	34.9%	0.8	1,084	30.6%	2	
0.25 to <0.50	18,960	21	97.6%	744	0.3%	40	34.1%	2.9	376	50.5%	1	
0.50 to <0.75	675	158	76.1%	315	0.6%	43	34.6%	1.2	161	51.1%	1	
0.75 to <2.50	85	47	94.1%	131	1.5%	24	37.2%	1.7	99	75.8%	1	
2.50 to <10.00	11	29	83.7%	59	3.8%	89	33.7%	1.9	61	102.8%	0	
10.00 to <100.00	1	1	100.0%	2	18.6%	8	34.8%	4.3	2	115.2%	0	
100.00 (Default)	0	0	100.0%	0	100.0%	4	34.8%	-	0	40.2%	0	
Total	**22,261**	**3,535**	**98.6%**	**5,163**	**0.3%**	**288**	**34.8%**	**1.1**	**1,850**	**35.8%**	**5**	**-13**
Corporates SME – AIRB												
0.00 to <0.15	880	1,614	51.7%	1,851	0.1%	6,058	40.6%	1.6	244	13.2%	1	
0.15 to <0.25	1,616	1,390	50.0%	2,473	0.2%	3,374	41.3%	2.0	725	29.3%	2	
0.25 to <0.50	671	463	50.9%	924	0.4%	4,832	41.0%	2.9	299	32.3%	1	
0.50 to <0.75	779	368	53.0%	945	0.7%	3,781	40.2%	4.1	448	47.4%	3	
0.75 to <2.50	2,416	1,234	51.0%	2,936	1.2%	4,417	40.9%	2.4	1,769	60.2%	14	
2.50 to <10.00	2,227	1,093	55.5%	2,462	3.8%	6,569	38.9%	4.0	1,931	78.4%	36	
10.00 to <100.00	590	248	64.8%	676	17.7%	3,009	37.0%	6.0	851	125.8%	40	
100.00 (Default)	1,369	497	66.7%	1,588	100.0%	5,540	51.5%	5.3	575	36.2%	774	
Total	**10,549**	**6,907**	**53.4%**	**13,857**	**13.4%**	**37,580**	**41.6%**	**3.1**	**6,842**	**49.4%**	**870**	**-942**
Corporates Others - AIRB												
0.00 to <0.15	5,280	6,526	33.0%	8,264	0.1%	1,059	35.1%	3.2	1,714	20.7%	2	
0.15 to <0.25	1,242	1,176	53.9%	2,068	0.2%	907	39.8%	1.8	742	35.9%	2	
0.25 to <0.50	1,757	1,206	34.7%	2,274	0.3%	253	36.0%	3.6	1,122	49.3%	2	
0.50 to <0.75	55	56	60.6%	73	0.6%	99	34.2%	1.9	39	53.4%	0	
0.75 to <2.50	4,639	4,357	32.4%	4,965	1.1%	1,128	36.7%	1.9	3,636	73.2%	20	
2.50 to <10.00	1,488	1,439	34.8%	1,578	4.1%	779	37.5%	2.2	1,635	103.6%	21	
10.00 to <100.00	276	180	39.7%	276	19.3%	188	34.6%	4.3	496	180.1%	17	
100.00 (Default)	1,245	629	41.3%	1,432	100.0%	381	44.0%	2.5	543	37.9%	587	
Total	**15,982**	**15,570**	**35.2%**	**20,931**	**7.8%**	**4,794**	**36.8%**	**2.7**	**9,928**	**47.4%**	**652**	**-968**
Retail secured SME - AIRB												
0.00 to <0.15	0	0	0.0%	0	0.0%	0	0.0%	-	0	0.0%	0	
0.15 to <0.25	0	0	0.0%	0	0.0%	0	0.0%	-	0	0.0%	0	
0.25 to <0.50	25	1	100.0%	23	0.4%	140	25.9%	8.8	3	14.8%	0	
0.50 to <0.75	103	0	75.0%	101	0.6%	936	21.3%	10.4	16	16.1%	0	
0.75 to <2.50	389	5	84.4%	383	2.0%	2,922	19.4%	9.6	117	30.4%	1	
2.50 to <10.00	824	6	73.7%	805	5.2%	4,484	21.4%	13.1	467	58.1%	9	
10.00 to <100.00	152	0	69.9%	148	11.6%	1,193	22.0%	14.4	125	84.1%	4	
100.00 (Default)	231	0	75.0%	231	100.0%	1,014	46.4%	12.0	19	8.5%	105	
Total	**1,723**	**12**	**80.1%**	**1,691**	**17.6%**	**10,689**	**24.5%**	**12.1**	**748**	**44.2%**	**120**	**-114**

PD Scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	RWA	RWA density (%)	EL	Value adjustment and provisions
Retail secured non SME - AIRB												
0.00 to <0.15	5,555	10	75.0%	5,562	0.1%	69,148	12.9%	15.9	123	2.2%	0	
0.15 to <0.25	5,652	0	75.0%	5,652	0.2%	60,676	12.1%	15.9	296	5.2%	1	
0.25 to <0.50	3,845	24	75.0%	3,863	0.4%	39,631	18.6%	16.8	470	12.2%	3	
0.50 to <0.75	3,509	4	75.0%	3,512	0.6%	33,288	14.7%	16.6	488	13.9%	3	
0.75 to <2.50	10,551	28	73.5%	10,571	1.3%	112,472	17.4%	15.3	2,890	27.3%	24	
2.50 to <10.00	9,344	6	74.0%	9,348	4.8%	64,224	24.1%	18.6	7,879	84.3%	120	
10.00 to <100.00	512	0	0.0%	512	11.7%	3,308	44.7%	19.8	1,167	227.7%	27	
100.00 (Default)	2,258	0	97.4%	2,258	100.0%	12,674	43.1%	18.4	314	13.9%	948	
Total	**41,226**	**72**	**74.4%**	**41,279**	**7.1%**	**395,421**	**19.2%**	**16.7**	**13,626**	**33.0%**	**1.126**	**-940**
Retail - Qualifying revolving - AIRB												
0.00 to <0.15	8	76	100.0%	84	0.1%	22,366	49.8%	2.0	3	3.8%	0	
0.15 to <0.25	151	1,133	100.0%	1,284	0.2%	362,153	49.8%	2.2	70	5.4%	1	
0.25 to <0.50	10	89	100.0%	99	0.3%	31,436	49.8%	2.2	9	8.8%	0	
0.50 to <0.75	95	451	100.0%	546	0.6%	204,190	49.8%	2.2	74	13.5%	2	
0.75 to <2.50	281	1,718	100.0%	1,999	1.7%	1,061,790	49.8%	2.6	595	29.8%	17	
2.50 to <10.00	204	341	100.0%	545	4.2%	346,603	49.8%	2.3	303	55.7%	11	
10.00 to <100.00	35	20	100.0%	55	18.1%	57,403	49.8%	2.2	73	132.3%	5	
100.00 (Default)	16	0	100.0%	16	100.0%	17,983	63.6%	1.9	1	8.6%	10	
Total	**801**	**3,827**	**100.0%**	**4,628**	**1.9%**	**2,103,924**	**49.8%**	**2.4**	**1,128**	**24.4%**	**46**	**-47**
Retail – Others -AIRB												
0.00 to <0.15	20	35	24.3%	28	0.1%	1,362	47.8%	0.1	3	10.2%	0	
0.15 to <0.25	29	6	96.8%	34	0.2%	1,823	41.0%	4.0	5	14.6%	0	
0.25 to <0.50	398	44	56.5%	419	0.4%	49,673	45.8%	3.4	120	28.8%	1	
0.50 to <0.75	169	4	21.9%	167	0.6%	22,261	45.5%	3.4	54	32.6%	0	
0.75 to <2.50	2,382	184	74.3%	2,485	1.3%	179,831	45.6%	4.8	1,253	50.4%	15	
2.50 to <10.00	2,678	464	65.5%	2,826	4.6%	242,961	46.1%	3.8	1,838	65.0%	60	
10.00 to <100.00	260	8	75.7%	246	12.7%	158,183	48.2%	4.0	208	84.8%	15	
100.00 (Default)	222	31	75.4%	241	100.0%	173,659	61.5%	2.9	73	30.3%	142	
Total	**6,159**	**775**	**65.7%**	**6,445**	**6.8%**	**829,753**	**46.5%**	**4.1**	**3,555**	**55.2%**	**234**	**-275**

For probability of default (PD), regulatory floors of 0.03% are applied for corporates and sovereigns.

Regarding the exposure at default (EAD), it must be at least equivalent to the current balance drawn.

5.1.5.7 Exposures assigned to each risk weighting in specialised lending and equities

Finally, specialised lending exposures are disclosed in accordance with the ratings specified in Article 153(5) of the CRR, and equity exposures whose weighs are determined by: the approach applied (simple approach in this case), the diversification of the portfolio, and the question of whether the equities are listed or not.

Table 35. IRB - specialised lending and equities (CR10)

Specialised lending

Regulatory categories	Remaining maturity	On-balance sheet-amount	Off-balance sheet-amount	Risk weight	Exposure amount	RWAs	Expected losses
Category 1	Less than 2.5 years	119	39	**50%**	157	78	0
	Equal to or more than 2.5 years	1,123	92	**70%**	1,208	846	5
Category 2	Less than 2.5 years	64	4	**70%**	67	47	0
	Equal to or more than 2.5 years	2,130	167	**90%**	2,255	2,029	18
Category 3	Less than 2.5 years	4	1	**115%**	5	6	0
	Equal to or more than 2.5 years	338	20	**115%**	357	411	10
Category 4	Less than 2.5 years	12	0	**250%**	12	29	1
	Equal to or more than 2.5 years	79	6	**250%**	85	213	7
Category 5	Less than 2.5 years	158	2	-	160	0	80
	Equal to or more than 2.5 years	468	106	-	565	0	282
Total	**Less than 2.5 years**	**357**	**45**		**400**	**160**	**81**
	Equal to or more than 2.5 years	**4,137**	**391**		**4,470**	**3,498**	**322**

Equities under the simple risk-weighted approach

Categories	On-balance-sheet-amount	Off-balance-sheet-amount	Risk weight	Exposure amount	RWAs	Capital requirements
Private equity exposures	80	0	**190%**	80	151	12
Exchange-traded equity exposures	0	0	**290%**	0	0	0
Other equity exposures	2	0	**370%**	2	6	0
Total	**81**	**0**	**-**	**81**	**157**	**13**

All equities assessed under the simple approach are diversified and unlisted. For specialised financing, however, 46% of the portfolio is in category 2, having a maturity of more than 2.5 years.

5.1.5.8 Statement of flows of risk-weighted assets

The following table shows variations in RWAs evaluated under the IRB approach over the period (counterparty risk is excluded):

Table 36. RWA flow statements of credit risk exposures under IRB (CR8)

Million €	RWA amounts	Capital requirements
RWAs as at the end of the previous reporting period (12/31/2017)	38,911	3,113
Asset size	1,036	83
Asset quality	-1,088	-87
Model updates	-917	-73
Methodology and policy	1,556	124
Acquisitions and disposals	0	0
Foreign exchange movements	0	0
Other	0	0
RWAs as at the end of the reporting period (12/31/2018)	39,499	3,160

The RWAs shown do not cover risk-weighted assets relating to derivative instruments, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions or margin lending transactions subject to Title II, Part Three, Chapter 6 CRR or to Article 92(3)(f) CRR.

The change over time of risk-weighted assets (RWAs) in the credit risk portfolio during 2018 meant an increase of 587 million euros, mainly due to the adjustment of credit risk requirements in relation to the non-performing mortgage portfolio deriving from the TRIM process (Targeted Review of Internal Models), as explained in section 4.2.

5.1.5.9 Comparative analysis of estimates and observed data

The expected loss on the transaction, customer or portfolio is determined by the probability of default (PD) and severity, or loss given default (LGD). The purpose of this section is to provide a comparison of estimated losses as against observed losses. For ease of understanding, we have chosen to construct a comparison that distinguishes each of these drivers.

Probability of default

The probability of default used for regulatory purposes is the outcome of a calibration process that also implements an adjustment to a full economic cycle in accordance with the approach proposed by the competent national authority and approved within the Entity's own process of approval of internal models.

The methodological framework is articulated in the Bank of Spain's DV3 paper, and follows these rules:

- The period for adjustment to a full economic cycle is 1991 to 2008, both inclusive. However, periods subsequent to 2008 can also be considered. In this case, similar years within the 1991-2008 window must be identified in terms of the variables that shape the economic cycle. Each new year and its equivalent must be treated as if they were both a single one, with appropriate weightings.

- Moreover, observed default frequencies must be reliable. Specifically, the impact must be assessed of the restructuring and refinancing policy addressing defaults from 2009 onward. It is therefore acknowledged that an element of default may be concealed in the guise of restructuring. To the extent that it is uncertain that this might be recognised, it is thought necessary to preserve the historic depth of the cycle adjustment.

In the domain of parameter recalibration, in 2017 the Entity took part in the TRIM supervisory exercise that covered all European banks. The aim was to carry out on-site inspections of rating models and regulatory risk parameter approaches. This process prompted a range of recommendations whose economic rationale is applicable to all portfolios

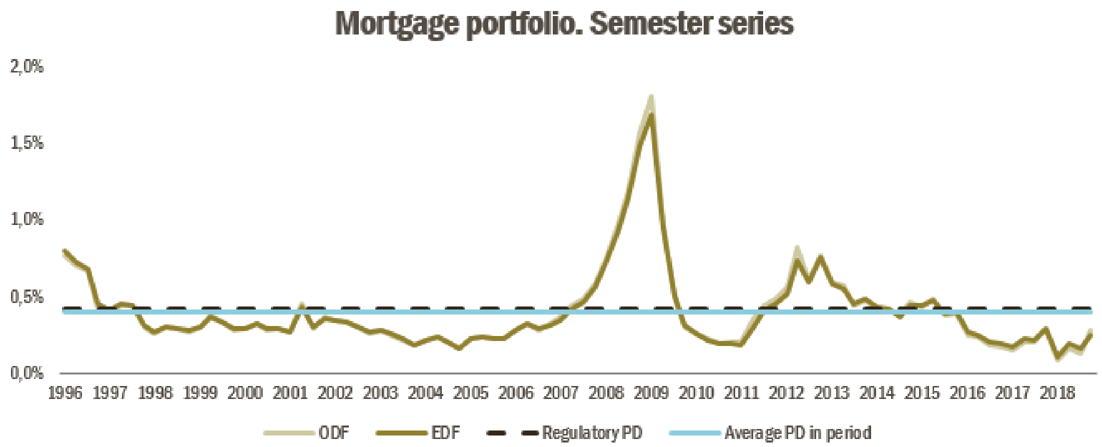
At its meeting of 17 October 2017, the Models Committee was briefed on the key findings of the TRIMI process for estimating PD/LGD. The current regulatory parameters were found to be maintained with a view to the annual recalibration in 2017. The necessary analyses were conducted to verify that the parameters are and remain valid.

Note also that in October 2018 the proposed new individual mortgage behavioural model was submitted to the regulator, settling all PD estimation obligations reported in the TRIM.

For some of the key portfolios we set out below the quarterly data series of observed and estimated default frequencies – ODF and EDF, respectively – the average value in the observed period and the regulatory PD, ex defaults, adjusted to the cycle as explained above. In all cases the time horizon for observation of defaults is 3 months. The annualised cycle-adjusted PD is equal to the regulatory PD.

Mortgage portfolio

The diagram reveals that expected frequencies closely match observed frequencies (EDF vs. ODF). Meanwhile, long-run regulatory PD matches the average value observed over the estimation period. The slight difference is down to the adjustment made to reflect the full economic cycle.

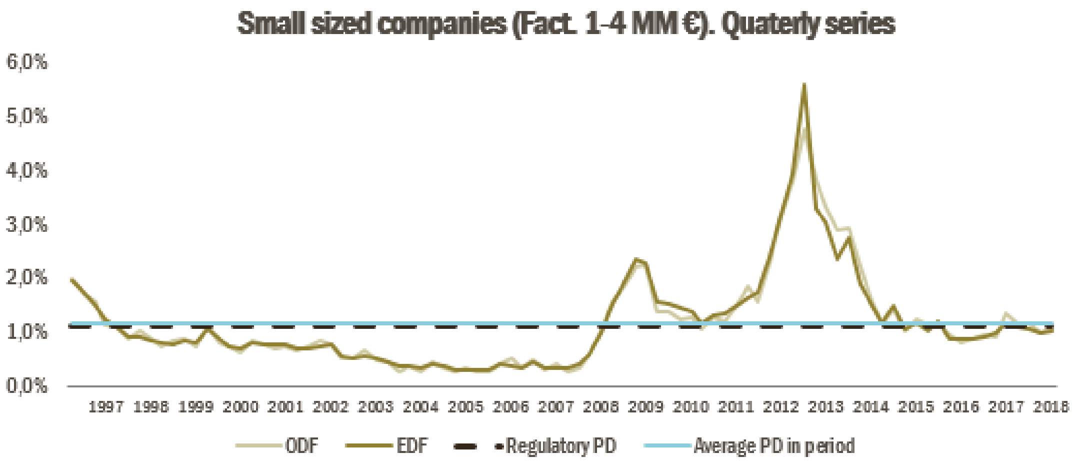


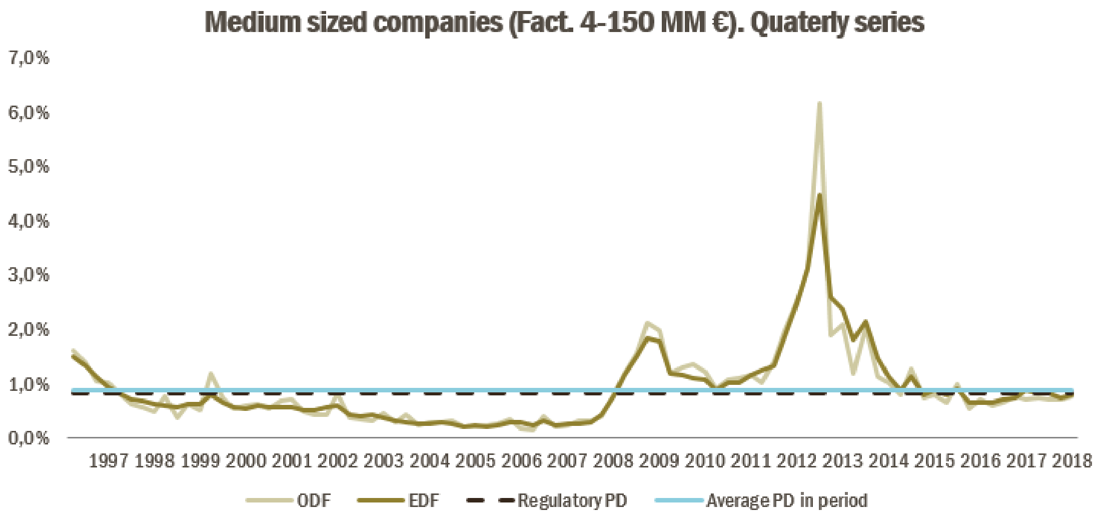
Note the spike in the series of defaults over the early years of the Great Recession, caused by the onset of the crisis and the second rule underlying the framework set out in DV3, whereby a process is followed to properly flag the default in those cases where it may be concealed under different restructuring processes.

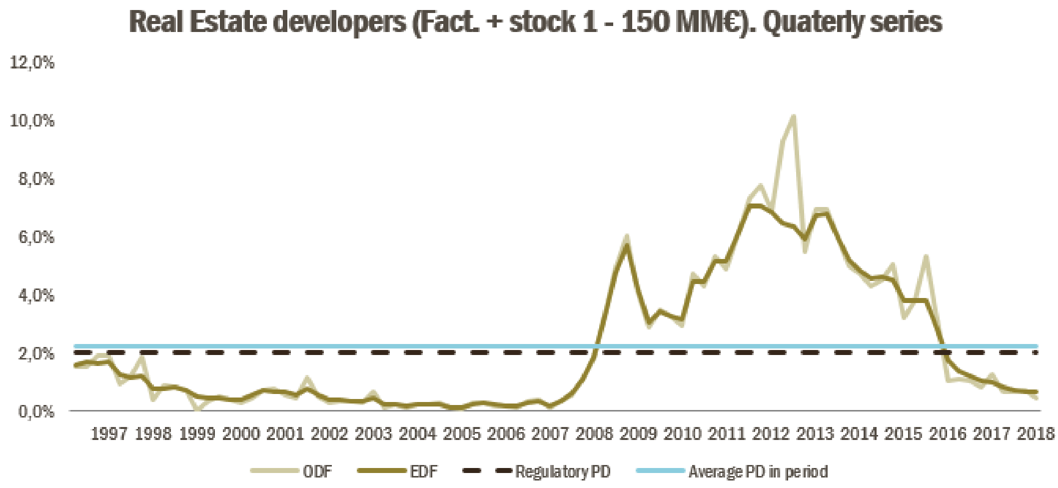
Portfolio of companies and real estate developers

Much like the mortgage portfolio and the relationship between regulatory PD and average PD over the horizon just shown, the following segments also reveal a clear alignment between the observed and expected data series.

The graphs show that the highest of the values relate to real estate developers, followed by small- and medium-sized enterprises.





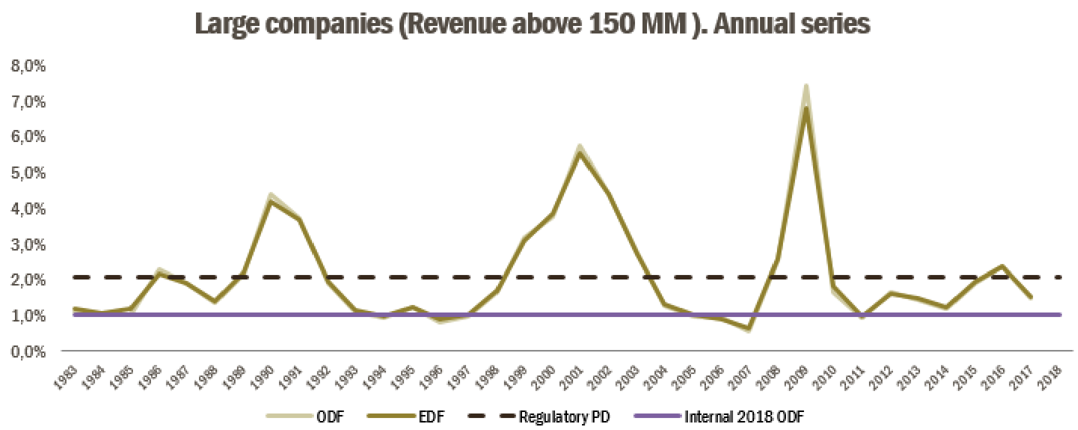


Although the defaults to have arisen following the various restructuring processes are adequately reflected when building the series of observed defaults, in all three segments we can observe a clear spike in 2012 (especially in the case of companies) as a product of the write-downs made in response to the company's intervention.

Portfolio of large companies

Finally, we have included the results of large companies; i.e. those with annual revenue above 150 million euros. This segment typically presents a lower number of defaults, so it requires the use of third-party data to be able to calibrate and adjust to the cycle. ODF, EDF and PD are calculated by reference to global information for the industrial sector taken from Moody's databases from 1983 through to the present date. As for the cycle adjustment, and following the DV3 scheme, regulatory PD matches the average value of the expected series since the whole period must be considered in this kind of situations.

The ODF and EDF series shown below are annual, as is regulatory PD. Note how the values are lower than those for medium-sized enterprises.



Be advised that in the above portfolios the data series we presented are quarterly, while in this case they are annual. Accordingly, up-to-date information for 2018 is not yet available.

As just mentioned, the calibration process relies on third-party data because the portfolio presents relatively few defaults. Here, we use Moody's data series by rating grade. The result of this process is then used to calculate capital requirements. The above diagram shows ODF and EDF drawn from Moody's data series, with no distinction by grade and where the average value corresponds with the core pattern. Since the data relates to companies mainly from the United States, we can observe three distinct spikes coinciding with the different crises to have occurred since the commencement of the data series presented.

The following table compares the data provided by Moody's in relation to ODFs and the Entity's own in-house data series for the 2013-2018 horizon, showing also EDF for the Bankia portfolio.

Table 37. ODFs-EDFs 2013-2018 comparative

In %

Date	ODF Moody's	ODF In-house Bankia	EDF
2013	1.49%	5.91%	-
2014	1.15%	2.41%	1.24%
2015	1.88%	2.54%	1.94%
2016	2.37%	1.46%	2.37%
2017	1.50%	0.95%	1.55%
2018	-	1.04%	-

It should be noted that in the last quarter of 2018 the proposed new PD model for Large Companies was submitted to the regulator. As a result, an on-site inspection of this portfolio was conducted in the first quarter of 2019 as part of the TRIM supervisory exercise. Since the model is currently within the transition phase, moving from the model currently in place to the proposed model laid before the regulator, information on the internal ODF set for 2018 has also been included.

The table shows clear fluctuations in the ODF figures, given the different sources used as an input. The following aspects are particularly relevant in terms of results:

- The comparison starts in 2013 since it is the year immediately following the Entity's intervention, which has since led to major organisational and management changes that are ongoing at the date of this report.

- The table shows internal ODF of 5.9% for 2013, a product of the idiosyncratic crisis in Spain and sovereign debt crisis over the 2011-2013 period, while the data provided by Moody´s (mainly United States) shows no such effect during the year, although this impact did materialise in 2009. From 2015 onward, we can see that in-house ODF is less than the figure obtained from Moody's industry data. This is down to the macroeconomic recovery within the Spanish industrial sector that was not felt equally across the global economy.

In addition, to provide a comparison between estimated and actual losses, the following table shows the values of expected default frequency (EDF) and observed default frequency (ODF) seen by the Entity in the past four years:

Table 38. EDF and ODF 2014-2018 period

	In %	EDF	ODF
Housing	2014	2.04%	2.06%
	2015	1.64%	1.67%
	2016	1.67%	1.67%
	2017	0.89%	0.82%
	2018	0.90%	0.83%
Real estate developer	2014	23.01%	23.00%
	2015	17.80%	17.19%
	2016	14.93%	16.24%
	2017	7.00%	6.23%
	2018	3.50%	3.39%
Medium size companies	2014	8.59%	6.99%
	2015	4.51%	4.12%
	2016	3.29%	3.10%
	2017	2.61%	2.43%
	2018	3.21%	2.86%
Small size companies	2014	10.93%	12.35%
	2015	5.91%	6.22%
	2016	4.37%	4.49%
	2017	3.50%	3.56%
	2018	4.27%	4.52%

5.1.5.10 Retrospective testing of PD by exposure category

The following table shows average PD[2] weighted by EAD, excluding exposures at default, as well as the classification by rating range, for IRB segments:

Table 39. IRB – Backtesting of probability of default (PD) per exposure class (CR9)

FOUNDATION IRB

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors (units)		Defaulted obligors in the year (units)	Of which new obligors (units)	Average historical annual default rate (%)
					End of previous year	End of the year			
Central governments or central banks	0.00 to <0.15	AAA a A-	0.00%	0.05%	5	5	0	0	0.00%
	0.15 to <0.25	A- a BBB+	0.00%	0.00%	0	0	0	0	0.00%
	0.25 to <0.50	BBB+ a BBB-	0.38%	0.40%	347	347	2	1	1.30%
	0.50 to <0.75	BBB- a BB+	0.54%	0.54%	55	51	0	0	1.13%
	0.75 to <2.50	BB+ a BB-	1.92%	1.92%	114	92	2	0	2.96%
	2.50 to <10.00	BB- a B-	6.80%	6.80%	3	3	0	0	0.98%
	10.00 to <100.00	B- a C	0.00%	0.00%	0	0	0	0	0.00%
	100.00 (Default)	D	100.00%	100.00%	9	9	8	0	0.00%
Institutions	0.00 to <0.15	AAA a A-	0.07%	0.05%	10	9	0	0	0.15%
	0.15 to <0.25	A- a BBB+	0.22%	0.21%	4	5	0	0	0.29%
	0.25 to <0.50	BBB+ a BBB-	0.41%	0.40%	62	77	2	2	0.57%
	0.50 to <0.75	BBB- a BB+	0.54%	0.62%	17	12	1	0	1.52%
	0.75 to <2.50	BB+ a BB-	1.55%	1.39%	18	27	3	2	1.42%
	2.50 to <10.00	BB- a B-	3.84%	6.20%	11	8	0	0	4.66%
	10.00 to <100.00	B- a C	21.35%	26.33%	4	6	2	0	32.80%
	100.00 (Default)	D	100.00%	100.00%	43	39	38	0	0.00%

ADVANCED IRB

Exposure class	PD Range	External rating equivalent	Weighted average PD by EAD	Arithmetic average PD by obligors	Number of obligors (units)		Defaulted obligors in the year (units)	Of which new obligors (units)	Average historical annual default rate (%)
					End of previous year	End of the year			
Institutions	0.00 to <0.15	AAA a A-	0.07%	0.06%	18	26	0	0	0.21%
	0.15 to <0.25	A- a BBB+	0.18%	0.21%	47	54	1	1	0.27%
	0.25 to <0.50	BBB+ a BBB-	0.31%	0.31%	31	40	0	0	0.15%
	0.50 to <0.75	BBB- a BB+	0.62%	0.66%	51	43	1	0	0.10%
	0.75 to <2.50	BB+ a BB-	1.48%	1.09%	16	24	3	2	1.29%
	2.50 to <10.00	BB- a B-	4.03%	4.08%	80	89	35	1	4.27%
	10.00 to <100.00	B- a C	14.81%	18.74%	5	8	2	2	18.32%
	100.00 (Default)	D	100.00%	100.00%	5	4	4	0	0.00%

[2] Note that the PD data and defaults rates we present are affected by the variability of the Risks buckets. These risks buckets are defined by the characteristics and features of each transaction and in the cross-test with the COREP segment required under the CR9 template these risks buckets are brought together, meaning the segmentation may have different calibration units, all with their corresponding PDs.

ADVANCED IRB

Exposure class	PD Range	External rating equivalent	Weighted average PD by EAD	Arithmetic average PD by obligors	Number of obligors (units)		Defaulted obligors in the year (units)	Of which new obligors (units)	Average historical annual default rate (%)
					End of previous year	End of the year			
Corporates - SME	0.00 to <0.15	AAA a A-	0.08%	0.07%	4,350	6,058	30	4	0.80%
	0.15 to <0.25	A- a BBB+	0.25%	0.21%	2,681	3,374	17	4	0.29%
	0.25 to <0.50	BBB+ a BBB-	0.36%	0.35%	3,709	4,832	39	3	0.64%
	0.50 to <0.75	BBB- a BB+	0.73%	0.65%	3,155	3,781	45	0	1.25%
	0.75 to <2.50	BB+ a BB-	1.21%	1.47%	3,992	4,417	43	0	1.51%
	2.50 to <10.00	BB- a B-	4.10%	5.73%	6,251	6,569	273	0	5.37%
	10.00 to <100.00	B- a C	18.93%	25.74%	3,005	3,009	1,226	0	37.26%
	100.00 (Default)	D	100.00%	100.00%	5,766	5,540	5,375	0	0.00%
Corporates - Other	0.00 to <0.15	AAA a A-	0.09%	0.07%	743	1,059	2	0	0.78%
	0.15 to <0.25	A- a BBB+	0.25%	0.24%	800	907	2	2	0.29%
	0.25 to <0.50	BBB+ a BBB-	0.34%	0.34%	182	253	0	0	0.60%
	0.50 to <0.75	BBB- a BB+	0.66%	0.63%	97	99	0	0	1.25%
	0.75 to <2.50	BB+ a BB-	1.24%	1.55%	1,210	1,128	6	0	1.35%
	2.50 to <10.00	BB- a B-	4.11%	5.65%	743	779	16	0	5.29%
	10.00 to <100.00	B- a C	18.99%	23.51%	213	188	45	0	29.31%
	100.00 (Default)	D	100.00%	100.00%	440	381	373	0	0.00%
Retail secured SME	0.00 to <0.15	AAA a A-	0.00%	0.00%	0	0	0	0	0.00%
	0.15 to <0.25	A- a BBB+	0.00%	0.00%	0	0	0	0	0.00%
	0.25 to <0.50	BBB+ a BBB-	0.44%	0.43%	95	140	0	0	0.84%
	0.50 to <0.75	BBB- a BB+	0.64%	0.63%	779	936	0	0	0.74%
	0.75 to <2.50	BB+ a BB-	2.04%	1.81%	3,058	2,922	6	0	2.09%
	2.50 to <10.00	BB- a B-	5.10%	5.32%	4,661	4,484	18	1	4.71%
	10.00 to <100.00	B- a C	11.44%	15.02%	1,260	1,193	11	8	9.49%
	100.00 (Default)	D	100.00%	100.00%	1,089	1,014	1,271	0	0.00%
Retail non secured SME	0.00 to <0.15	AAA a A-	0.06%	0.07%	80,958	69,148	17	0	0.10%
	0.15 to <0.25	A- a BBB+	0.18%	0.19%	62,698	60,676	29	0	0.37%
	0.25 to <0.50	BBB+ a BBB-	0.39%	0.37%	45,790	39,631	5	0	0.38%
	0.50 to <0.75	BBB- a BB+	0.62%	0.64%	64,700	33,288	29	0	0.64%
	0.75 to <2.50	BB+ a BB-	1.47%	1.53%	81,994	112,472	133	37	1.48%
	2.50 to <10.00	BB- a B-	5.37%	5.49%	50,469	64,224	189	65	3.34%
	10.00 to <100.00	B- a C	12.36%	12.90%	6,121	3,308	9	0	13.90%
	100.00 (Default)	D	100.00%	100.00%	14,561	12,674	17,374	0	0.00%
Retail - Qualifying revolving	0.00 to <0.15	AAA a A-	0.13%	0.10%	22,994	22,366	0	0	0.12%
	0.15 to <0.25	A- a BBB+	0.19%	0.18%	351,778	362,153	31	9	0.14%
	0.25 to <0.50	BBB+ a BBB-	0.35%	0.38%	31,898	31,436	2	1	0.35%
	0.50 to <0.75	BBB- a BB+	0.60%	0.59%	194,305	204,190	50	29	0.67%
	0.75 to <2.50	BB+ a BB-	1.65%	1.52%	755,600	1,061,790	841	707	1.55%
	2.50 to <10.00	BB- a B-	4.14%	5.34%	308,108	346,603	580	286	4.89%
	10.00 to <100.00	B- a C	18.06%	15.63%	44,148	57,403	604	98	14.36%
	100.00 (Default)	D	100.00%	100.00%	12,212	17,983	10,153	3,401	0.00%
Retail - Other	0.00 to <0.15	AAA a A-	0.12%	0.04%	1,296	1,362	0	0	0.00%
	0.15 to <0.25	A- a BBB+	0.16%	0.16%	1,596	1,823	1	1	0.24%
	0.25 to <0.50	BBB+ a BBB-	0.39%	0.40%	42,571	49,673	14	4	0.64%
	0.50 to <0.75	BBB- a BB+	0.61%	0.64%	23,485	22,261	33	11	0.80%
	0.75 to <2.50	BB+ a BB-	1.46%	1.62%	152,677	179,831	475	109	2.11%
	2.50 to <10.00	BB- a B-	4.67%	5.37%	185,573	242,961	1,297	354	4.74%
	10.00 to <100.00	B- a C	12.46%	14.98%	149,026	158,183	4,233	725	16.01%
	100.00 (Default)	D	100.00%	100.00%	153,422	173,659	176,532	23,604	0.00%

5.1.5.11 Severity (LGD)

Severity for regulatory purposes must reflect the unrecovered exposure percentage in the event of default under adverse economic conditions. The main concepts used to calculate LGD are:

- Exposure: total loan value at time of default.
- Impairment (Default): when there is an unpaid amount for more than 90 days in arrears.
- Recovery: discounted value at the start of default for all flows (positive and negative) involved in the recovery process:
    - Recovered debt or income deriving from the sale of portfolios
    - Interest for late payment
    - Management costs
    - Legal costs not passed on
    - Billing of external companies
    - Flows relating to the foreclosed REOs Assets: capitalised expenses, management, capital gains/losses on sales, third-party fees
- Risk premium: penalty for the uncertainty associated with future recovery processes and applied on discounting the flows.

Severity is calculated by recovery process (non-payment cycle) associated with a defaulted transaction. To proceed, the entity must have all these flows for every contract, on the understanding that allocation criteria will need to be established for those concepts for which no information is available with that level of disaggregation.

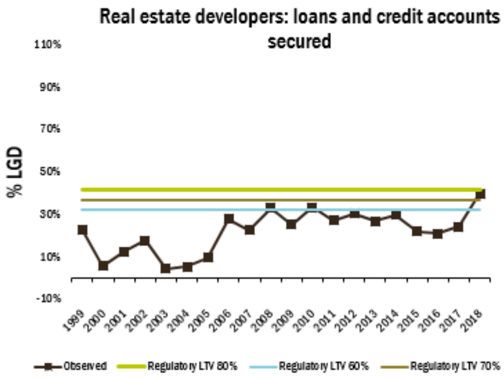
As with probability of default, this risk parameter has successfully passed the Bank of Spain's approval process.

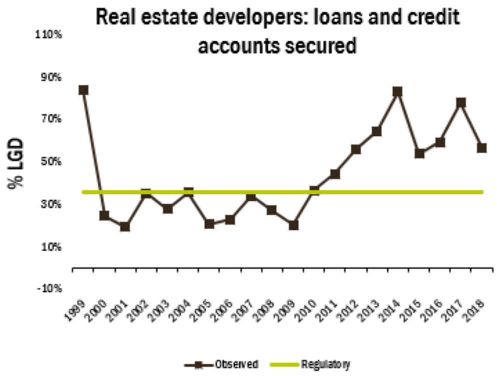
While severity can be grouped using different axes, those governing its allocation are essentially: segment, type of person, product, guarantee and, in the case of mortgage loans, purpose and loan-to-value (LTV).

The following sections address the most significant groups, showing LGD value by year of date of default and the value used for regulatory purposes. The LGD data shown below present a timeline through to August 2018, coinciding with the most recent data available to the Entity for estimating severity as at the date of this report and maintaining the calibration for the previous year as per TRIM recommendations.

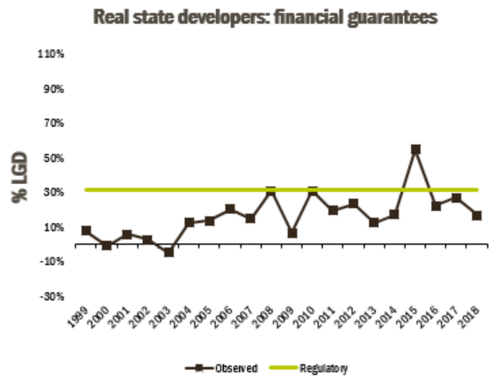
Real estate developer portfolio

For this segment, the first chart below shows LGD on loans and credit accounts secured with mortgage collateral for home development, by LTV. Here we can observe discrimination using this axis, versus the same segment but without mortgage collateral.



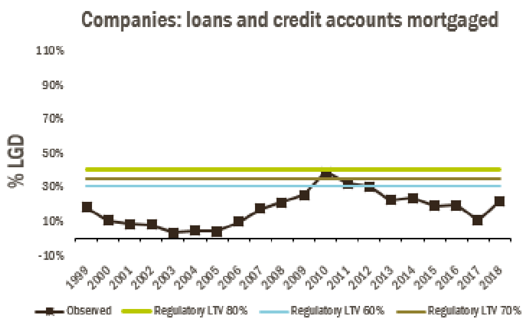


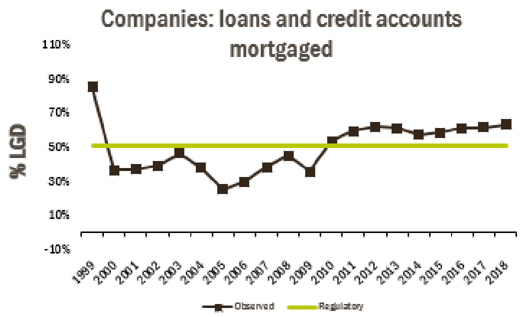
In the case of guarantees, both economic and technical, LGD is substantially lower.



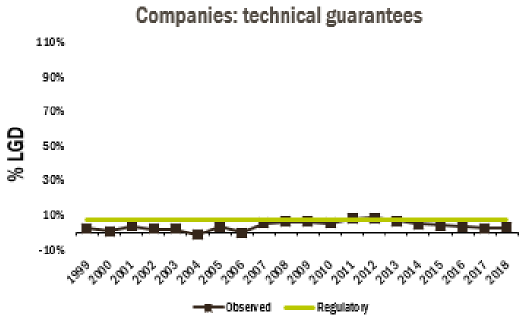
Companies portfolio

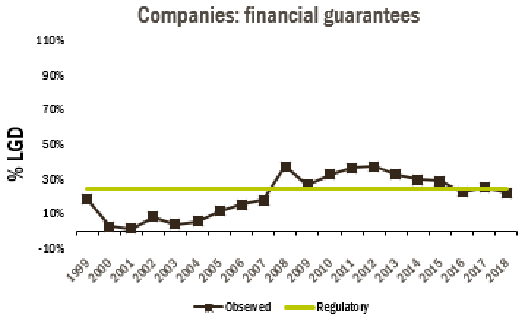
LGD is presented by LTV for loans and credit accounts with mortgage collateral intended for home acquisition. Here, the regulatory value is virtually the same as the value for real estate developers, albeit slightly lower.



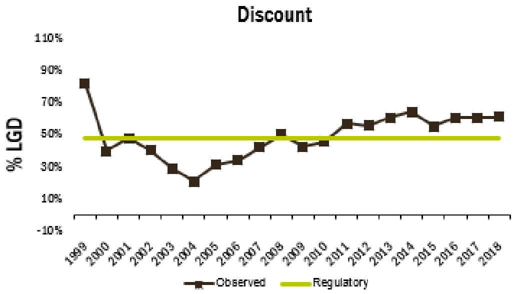


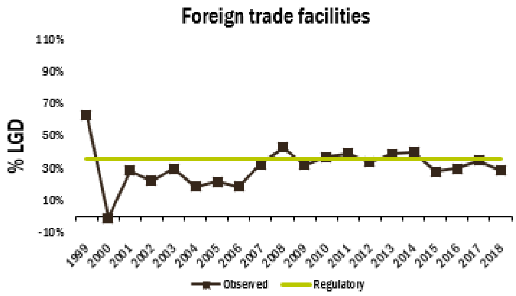
As with real estate developers, guarantees here present a lower LGD than for the other segments.





Lastly, two groups of particular interest within the portfolios segment are discount and foreign trade facilities. Commercial Discounts presents LGD values roughly on par with loans and credit accounts with personal guarantee. These values are lower for the second group.





5.1.5.12 Credit Conversion Factor (CCF)

The CCF means the expected percentage of the available amount that would be used in the event of default. As its name suggests, it allows the undrawn amount under a given credit position to be converted into equivalent risk.

The CCF is a factor that must be determined from observed defaults.

Key features:

- The CCF is a dynamic concept, since it depends on distance to default.
- The CCF presents an indefinite volatility structure since it is a factor where the denominator may be zero.

CCF for loans

Applies only in the case of **real estate developer loans during the fund disbursement phase**, since for the rest of loans the undrawn amount is zero. There is no estimation for these cases. Accordingly, the CCF to be assigned will be **75%** since no internal estimate is available.

CCF for cards

- When it comes to cards, the Entity has estimated EAD rather than CCF, yielding average EAD values of 97.14% for natural person and 84.52% for legal person, with considerable levels of dispersion.
- As discussed in the estimation document, the “relative” condition of the credit limit is clear to see, since EAD is often well above the card limit. With this in mind, the Entity has chosen to apply a CCF of 100%.

CCF for guarantees

- There is no sense in applying a CCF in the case of guarantees, since severity has been calculated as a percentage of the guarantee and not of the debt under claim at the time of default.
- That said, for guarantee facilities a CCF can be applied. The relevant value to be assigned is 7.01%.
- As for guarantees within the large companies’ segment, the Entity applies the same CCF as for guarantee facilities (i.e. 7.01%).

CCF for guarantee facilities in foreign trade transactions

- In the specific case of foreign trade, no CCF estimate is made available. As explained in the case of LGD, guarantees, documentary credit or loans can be arranged under the facility. Therefore, because the arrangement is mandatory the Entity has decided to apply a CCF of 7.01% on those arranged in the form of guarantees, as with the guarantee facilities.

CCF for others

- The Entity applies a CCF of **75%** in the case of **Public Bodies, Banks and Financial Intermediaries and Special Financing**, since no internal estimation is available. This applies also for cash facilities and syndicated credit facilities.

As explained in section 5.1.5.9, no regulatory parameters have been recalibrated this year. Rather, the Entity has maintained the parameters from the previous period in response to the TRIM exercise.

5.1.5.13 Comparative analysis of estimates with effective results

As part of the internal validation function, the following processes are conducted annually to validate estimates of parameters under the IRB models in effect at the Entity:

Validation of PD

The Entity validates the estimates reached by the Internal Models Department by testing documentation, estimate replication, methodology (validation of the assumptions relied on in the modelling and significance of the estimates), consistency of the results obtained (the better the rating grade the lower the probability of default) and granularity (PDs must be statistically independent between rating grades).

Validation of LGD and CCF

The Entity validates the estimates obtained by the Internal Models Department by testing documents, technological environments, estimate replication, methodology employed and portfolio segmentation.

Meanwhile, Internal Validation tests the implementation of risk parameters so as to ensure that they have been properly assigned for the purpose of calculating capital requirements.

Back Testing

Depending on how often parameter estimates are updated, PD backtesting exercises are carried out to compare, for each calibration unit, the regulatory PDs in effect with the default rates observed over the following 12 months. To achieve this, the Entity conducts backtesting analyses using Brier Score and the classic traffic lights approach under the binomial distribution test.

5.1.5.14 Factors to have impacted the loss experience during the previous year

As for the cost of risk, 2018 was particularly noteworthy due to the entry into force of IFRS 9, which requires institutions to post allowances under the expected losses approach. The parameters supporting these estimates were calibrated at the start of the new regulatory framework, and will be regularly reviewed for possible recalibration down the line, in accordance with applicable standards. Aside from this impact, the portfolio originating at BMN was integrated into the Bank in 2018.

Regulatory parameters were not recalibrated during the year, as mentioned in previous sections. Instead, the Entity chose to maintain the parameters from the previous period in response to the TRIM exercise

5.1.5.15 Rating system control mechanisms

As discussed in the Entity's Risk Policies Manual, the control system in place at the Entity extends to all processes and policies and is based on the three lines of defence:

- First line of defence: decentralised business and risks
- Second line of defence: centralised risks, Internal Validation and Internal Risk Control
- Third line of defence: Internal Audit

All lines of defence are there to ensure compliance with the Credit Risk Policies and to extend the Risk-Ready Culture.

When it comes to the third line of defence, Bankia's Audit and Compliance Committee has been assigned all legally envisaged functions, especially those prescribed by applicable banking regulations, and its main remit is to ensure the independence and effectiveness of the internal audit functions.

All departments involved in credit risk management are responsible for:

- Making control activities an integral part of all processes and management activity and keeping close watch of those activities.

- Applying the relevant policies, methodologies and tools.
- Collaborating transparently and proactively with the control units so as to ensure that these operate effectively.

In accordance with the Credit Risk Policy Control Procedure, the Internal Risk Control Department reports to both the Risks Committee and the Risks Advisory Committee on the findings and results of the compliance control process for the Specific Credit Risk Policies. It may also issue recommendations in response to its control activity.

5.1.5.16 Relationship between the risks functions and the audit function

Internal audit, as the last line of defence, will provide an independent assessment of the various processes involving the models, as well as the control framework in place (first and second lines of defence), while verifying compliance with applicable regulations and proposing, if any weaknesses are detected, the appropriate corrective action, which will then be monitored through to implementation.

5.2 Counterparty credit risk

Counterparty credit risk (CCR) relates to the likelihood of a counterparty defaulting on its contractual obligations, resulting in the Entity incurring a loss on its financial market trades.

5.2.1 Counterparty credit risk exposure by approach

This section provides a comprehensive view of counterparty credit risk exposure by the approach used to calculate that exposure:

Table 40. Analysis of the counterparty credit risk (CCR) exposure by approach (CCR1)

Million €	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		3,316	314			1,215	767
Original exposure							
Standardised approach							
IMM (for derivatives and SFTs)							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for STFs)						3,897	1,277
VaR for SFTs							
Total		**3,316**	**314**			**5,112**	**2,045**

5.2.2 Total value of exposures to CCPs

The following table presents exposure following risk mitigation techniques to central counterparties (CCPs).

Table 41. Exposures to central counterparties (CCR8)

Million €	EAD post CRM	RWAs
Exposures to QCCPs (Total)		51
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	409	9
(i) OTC derivatives	298	6
(ii) Exchange-traded derivatives	0	0
(iii) SFTs	111	2
(iv) Netting sets where cross-product netting has been approved	0	0
Segregated initial margin	1,391	
Non-segregated initial margin	2	0
Prefunded default fund contributions	63	42
Alternative calculation of own funds requirements for exposures		0
Exposures to non-QCCPs (Total)		0

The table above shows that the Group exposures are limited exclusively to Qualifying Central Counterparties

5.2.3 CCR exposures by regulatory portfolio and risk

As already mentioned in section 5.1.4.2, the CCR3 template shows the value of the Entity's counterparty credit risk exposures by exposure category and risk weight.

Table 42. Standardised approach – CCR exposures by regulatory portfolio and risk (CCR3)

	Risk weight											Total	Of which unrated
Million €	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**		
Central governments or central banks	58	0	0	0	0	0	0	0	0	0	0	58	0
Regional government or local authorities	13	0	0	0	0	0	0	0	0	0	0	13	0
Public sector entities	70	0	0	0	0	27	0	0	0	0	0	97	13
Institutions	0	1,775	27	0	0	0	0	0	0	0	0	1,802	32
Total	**141**	**1,775**	**27**	**0**	**0**	**27**	**0**	**0**	**0**	**0**	**0**	**1,970**	**45**

It reveals that 92% of the Entity's exposure subject to counterparty risk is associated with Central Counterparties, which, as shown in table CCR8, are qualifying and receive a risk weight of 2%.

5.2.4 CCR exposures by portfolio and PD scale

To complement the above table (CCR3), which provides a breakdown of counterparty risk under the standardised approach, the following table (CCR4) presents IRB exposures subject to this risk by portfolio and PD scale.

The structure is essentially the same as the CR6 table, which presents credit risk calculated under the IRB approach, again by portfolio and PD scale.

Table 43. IRB approach – CCR exposures by portfolio and PD scale (CCR4)

FIRB exposures — **In million € and %**

PD Scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	RWAs	RWA density (%)
Institutions							
0.00 to <0.15	5	0.1%	2	45.0%	12.0	1	24.4%
0.15 to <0.25	0	0.0%	0	0.0%	0.0	0	0.0%
0.25 to <0.50	0	0.5%	5	45.0%	0.9	0	70.3%
0.50 to <0.75	0	0.0%	0	0.0%	0.0	0	0.0%
0.75 to <2.50	0	0.0%	4	0.0%	0.0	0	0.0%
2.50 to <10.00	0	0.0%	7	0.0%	0.0	0	0.0%
10.00 to <100.00	0	0.0%	0	0.0%	0.0	0	0.0%
100.00 (default)	0	100.0%	1	45.0%	0.0	0	0.0%
Total	**5**	**0.4%**	**19**	**45.0%**	11.9	**1**	**24.6%**

AIRB exposures

PD Scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	RWAs	RWA density (%)
Corporates Other							
0.00 to <0.15	76	0.1%	171	36.0%	6.5	21	27.9%
0.15 to <0.25	4	0.2%	86	45.0%	8.2	2	62.6%
0.25 to <0.50	3	0.3%	21	36.5%	2.6	2	50.7%
0.50 to <0.75	0	0.0%	1	0.0%	0.0	0	0.0%
0.75 to <2.50	38	1.1%	162	37.7%	2.4	33	87.3%
2.50 to <10.00	47	6.6%	92	41.4%	7.2	85	180.5%
10.00 to <100.00	1	20.9%	18	44.8%	6.2	2	249.1%
100.00 (default)	13	100.0%	21	36.0%	0.0	5	38.5%
Total	**182**	**9.3%**	**572**	**38.0%**	**5.3**	**151**	**82.9%**
Corporates SME							
0.00 to <0.15	0	0.1%	1,314	45.0%	2.4	0	22.9%
0.15 to <0.25	2	0.2%	182	45.0%	2.0	1	38.6%
0.25 to <0.50	0	0.4%	35	45.0%	7.7	0	53.5%
0.50 to <0.75	0	0.7%	47	45.0%	2.7	0	54.6%
0.75 to <2.50	4	1.3%	303	45.0%	5.3	3	92.8%
2.50 to <10.00	4	5.3%	234	45.0%	4.2	5	132.9%
10.00 to <100.00	12	19.7%	60	45.0%	12.4	25	214.6%
100.00 (default)	2	100.0%	109	45.0%	0.7	0	0.0%
Total	**23**	**20.3%**	**2,284**	**45.0%**	**8.0**	**34**	**146.5%**

AIRB exposures

PD Scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	RWAs	RWA density (%)
Institutions							
0.00 to <0.15	329	0.1%	33	34.8%	0.3	60	18.2%
0.15 to <0.25	3.248	0.2%	258	34.8%	0.8	1,006	31.0%
0.25 to <0.50	525	0.3%	127	34.8%	3.1	309	58.8%
0.50 to <0.75	41	0.6%	52	34.8%	6.1	29	72.7%
0.75 to <2.50	4	1.6%	28	34.8%	6.5	3	83.0%
2.50 to <10.00	2	6.5%	12	34.8%	5.3	3	188.4%
10.00 to <100.00	0	14.4%	5	34.8%	2.5	0	213.1%
100.00 (default)	0	0.0%	0	0.0%	0.0	0	0.0%
Total	**4.148**	**0.2%**	**515**	**34.8%**	**1.1**	**1,411**	**34.0%**
Retail - Other							
0.00 to <0.15	0	0.0%	2,390	0.0%	0.0	0	0.0%
0.15 to <0.25	0	0.0%	0	0.0%	0.0	0	0.0%
0.25 to <0.50	0	0.0%	0	0.0%	0.0	0	0.0%
0.50 to <0.75	0	0.0%	0	0.0%	0.0	0	0.0%
0.75 to <2.50	1	2.3%	58	45.0%	3.8	0	48.4%
2.50 to <10.00	2	4.4%	8,266	45.0%	6.9	1	55.4%
10.00 to <100.00	0	0.0%	0	0.0%	0.0	0	0.0%
100.00 (default)	2	100.0%	48	45.0%	7.9	0	0.0%
Total	**4**	**41.5%**	**10,762**	**45.0%**	**6.8**	**1**	**32.5%**

5.2.5 Impact of netting and collateral held on exposure values

The following table outlines the impact of netting and collateral agreements on exposure to counterparty risk:

Table 44. Impact of netting and collateral held on exposure values (CCR5-A)

Million €	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	12,680	64%	4,511	3,515	996
SFTs	4,040	6%	3,812	114	3,698
Total	**16,720**	**50%**	**8,323**	**3,629**	**4,694**

5.2.6 Composition of collateral for exposures to CCR

Collateral agreements can cover various types of transaction. Collateral posted may be in cash or bonds. At Bankia, almost the entire balance posted or received is currently in cash, denominated in euros.

Transactions (derivatives, repos or securities lending) subject to a collateral agreement are measured daily (or occasionally weekly) and the difference between the net balance of the counterparty value and the present balance of the collateral is essentially the margin to be paid to or received from the counterparty.

The following table shows the fair value of the collateral used to mitigate counterparty risk:

Table 45. Composition of collateral for exposures to counterparty credit risk (CCR5-B)

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
Million €	Segregated	Unsegregated	Segregated	Unsegregated		
Financial Entities	34	1,418	0	1,252	38	8
Non-Financial Entities	219	658	0	459	0	0
CCP	0	1,193	0	128	82	8
Total	**253**	**3,268**	**0**	**1,840**	**119**	**16**

5.2.7 Amount of CVA requirements

At 31 December 2018, the BFA Group calculated its own funds requirements using Credit Value Adjustment (CVA) measure under the standardised approach, which is governed by article 384 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.

The own funds requirements at the BFA Group amount to 18 million euros, with an exposure value of 272 million euros.

The following table shows RWAs by CVA and the associated capital requirements:

Table 46. Credit valuation adjustment (CVA) capital charge (CCR2)

Million €	Exposure Values	RWAs	Capital
Total portfolios subject to the advanced method			
(i) VaR component (including the 3x multiplier)			
(ii) SVaR component (including the 3x multiplier)			
All portfolios subject to the standardised method	272	230	18
Based on the original exposure method			
Total subject to the CVA capital charge	**272**	**230**	**18**

5.3 Securitisation

The Group's securitisation portfolio remained virtually static over the course of the year.

The Group issued no new securitisation funds in 2018 and as at the date of this report it has no assets pending imminent securitisation.

It can safely be said that the portfolio does not present a complex structure. The Group relies solely on traditional forms of securitisation. Therefore, there are no synthetic securitisations or resecuritisations in which the Group has acted as originator (at 31 December 2018 the portfolio featured just one resecuritisation bond, issued by IM PRESTAMOS FONDOS CEDULAS FTA, with an exposure amount of 0.4 million euros). The securitised portfolio qualifies wholly as an investment portfolio and there are no securitised credit facilities (all securitised exposures originated by the BFA Group are concentrated in funds comprising asset-backed securities or mortgage-backed securities under the laws of Spain).

Meanwhile, the Group has not acted as sponsor under any securitisation (acting only as originator or investor). Moreover, in those transactions in which it acted as originator and transferred the risk in accordance with paragraphs 1 and 2 of article 245 of the CRR, the Group did not provide implicit support to any securitisation within the meaning of article 248.1 CRR.

The Group does not make use of personal guarantees or hedging techniques to mitigate the risks of its securitisation exposures.

The following table shows the aggregate amount of the Group's securitisation positions:

Table 47. Securitisation positions by approach

million €

Approach	Drawn on balance sheet	Off balance sheet
Standardised	359.9	0
IRB	214.3	0
TOTAL	**574.2**	**0**

Of the total securitised positions, 1.250% risk-weighted securitisation positions amounted to 22 million euros at 31 December 2018. Additionally, those exposures assigned that specific weighting because they qualify as first-loss tranches and which are deducted from the own funds numerator totalled 5.6 million euros, as shown below.

Table 48. Securitisation positions deducted from own funds and weighted at 1.250%

million €

Approach	Deduction from own funds	1.250% risk weight
Standardised	4.1	22.4
IRB	1.5	0.0
TOTAL	**5.6**	**22.4**

The following table shows the aggregate amount of all securitisation positions retained or acquired and the relevant own funds requirements, broken down by securitisation and resecuritisation exposure for each approach the Group uses to calculate its own funds requirements:

Table 49. Securitisation positions by type and tranche

million €

Approach	Type	Tranche	Original exposure	Exposure value	Own funds requirements	RWA
Standardised	Securitisation	0%-50%	101.9	94.8	1.5	18.3
		50%-200%	248.6	238.3	17.4	217.8
		200%-500%	26.2	24.3	8.6	107.8
		500%-750%	0.0	0.0	0.0	0.0
		750%-1250%	8.9	2.5	2.0	24.9
		Total Securitisation	**385.7**	**359.9**	**29.5**	**368.8**
	Resecuritisation	0%-50%	0.0	0.0	0.0	0.0
		50%-200%	0.0	0.0	0.0	0.0
		200%-500%	0.0	0.0	0.0	0.0
		500%-750%	0.0	0.0	0.0	0.0
		750%-1250%	0.0	0.0	0.0	0.0
		Total Resecuritisation	**0.0**	**0.0**	**0.0**	**0.0**
Total standardised			**385.7**	**359.9**	**29.5**	**368.8**
IRB	Securitisation	0%-50%	208.1	208.1	2.5	31.4
		50%-200%	0.0	0.0	0.0	0.0
		200%-500%	5.8	5.8	1.2	15.4
		500%-750%	0.0	0.0	0.0	0.0
		750%-1250%	0.0	0.0	0.0	0.0
		Total Securitisation	**214.0**	**214.0**	**3.7**	**46.8**
	Resecuritisation	0%-50%	0.4	0.4	0.0	0.1
		50%-200%	0.0	0.0	0.0	0.0
		200%-500%	0.0	0.0	0.0	0.0
		500%-750%	0.0	0.0	0.0	0.0
		750%-1250%	0.0	0.0	0.0	0.0
		Total Resecuritisation	**0.0**	**0.0**	**0.0**	**0.1**
Total IRB			**214.3**	**214.3**	**3.8**	**46.9**
TOTAL			**600.0**	**574.2**	**33.3**	**415.7**

5.3.1 The Entity’s objectives when it comes to securitisation activity

The BFA Group relies on asset securitisation techniques to pursue one or more of the following objectives:

- Liquidity and financing: converting loans granted to its customers (mortgages, SME loans, etc.) into liquidity by placing the securitisation bonds on the capital markets or by adding them to its liquidity buffer comprising assets pledged and held at the ECB.
- Balance sheet management: embracing both regulatory capital relief and derecognition and the freeing up of provisions.

The main risks arising from fund securitisation activity in which the BFA Group has acted as transferor include:

- Reliance on securitisation as a liquidity/funding mechanism.

- Forfeiting the Bank's eligibility to act as fund counterparty in key contracts such as accounts, derivatives and liquidity facilities, due to the Entity's downgraded rating, with the ensuing impact on costs/liquidity and financing.
- Reliance on possible rating caps in response to changes in the Kingdom of Spain's sovereign rating.
- The potential impact of changes in the credit risk of the underlying portfolio on the rating of the securitisation bonds.
- Future imbalances between the interest rate on the underlying portfolio and the interest rate attaching to the bonds, mitigated through the use of interest rate derivatives or increased levels of credit enhancement.
- The adverse impact in stress scenarios of the negative performance (in terms of rating) of securitisation fund tranches -often subordinate- on the perception of the Bank's own credit risk.
- Other risks, such as the impact of regulatory and legal developments, reliance on the use of financial models in determining key variables such as the average life of the bonds, process needs and disclosure of data to third parties associated with the securitisation.

5.3.3 Functions carried out during the securitisation process and the Entity's involvement in each function

The BFA Group structures the entire securitisation process into the following phases:

- Portfolio selection: picking the portfolio that best meets the Entity's strategic objectives at each point in time.
- Pre-audit of the portfolio: preliminary review of any parameters that need to be audited down the line so as to ensure full compliance with audit requirements.
- Financial design of the transaction: defining a suitable structure tailored, *inter alia,* to the characteristics of the assets to be securitised, the Entity's own strategic objectives, and investor preferences. This phase also includes control of implementation in the documentation relating to the securitisation fund. This documentation process may include the following contracts and documents:
    - Issue prospectus and deed of incorporation of the securitisation special purpose entity.
    - Financial services agreement of the securitisation fund, governing paying agent activities, cash account and custodianship of the instrument recording all the mortgage transfer certificates, mortgage participations, payment rights or bonds, depending on the type of securitisation in question.
    - Swaps/caps/similar agreements formalised through Spanish framework agreements for financial transactions (known as "CMOFs") or ISDA contracts, together with all relevant confirmations and annexes, such agreements covering all manner of interest and/or foreign exchange risk.
    - Subordinated loan or credit facility agreements to finance various items, such as the posting of the reserve fund, acquiring the amount of any accrued interest, or in

the event of a time lag between the payment and collection of interest on the first payment date.

- Loan agreements entered by the securitisation vehicle to partially fund the acquisition of assets: in some placements, the SSPE finances part of the principal of the acquired assets at par by arranging a loan that is subordinate to the senior bond tranche, but ranks senior to the subordinated loans described in the preceding point.
- Management and bond subscription agreement if the Entity is to subscribe the entire issue itself, or underwriting agreement if the Entity is to sell the securitisation bonds on the market (typically alongside other banks in this case).
- Liquidity facility agreements to cover temporary lag times between payments and collections, normally relating to payment of interest on the bonds.

- Agency ratings
    - Presentation and explanation of the securitisation transaction, including descriptions of the main features of the portfolio to undergo securitisation, such as financial characteristics, types of debtor or borrower and the associated credit risk. This may take the form of stratifications, amortisation profiles, product data sheets, presentations, qualitative explanations, etc.
    - Presentation and discussion of the fund structure and credit enhancement associated with the different bond tranches and/or loans.
        - Filing at the CNMV (Spanish securities market regulator): satisfying the requirements prescribed by the CNMV and ensuring compliance with applicable law. Includes support for the external auditor during the portfolio audit process, handling documentation required by the CNMV, responding to consultations, adding any clarifications that may be needed as a result of the CNMV's analysis, controlling rating letters received, etc.
        - Preparing sales support material: when the transaction includes tranches to be sold to third parties, the Entity must draw up the relevant sales material describing the main characteristics and features of the transaction, amortisation profiles and the average life of those tranches, etc.

Main functions carried out over the life of the transactions

In the case of originated portfolios of underlying assets, Bankia frequently acts as:

- Original seller of the portfolios: while the funds are mostly uni-seller, there are some with multi-seller portfolios.
- Administrator of the securitised asset portfolios.
- Provider of subordinate financing, including the first-loss tranches and other subordinate items, such as funding of initial costs or to cover lag times between payment and collection of interest through to the first payment date.

In view of Bankia's current rating from the various rating agencies, certain contractual positions typically have to be outsourced to third parties that possess a higher credit rating. These functions include:

- Paying agent services.
- Cash account.

Main parties involved

The origination of new securitisation funds in which the Bank acts as seller is coordinated and overseen by Bankia's Finance department, which plans, proposes, executes accordingly and provides *ad hoc* support when running this kind of activity.

There are different degrees of interaction with third parties during the origination process, including:

- Internally, with Legal Services, the Tax department and various Information Systems units so as to obtain information and provide support while running the funds, and also with the departments involved in risk management.
- Externally, with the various legal and tax advisers tasked with drawing up fund documentation and issuing legal opinions on critical legal and tax concerns, with rating agencies, management companies, auditors and the Spanish CNMV and, as the case may be, with suppliers of services that require a certain credit rating, such as paying agent and cash or derivative account services.

Since these transactions typically involve large issues, they are normally approved by the Bank's Board of Directors or equivalent decision-making body. Important decisions concerning the daily running of the fund are generally scrutinised by management committees, such as the Assets and Liabilities Committee (ALCO).

5.3.4 Description of the processes applied to monitor changes in the credit and market risk of securitisation exposures, indicating also how the performance of the underlying securities can impact the securitisation exposures

The Bank analyses the credit risk of its investment portfolio, establishing impairment percentages based on the credit rating of the assets concerned. Meanwhile, any change in their rating or price is monitored through regular controls, which may reveal the same indications of asset impairment. The aforementioned processes are used to monitor changes in credit and market risk of invested securitisation exposures.

In addition, securitisation positions are included within the assets of the Bank that are taken into account when carrying out the various processes of controlling, analysing and monitoring interest rate risk on the balance sheet. For positions included in the portfolio at fair value, the Bank carries out a price control of all positions held in asset-backed securities.

5.3.5 Approaches used to calculate risk-weighted exposures relating to securitisation activity

The Standardised Approach (SA) is used for positions held when securitising securitisations originated by the BFA Group, while the External Ratings-Based Approach (ERBA) is employed for investment securitisations (not originated by the BFA Group). When it comes to the securitised underlying portfolios, the choice of either the IRB Approach or the Standardised Approach will depend on the type of counterparty and the savings bank from which the assigned transactions are originating.

Under no circumstances is the Internal Assessment Approach used.

5.3.6 Outline of the accounting policy the Entity applies to its securitisation activities

Note 2.7 to the consolidated financial statements discusses the accounting policy followed by the BFA Group for recognising, derecognising and measuring transfers of financial assets and, where appropriate, reporting the results.

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

- If substantially all the risks and rewards of the assets transferred are transferred to third parties – unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitization of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases – the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

- If substantially all the risks and rewards associated with the financial asset transferred are retained - sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitisation of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the expected credit losses on the securitised assets, and other similar cases – the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used prior to the transfer. However, the following items are recognised with no offsetting:

    - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortised cost, or, if the aforementioned requirements for classification as other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability.

    - The income from the financial asset transferred but not derecognised and any expense incurred on the new financial liability.

- If the Bank neither transfers nor retains substantially all the risks and rewards associated with the financial asset transferred – sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of financial assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases – the following distinction is made:

    - The Entity does not retain control of the transferred financial asset, the transferred financial asset is derecognised and any right or obligation retained or created as a result of the transfer is recognised.

    - The Entity retains control of the transferred financial asset, it continues to recognise it in the balance sheet for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net amount of the transferred asset and associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties.

In 2018, the Bank did not carry out any asset securitisation operations in which it removed those securitised assets from the balance sheet. Accordingly, no results have been recorded for this concept.

5.3.7 External credit assessment institutions (ECAIs) used for securitisation activities

In general, the Entity has worked with the following external rating agencies, no matter the type of underlying asset to have been securitised: Standard & Poor's, DBRS, Moody's and Fitch.

5.3.8 Total amount of outstanding exposures securitised by the Entity, displayed separately for both traditional and synthetic securitisations

The following table shows a list of the securitisations (all traditional) originated by the BFA Group.

At 31 December 2018, the risk associated with outstanding originated securitisations came to 10,231 million euros, with an initial originated balance of 36,694 million euros.

Table 50. List of outstanding originated securitisations

million €

Securitisation	Type	Total amount originated	Total amount outstanding
AYT CAJAMURCIA HIPOTECARIO II, FTA	Traditional	315	54
AYT CAJA GRANADA HIPOTECARIO I, FTA	Traditional	400	101
MADRID RESIDENCIAL I, FTA	Traditional	805	405
BANCAJA 8 FTA	Traditional	1,680	308
BANCAJA 11 FTA	Traditional	2,023	802
MADRID RMBS IV, FTA	Traditional	2,400	873
MBS BANCAJA 6 FTA	Traditional	1,000	371
BANCAJA 6 FTA	Traditional	2,080	196
CAIXA PENEDÈS FTGENCAT 1 TDA, Fondo de Titulización	Traditional	570	3
BANCAJA 9 FTA	Traditional	2,023	470
BANCAJA 10 FTA	Traditional	2,631	923
MADRID RMBS II, FTA	Traditional	1,800	586
MBS BANCAJA 2 FTA	Traditional	809	101
TDA 27, FTA	Traditional	290	59
AYT HIPOTECARIO MIXTO V, F.T.A.	Traditional	300	61
BANCAJA 7 FTA	Traditional	1,900	260
TDA SA NOSTRA EMPRESAS II, FTA	Traditional	355	45
BCJA BVA BCVPO	Traditional	335	115
BANCAJA 13 FTA	Traditional	2,895	1,496
MBS BANCAJA 4 FTA	Traditional	1,873	445
CAIXA PENEDÈS 2 TDA, Fondo de Titulización de Activos	Traditional	750	2
CAIXA PENEDÈS 1 TDA, Fondo de Titulización de Activos	Traditional	1,000	2

TDA 20 MITXTO, FTA	Traditional	150	23
MBS BANCAJA 3 FTA	Traditional	810	158
MADRID RMBS III, FTA	Traditional	3,000	1,164
AYT CAJAMURCIA HIPOTECARIO I, FTA	Traditional	350	51
AYT HIPOTECARIO MIXTO I, F.T.A.	Traditional	110	12
CAIXA PENEDES PYMES 1 TDA, Fondo de Titulización	Traditional	790	5
MADRID RMBS I, FTA	Traditional	2,000	670
TDA SA NOSTRA EMPRESAS I, FTA	Traditional	250	11
MADRID RESIDENCIAL II, FTA	Traditional	600	372
TDA 22 - MIXTO, FTA	Traditional	148	12
AyT Hipotecario Mixto II, F.T.A.	Traditional	126	9
TOTAL		**36,567**	**10,167**

5.3.9 Amount of impaired or non-performing securitised assets

The following table shows the value of non-performing securitised assets (with or without impairment) and the losses recognised by the Group during the current period, in both cases broken down by exposure type:

Table 51. List of securitisations that feature non-performing assets

million €

Securitisation	Derecognised from balance sheet	Assets securitised	Of which: doubtful loans securitised	Of which: very doubtful non-performing loans
BANCAJA 6	YES	198	5	0
TOTAL DERECOGNISED FROM BALANCE SHEET	**YES**	**198**	**5**	**0**
RMBS I	NO	716	21	0
RMBS II	NO	626	20	0
RMBS III	NO	1,262	50	1
RMBS IV	NO	945	30	1
RESIDENCIAL I	NO	420	10	0
RESIDENCIAL II	NO	381	7	0
BANCAJA 7	NO	264	9	0
BANCAJA 8	NO	316	13	0
MBS BANCAJA 2	NO	104	6	0
BANCAJA 9	NO	487	32	0
MBS BANCAJA 3	NO	163	11	0
BANCAJA 10	NO	964	61	0
MBS BANCAJA 4	NO	463	39	0
BANCAJA 11	NO	838	53	0
BANCAJA 13	NO	1,566	102	0
MBS BANCAJA 6	NO	389	27	0
BANCAJA-BVA VPO 1	NO	116	1	0
AyT HIPOTECARIO MIXTO II	NO	23	1	0
AyT CAJA MURCIA HIP I	NO	51	2	0
AyT CAJA MURCIA HIP II	NO	54	1	0
AyT HIPOTECARIO MIXTO V	NO	63	6	0
AyT CAJA GRANADA HIPOTECARIO I	NO	108	19	0
AyT HIPOTECARIO MIXTO	NO	12	0	0
TDA 20 MIXTO	NO	23	0	0
TDA SA NOSTRA EMPRESAS 1	NO	11	0	0
TDA SA NOSTRA EMPRESAS 2	NO	46	2	0
CAIXA PENEDES 1 TDA	NO	3	0	0
CAIXA PENEDES 2 TDA	NO	2	0	0
CAIXA PENEDES FTGENCAT 1 TDA	NO	4	2	0
CAIXA PENEDES PYMES 1 TDA	NO	6	4	0
TDA 22 MIXTO	NO	12	1	0
TDA 27	NO	61	6	0
TOTAL IN BALANCE SHEET	**NO**	**10,496**	**538**	**4**
TOTAL	**-**	**10,694**	**543**	**4**

06.
INFORMATION ON THE MARKET RISK OF THE TRADING PORTFOLIO

CHAPTER 6. INFORMATION ON THE MARKET RISK OF THE TRADING PORTFOLIO

6.1 General requirements

6.1.1 Description of the trading portfolio

The trading portfolio for own funds purposes is essentially the accounting trading portfolio, since there is no significant difference between the two.

Financial instruments reported in the trading portfolio are measured initially at fair value. No illiquid instruments may be held in the trading portfolio. Two methods are used to determine the fair value of the financial instruments:

- Mark-to-Market: the Entity relies on prices and key information generated by market transactions that involve the exchange of similar assets and liabilities. The reliability and validity of these measurements will depend on how regularly they are updated and on the number of quoted prices and completed transactions involving the same financial instrument. This approach to determining fair value relates to Level 1 financial instruments.

- Mark-to-Model: used in the case of all instruments for which no Mark-to-Market measurement exists. The Entity applies valuation techniques that are appropriate to the prevailing market circumstances and for which sufficient available data exist with which to measure the fair value. Observable inputs are used to the fullest extent possible. The models used to calculate these valuations are generally accepted and fall within standard market models. These approaches included the present value method (discounted value) and calculating the value of options. The Group calibrates the measurement models each day to incorporate observable market information, thus reflecting actual market conditions while flagging possible inaccuracies in the model. This approach to determining fair value relates to Level 2 and Level 3 financial instruments.

6.1.2 Minimum own funds requirements for position risk, liquidation risk and delivery of the trading portfolio

The following table shows own funds requirements for price risk on the trading portfolio by each type of risk:

Table 52. Requirements for position risk, liquidation risk and delivery of the trading portfolio

Millions €	**RWAs**	**Capital requirements**
Standardised approach	0	0
Internal models	953	76
Additional requirement associated with the model	626	50
Total	**1,579**	**126**

Since the calculation model for market risk is in the process of being reviewed, an additional requirement has been added during this period in connection with the calculation model, and not market activity.

6.1.3 Minimum own funds requirements for foreign currency risk and positions held in gold

Own funds are calculated under the internal market risk model, including positions that are more likely than not to be sold and excluding positions in stable currency, positions in gold and other positions involving smaller amounts for which the standardised approach is applied.

On the 31st of December 2018, the threshold had not been reached in accordance with regulations on calculating own funds under the standardised approach.

6.2 Internal models

6.2.1 Scope, characteristics and description of internal approaches

The scope of the Bank of Spain's authorisation of internal models extends to the measurement of market risk affecting the trading portfolio and foreign exchange risk. The consolidated trading portfolio of the BFA Group comprises all positions the Group holds in its accounting trading portfolio.

Transfers of risk or of positions between books are governed by accounting criteria regulating changes of portfolio. Accordingly, procedures have been set up in accordance with applicable law and regulations. There are also procedures in place so as to ensure that when an accounting hedge is interrupted the derivative under that hedge is reclassified as trading.

The VaR methodology is used as part of Bankia/BFA's internal model to calculate own funds for general market risk, including specific risk. Under Bank of Spain regulations, the own funds needed to cover market risk on the regulatory trading portfolio are calculated as the sum of the requirements for these three items:

- Value at Risk (VaR), meaning the capital needed to cover the current state of the financial markets.
- Stressed Value at Risk (SVaR), meaning the capital needed to withstand a crisis in the financial markets. Additional capital for institutions using internal approaches for general market risk.
- Incremental risk charge (IRC), meaning the capital needed in the event of default or a change in the issuer's credit rating. Additional capital for institutions using internal approaches for specific risk.

The main features of the internal market risk model are as follows:

- It forms part of the daily process of managing market risks (controlling limits, taking new positions, own funds, economic capital, etc.).
- The Group's Board of Directors approves annually the global market risk limits and delegates powers to the Risk Advisory Committee to apportion these limits among the different centres authorised to assume this type of risk.
- Both the Board of Directors and the Risk Advisory Committee are informed regularly of market risks, the results of all related management activity and prevailing market conditions. They are also charged with approving proposals and motions relating to this risk: creating new centres, changing limits, ratifying overlimits, etc.

- The Bank has set up a Market and Operational Risk Management Department to control market risk: This department is tasked with:
    - Establishing a market risk management framework, for subsequent approval by the relevant bodies:
    - Flagging and measuring market risk indicators, including the different parameters/Greeks defining a derivative;
    - Valuing positions at market prices on a daily basis and obtaining management results;
    - Taking daily measurements of market and liquidity risk for the different positions and comparing these with the approved limits in place;
    - Regularly reporting to the relevant committee on the different types of market risk that exist;
    - Calculating own funds for price risk by incorporating the measurement and calculation of the Value at Risk (VaR), Stressed Value at Risk (SVaR) and Incremental Risk Capital (IRC) charges;
    - Measuring and controlling counterparty risk on a daily basis; and
    - Managing the system of collateral.
- The model features specific price risk and general price risk for the trading portfolio.
- The calculation method used to measure VaR is historical simulation with a 99% confidence interval and a 1-day time horizon. A time window of 250 daily observations is used. Two calculations of VaR are performed each day. One applies an exponential decay factor that attaches greater weight to observations nearer the date of the calculation. The other applies the same weight to all observations. The total value at risk figure is calculated conservatively as the sum of the VaRs by risk factor (interest rate, exchange rate, equity, credit margins, commodity prices and volatility of all the foregoing items).
- Stressed Value at Risk (SVaR) uses the same calculation methodology as VaR, but with two differences. The observation period must include a period of market stress and no exponential weights are applied to the observations.

  To identify the relevant stress period, a quantitative analysis is conducted based on the calculated Value at Risk for one-year periods running from 2007. Historical VaR data is analysed to identify the period presenting the greatest financial tension within the historical data window. The relevant period applied at year-end 2018 runs from 27/02/2008 through to 28/02/2009.

  The stress period is reviewed periodically and the ratio between the most recent SVaR and the most recent VaR is checked daily to ensure that the period continues to be relevant for the portfolio. If it is confirmed that the ratio is less than one over a period of least straight five days, then the stress period is reviewed.
- The regulatory 10-day ratio is estimated by taking the risk calculated at one day and then re-scaling it to the 10-day horizon. This task is carried out by multiplying both the one-day VaR and the one-day SVaR by the square root of 10.

- The method for calculating IRC envisages default and migration risk of the interest rate products contemplated for the calculation of the specific risk within the VaR. It is based on measurements of the distribution of losses generated by Monte Carlo simulation based on the risk parameters deriving from the internal credit risk model (IRB). The IRC is calculated using a confidence level of 99.9%, with a constant level of risk over a time horizon of one year and a liquidity horizon of one year.

- The inputs for the IRC model are the spread matrices, the zero-coupon curves, the exchange rates, the transition matrices and the correlation matrices. Accordingly, the transition matrix shows the probability of change in an issuer's credit rating over a given period of time, based on a rating scale of 17 degrees. In this particular case, a one-year period is chosen to estimate the probabilities in question. The task of estimating the transition matrices is a two-part process: an initial stage in which the arithmetic mean of each cell in the matrix is calculated for all years, standardised by rating and a second stage in which the probabilities obtained are adjusted accordingly so as to meet the following conditions:

    - The probabilities must be monotonic decreasing as we move away from the principal diagonal, both vertically and horizontally.
    - The long-term distribution must converge to a state of equilibrium, which will be determined by the distribution of the portfolio observed over the estimation period.

  This methodology is applied by Global Risk Management so that the IRC model uses the global transition matrix of the IRB model as an input. This matrix is updated yearly. Meanwhile, to show the effect of the correlation between issuers in migrations of rating on to default, sector-specific correlation data are also taken from Global Risk Management in order to draw up a correlation matrix. These correlations are established on the basis of the results of the IRB credit model.

  For the IRC, the Entity does not consider liquidity horizons shorter than the capital horizon since the portfolio is assumed to remain constant over the one-year period. The calculation method is based on direct measurements on the loss distribution tails at the appropriate percentile (99.9%), based on a one-year time horizon. Therefore, to calculate the incremental risk, a methodology based on the Monte Carlo simulation is employed in relation to the impact of the defaults and rating transitions on the portfolio of positions subject to incremental risk capital.

- The Group has set up an internal validation and audit unit, which runs specific tests in response to changes or new models. The various tests or analyses conducted by the internal validation unit include:

    - Analysing the methodology for obtaining the capital requirement: the aim of the test is to validate the methodology for obtaining the capital requirement by certifying that it meets regulatory requirements and is consistent with best market practices. The test also verifies the methodological axioms applied to the model.
    - Replicating the calculation of the capital requirement: the aim here is to check that the portfolio is behaving appropriately based on the methodology applied.
    - Measuring sensitivity and analysing scenarios to compare and benchmark metrics: the aim of this test is to verify the sensitivity of the calculation methodology to various scenarios that simulate extreme situations.

    - Reviewing the copula model used to calculate the IRC: this test checks whether the model relates the returns on the debt assets to the transition probabilities of its issuer.
    - Analysing regulatory scenarios: This test involves a sensitivity analysis of the scenarios required by the supervisor.

- The accuracy of the model is verified daily through subsequent controls (backtesting), which compare actual losses with the estimated loss measured using VaR. As required by regulations, two tests are conducted: one applying to hypothetical changes in the value of the portfolio by comparing the daily VaR with the results obtained, without considering changes in the positions of the portfolio; and the other applying to actual changes by comparing daily VaR with net daily results excluding commissions.

- VaR and IRC measures are supported by stress-testing applying different types of scenario:

    - Historical scenario: scenarios built on the basis of movements observed during previous crises (such as the Asian crisis of 1998, the tech bubble of 2000/2001 and the financial crisis of 2007/2008). These scenarios are reviewed annually to reflect the key events occurring in the year.
    - Crisis scenario: applies extreme movements in risk factors that may not necessarily have been observed.
    - Last-year scenario: maximum expected daily loss over a one-year observation period with a 100% confidence level.
    - Sensitivity analysis: designed to measure the impact on the metric of slight changes in the parameters used to calculate the IRC, the estimate of the metric excluding transitions to default and the impact on the metric of parallel movements in loss rates in the event of default.
    - Credit crisis scenario: devised by two separate analyses: 1) based on a matrix of credit margins built using observed variations; and 2) based on a transition matrix related to credit risk stress scenarios.
    - Worst case: default by all issuers in the portfolio.

6.2.2 Own funds requirements for market risk under the IMA approach (MR2-A)

The following table provides information on the various items of the own funds requirements by market risk under the IMA approach to December 2018:

Table 53. Market risk under the IMA (MR2-A)

Million €		RWAs	Capital requirements
1	**VaR (higher of values a and b)**	**189**	**15**
(a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))	59	5
(b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR	189	15
2	**SVaR (higher of values a or b)**	**701**	**56**
(a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))	236	19
(b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)	701	56
3	**IRC (higher of values a and b)**	**64**	**5**
(a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)	40	3
(b)	Average of the IRC number over the preceding 12 weeks	64	5
4	**Comprehensive risk measure (higher of values a, b and c)**		
(a)	Most recent risk number for the correlation trading portfolio (Article 377 of the CRR)		
(b)	Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		
(c)	8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR)		
5	**Other**	**626**	**50**
6	**Total**	**1,579**	**126**

6.2.3 RWA flow statements of market risk exposures under the IMA approach

The flow statement shows the main changes in the amounts of market risk RWAs calculated using internal models.

Table 54.RWA flow statements of market risk exposures under the IMA (MR2-B)

Millions of €	VaR	SVaR	IRC	CRM	Other	Total RWAs	Total capital
RWAs December 2017	171	553	22	0	723	1,469	118
Movement in risk levels	18	148	42	0	0	207	17
Model updates/changes	0	0	0	0	0	0	0
Methodology and policy	0	0	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0	0	0
Foreign exchange movements	0	0	0	0	0	0	0
Other	0	0	0	0	-97	-97	-8
RWAs December 2018	189	700	64	0	626	1,579	126

Market risk has remained stable. This is shown in the change in RWAs, where regulatory surcharge RWAs can be seen to perform differently to internal model RWAs.

6.2.4 IMA values for trading portfolios

The following table shows the values (maximum, minimum, average and period end for the 2018 reporting period) resulting from the internal models approved for use for calculating the regulatory capital charge.

Table 55. IMA values for trading portfolios (MR3)

			Millions of €
	VaR (10 day 99%)		
1	Maximum value		9.3
2	Average value		5.7
3	Minimum value		4.0
4	Period end		5.0
	SVaR (10 day 99%)		
5	Maximum value		29.6
6	Average value		18.4
7	Minimum value		11.6
8	Period end		18.9
	IRC (99.9%)		
9	Maximum value		17.7
10	Average value		6.4
11	Minimum value		1.7
12	Period end		5.1
	Comprehensive risk capital charge (99.9%)		
13	Maximum value		
14	Average value		
15	Minimum value		
16	Period end		

No significant variations were observed during the reporting period when comparing the maximum, minimum and average values of daily value at risk at 31 December 2017 with the daily variations in the value of the portfolio at the end of the following business day over the last year.

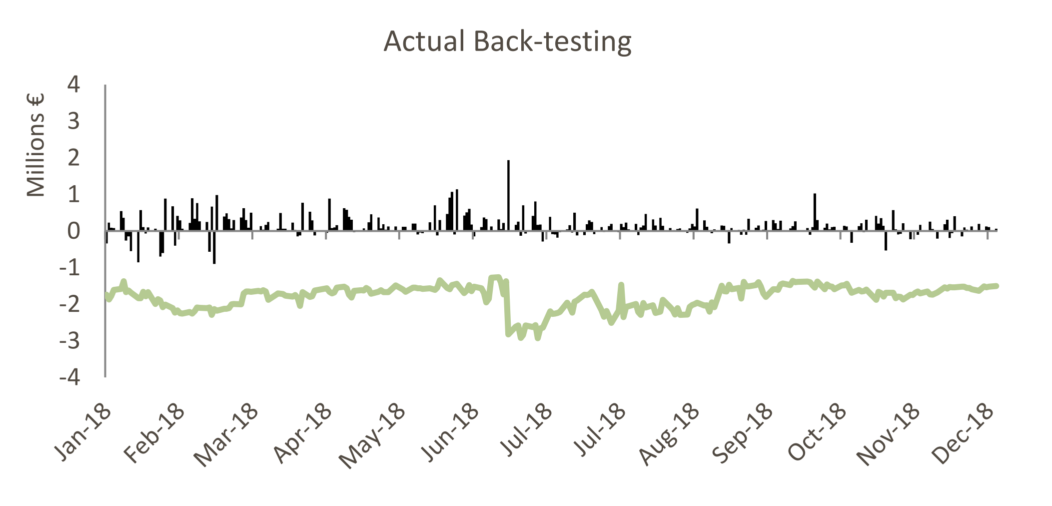
6.2.5 Back testing

To validate the reliability of the model used to calculate VaR, backtesting processes are conducted daily to verify the validity of the model and VaR predictions. These tests involve:

- Hypothetical backtesting: compares the estimates provided by VaR with the hypothetical daily results without factoring in changes in portfolio positions.

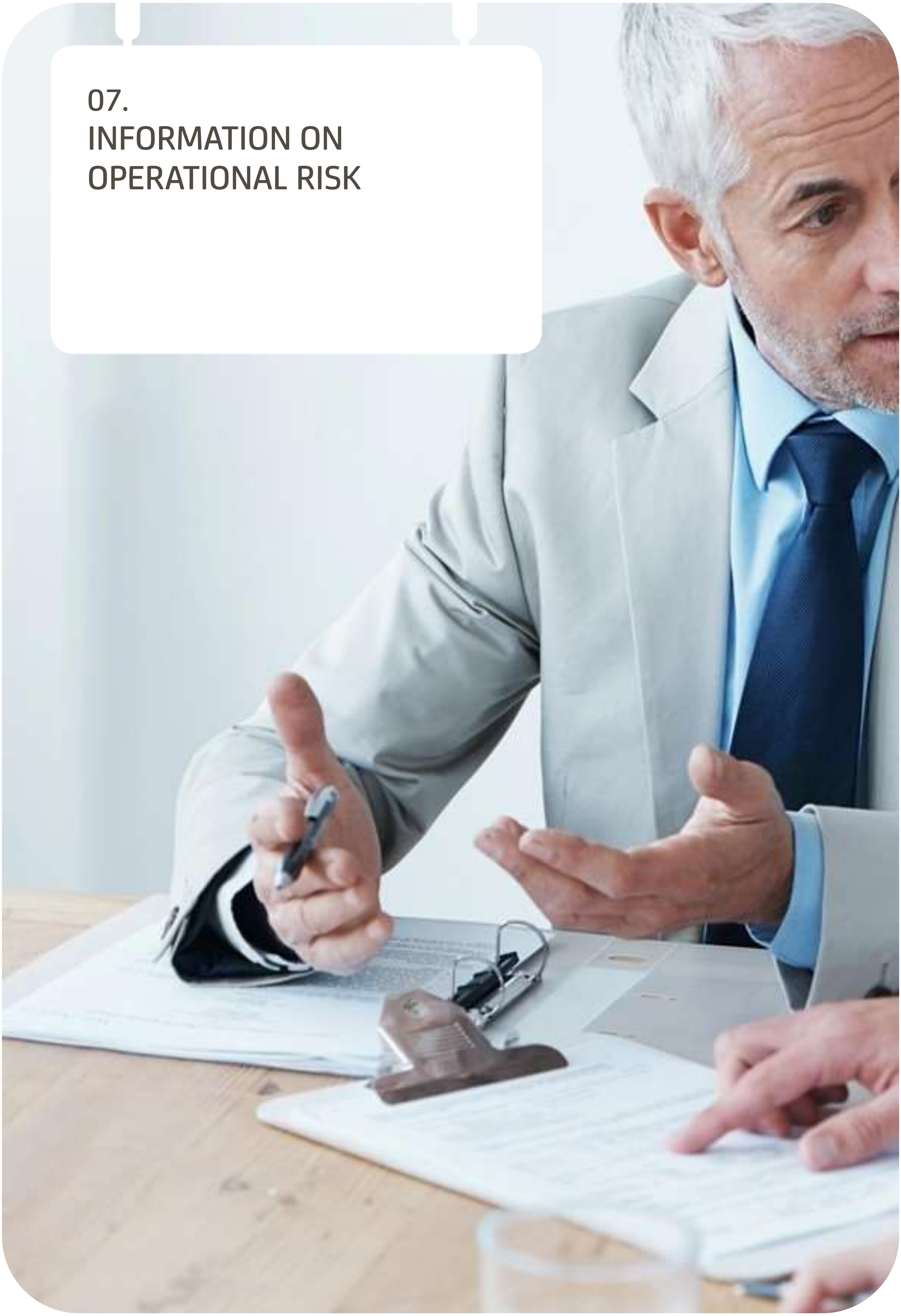
- Actual backtesting: compares the estimates provided by VaR with the daily results. Data on daily gains and losses are “purged”, eliminating those results that are not the product of price changes, such as fees.

Table 56. Comparison of VaR estimates with gain/losses (MR4)



The backtesting carried out in 2018 confirms the effective operation of the model used by the Bankia Group to measure VaR in accordance with the assumptions made, with no “outliners” (backtesting exceptions as per Article 366 of the CRR) observed in the year.

07.
INFORMATION ON OPERATIONAL RISK



CHAPTER 7. INFORMATION ON OPERATIONAL RISK

7.1 Approaches used to calculate minimum own funds requirements for operational risk

In the Group's consolidated financial statements for the year ended 31 December 2018, operational risk requirements for BFA were calculated as follows:

- Applying the standardised approach to Bankia's relevant income at consolidated level (no change in respect of the normal calculation). The Bankia Group reports its capital requirements under the standardised approach, requiring it to distribute the three-year average of the relevant income for the business lines established in the Standard. Each business line applies a factor ranging from 12% to 18%, in an attempt to differentiate the inherent risk associated with the different business activities of each line.

- Applying the basic indicator approach to the "excess" relevant income at BFA at consolidated level above and beyond Bankia's relevant income at consolidated level. This approach requires the Group to apply the fixed factor of 15% prescribed by Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) to the average relevant indicator over the last three years. Relevant income is an analytical construction that resembles gross income, which embraces the recurring income and costs arising from the banking business, excluding other more circumstantial or complementary businesses.

Own funds requirements at the BFA Group and at the Bankia Group amount to 6,028 million euros of RWAs (482 million euros of capital) and 5,881 million euros of RWAs (470 million euros of capital), respectively.

The following diagram shows the distribution of actual operational risk losses in 2018.

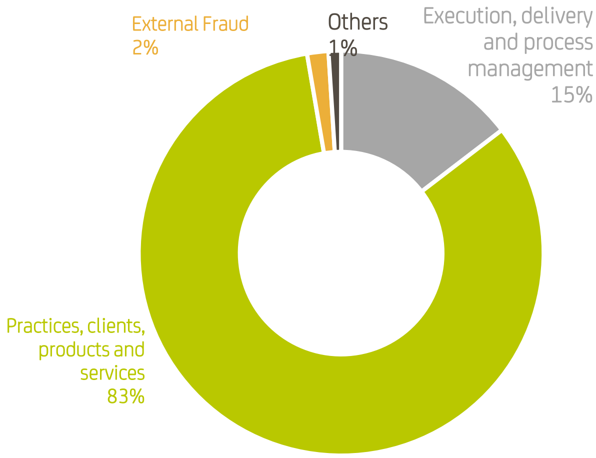


Table 57. Real losses by operational risk. Percentage distribution by risk type

Type of event with operational risk	% of losses
Execution, delivery and process management	14.6%
Clients, products and business practices	82.7%
External fraud	1.7%
Others	1.0%
TOTAL	**100%**

At 31 December 2018, there were several proceedings pending against BFA/Bankia, both in and out of court. The most notable of these are the procedures relating to the IPO, preference shares, floor clauses, mortgage arrangement costs, claims related to the sale of derivatives and lawsuits related to Law 57/1968, of 27 July, on delivery of amounts paid in advance of the construction and sale of housing units.

Civil proceedings relating to the IPOs

The Group carried out a voluntary restitution process in 2016 to reimburse investors for their outlay and reduce the number of actions being pursued through the courts while increasing the number of settlements reached with claimants, thus lowering the associated costs. At 31 December 2018, there were a total of 700 civil proceedings under way in relation to IPOs and subsequent acquisitions, most seeking a finding of nullity/rescission. These actions are being pursued before different courts across all of Spain and pose a financial risk to the Group of 65 million euros.

Lawsuits relating to preference shares

There are currently 1,278 lawsuits under way in relation to preference shares, with an associated financial risk of 122 million euros.

Floor clauses

Royal Decree-Law 1/2017, of 20 January, on urgent measures to protect consumers from floor clauses, was published in the Official State Gazette on 21 January 2017. This decree introduces an out-of-court procedure to help consumers seek reimbursement of amounts unduly paid to credit institutions by virtue of certain floor clauses deemed unlawful. Following the enactment of the Royal Decree-Law, Bankia instituted an out-of-court process in February of 2017 to return those amounts under the terms of the decree.

This out-of-court reimbursement process is close to completion, although there are also a number of lawsuits in progress.

There were 6,415 legal proceedings in progress at 31 December 2018, posing a total financial risk of 47 million euros.

Mortgage arrangement costs

There are currently 16,367 lawsuits in progress in this regard, with an associated economic risk of 21 million euros.

Derivatives

There are currently 262 lawsuits in progress under this procedure, with an associated economic risk of 71 million euros.

Law 57/68, of 27 July, on the delivery of amounts paid in advance of the construction and sale of housing units.

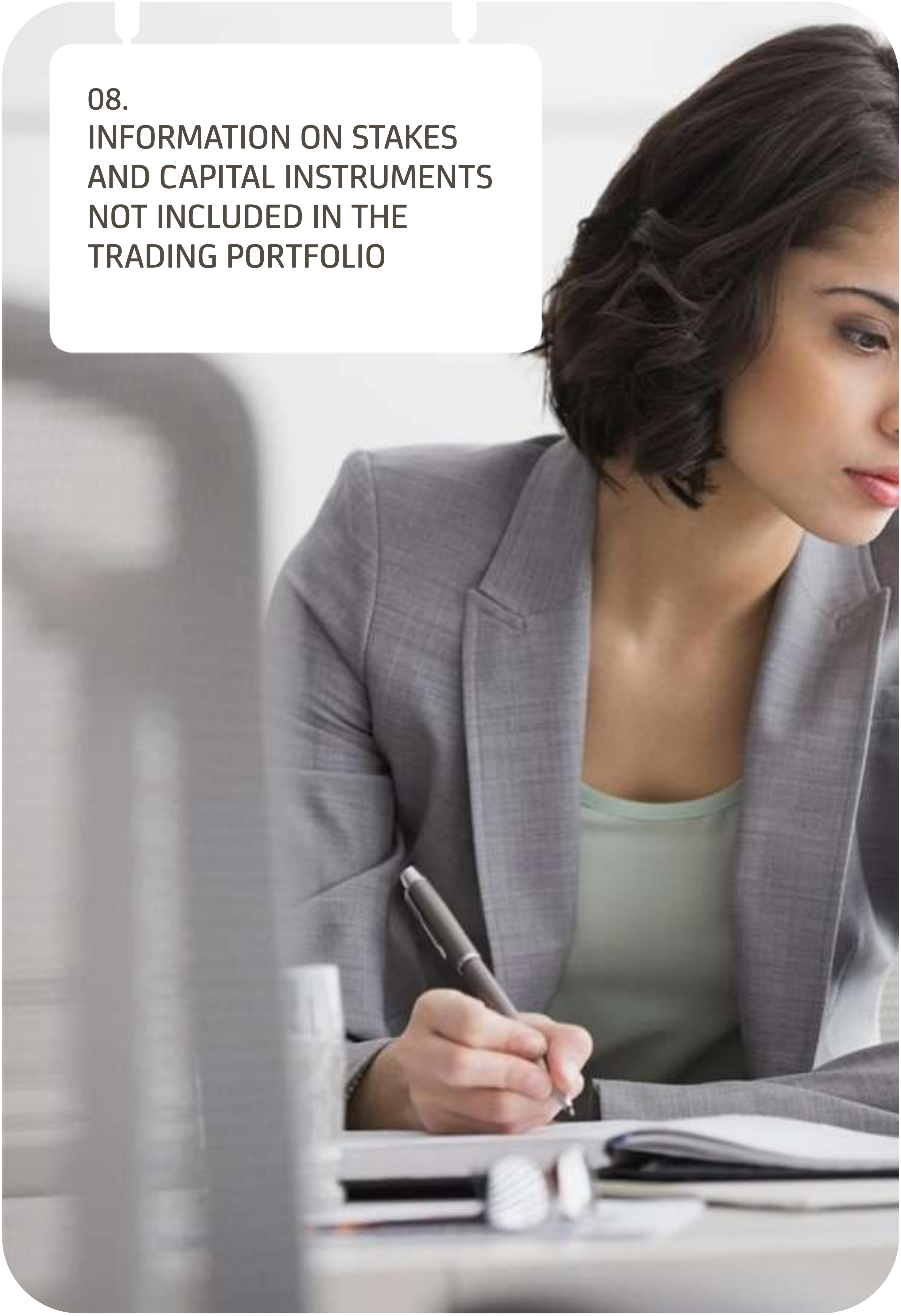
There are currently 691 lawsuits in progress in this regard, with an associated economic risk of 51 million euros.

Other general conditions

This section also includes other types of claims and disputes regarding general terms of contract, with an economic risk of 25 million euros.

To cover the aforementioned contingencies, the BFA Group maintains provisions to provide reasonable coverage of the estimated possible outflow of funds.

08.
INFORMATION ON STAKES AND CAPITAL INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO



CHAPTER 8. INFORMATION ON STAKES AND CAPITAL INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO

8.1 Portfolios held as available for sale and portfolios held for strategic purposes

The Group maintains two different categories within the equities portfolio outside the scope of the trading portfolio:

- Permanent portfolio, in which investees are reported at their value under the equity method.
- Non-permanent which includes equity instruments voluntarily and irrevocably designated as such at the outset in this portfolio, valued at fair value.

8.2 Accounting policies and methods for measuring capital instruments

Note 2 to the Group's consolidated financial statements and in chapter 2.1.3 of this report, expressly discusses the accounting policies and measurement criteria used by the Group in relation to stakes included in the consolidated group, in accordance with the International Financial Reporting Standards approved by the European Union and effective at 31 December 2017 ("IFRS-EU") and Bank of Spain Circular 4/2017 of the Bank of Spain, as well as established in article 18 of Regulation (EU) No. 575/2013.

Equity interests that do not meet the requirements for full consolidation are integrated into the consolidated statements using the following methods:

- Proportional consolidation. Applies to joint ventures (joint arrangements and assets that the Group controls jointly with other participants), provided they are financial entities.
- Equity method. Applies to companies at which the Group has the capacity to exert significant influence, but not control or joint control, or to subsidiaries and joint ventures that are not financial entities. This capacity typically takes the form of a stake (direct or indirect) equal to or greater than 20% of the voting rights of the investee.
- Fair value. Equity investments in companies that do not meet the requirements to be classified under any of the above categories and are not considered subsidiaries, as established in point 2.1.3 of this report, are presented in the consolidated statements under the following categories:
    - Financial assets at fair value with changes in other comprehensive income,
    - Financial assets mandatorily measured at fair value through profit or loss, or
    - Financial assets designated at fair value with changes in results.

The fair value of a financial instrument at a specified date is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's general criteria for estimating the fair value of financial instruments are as follows:

- If the market publishes closing prices, these are taken as the relevant prices for obtaining the fair value.

- When a market publishes bid and offer prices for the same instrument, the market price for an asset acquired or for a liability to be issued is the bid (demand) price, while the price for acquiring an asset or issuing a liability is the ask (supply) price. If there is a relevant market making activity or where it can be demonstrated that the positions can be closed —settle or cover— at the average price, then the average price is used.

However, where there is no market price for a given capital instrument or where the markets are quiet, fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, failing that, on the basis of valuation models sufficiently verified by the international financial community.

8.3 Carrying amount and fair value of stakes and capital instruments not included in the trading portfolio

The following table shows the carrying amount and, where applicable, the fair value of the stakes and capital instruments (not included in the trading portfolio) of the Group of credit institutions subject to consolidation, broken down by portfolio type at 31 December 2018 and 2017:

Table 58. Stakes and capital instruments

	2018		2017	
Million €	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets	**169.7**	**169.7**	**310.8**	**310.8**
Capital instruments	169.7	169.7	310.8	310.8
Stakes	**549.6**	**549.6**	**363.3**	**363.3**
Associates	302.1	302.1	302.0	302.0
Jointly controlled entities	0.0	0.0	34.4	34.4
Group entities	247.5	247.5	26.9	26.9
TOTAL	**719.3**	**719.3**	**674.1**	**674.1**

Information included in the FINREP statements for 2018 and 2017

8.4 Types, nature and amounts of exposures to stakes and capital instruments in listed and unlisted undertakings in a securities market

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) states that credit risk-weighted exposures under the equities class (stakes and other capital instruments) must be calculated under one of the following approaches:

- Standardised approach for the portfolios provided by entities subject to the standardised approach, where the weights relate to the rating and segment in which the issuer of the securities is included.

- Simple risk-weight approach, where the weights are fixed and determined, essentially on the basis of the type of capital instrument (exchange traded or not exchange traded).

- PD/LGD approach, where the Group’s own estimates are used to calculate the weighted exposures.

- Internal models approach, where the value of the credit risk-weighted exposure amounts is determined from the value of their potential loss calculated using internal models that meet certain requirements.

At 31 December 2018, the simple risk-weight and PD/LGD approaches were applied to the portfolios of the Bankia-BFA Group, while the standardised approach was used for portfolios arising from the merger with BMN.

Following the entry into force on 1 January 2014 of Regulation (EU) No 575/2013, the standardised approach is also used for significant stakes in financial sector entities, with a 250% weight of the aggregate amount that does not exceed the threshold of 17.65% pursuant to article 48 of the Regulation 575/2013.

At 31 December 2018, the exposure amount came to 388 million euros, with capital requirements of 77.7 million euros, while at 31 December 2017 the exposure amount totalled 333 million euros, with capital requirements of 66.5 million euros. The increase is largely a result of the incorporation of various significant stakes from the BMN Group.

8.5 Gains or losses reported in the period as a result of the sale or settlement of capital instruments not included in the trading portfolio

As stated in Note 35 to the Group's consolidated financial statements, no significant gains or losses have occurred as a result of the sale or settlement of capital instruments not included in the trading portfolio.

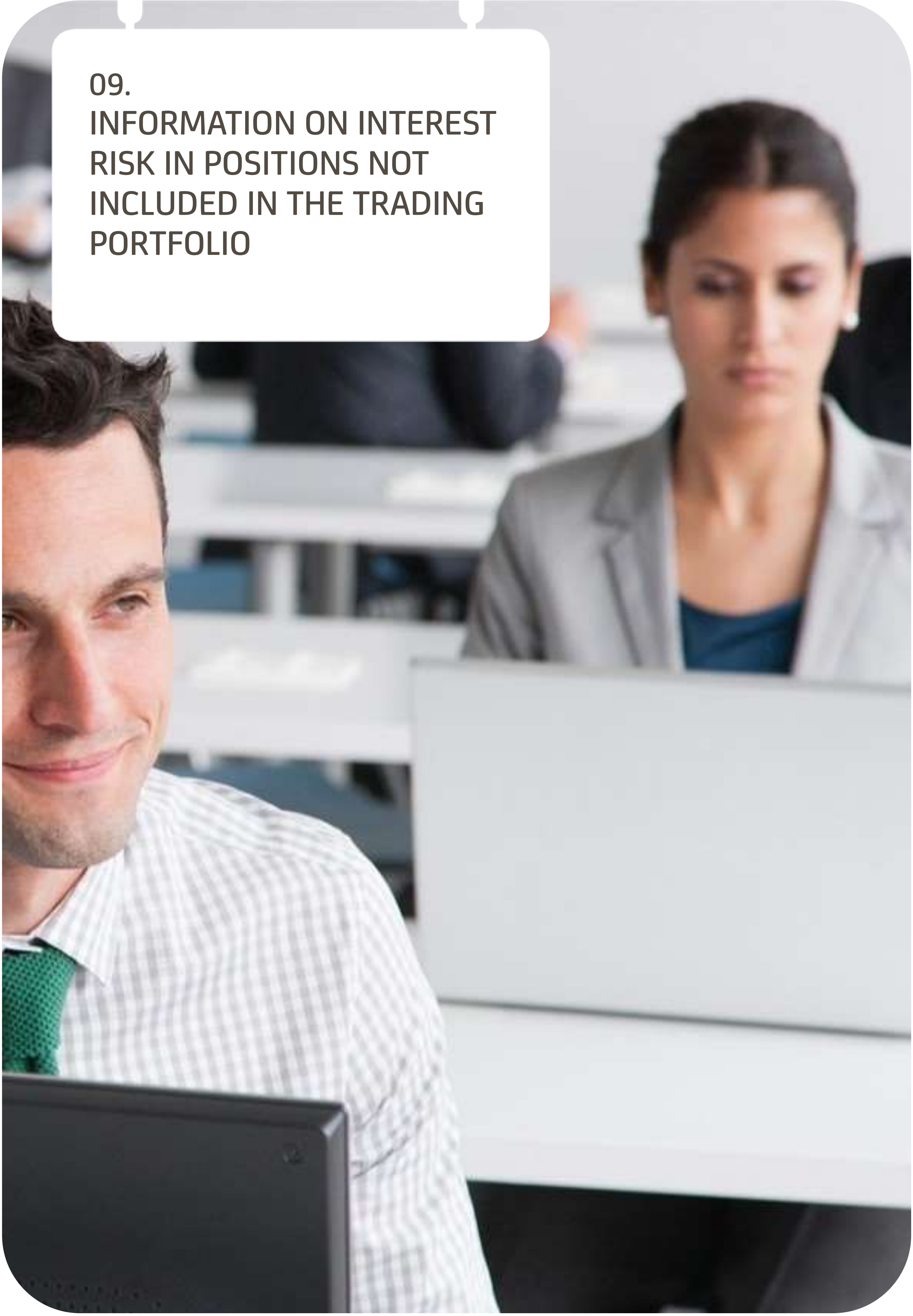
8.6 Gains or losses recognised in equity

Note 2 to the Group's consolidated financial statements explains that changes in the fair value of financial assets classified as available for sale from the time of their initial recognition due to the accrual of dividends are recognised under "Dividend income" in the consolidated income statement. Any impairment losses these instruments may have sustained are reported in accordance with Note 2.9 to the financial statements. Exchange differences on financial assets denominated in non-euro currencies are reported in accordance with Note 2.4 to the financial statements. Meanwhile, changes in the fair value of financial assets covered through fair value hedging transactions are measured in accordance with Note 2.3 to the financial statements.

All other changes in the fair value of financial assets at fair value with changes in other comprehensive income from the time they are acquired are recognised under "Other comprehensive income" in the consolidated balance until it is derecognised, whereupon the amount is reclassified to the consolidated income statement of the year, in case of debt instruments, and to a reserves account in the case of investments in equity instruments.

The Group reported a total of 15,3 million euros in 2018 (15 million euros in 2017) in net positive valuation adjustments relating to capital instruments reported in its equity as financial assets at fair value with changes in other comprehensive income at 31 December 2018.

09.
INFORMATION ON INTEREST RISK IN POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO



CHAPTER 9. INFORMATION ON INTEREST RISK IN POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO

9.1 Interest rate risk

As discussed in the section on general balance sheet risks under “General reporting requirements”, structural balance sheet interest rate risk means the probability of incurring losses as a result of an adverse change in prevailing market interest rates. How much those changes impact the Entity's assets and liabilities and the speed of that impact will depend on when those items mature and when they are repriced. These changes affect the income statement and ultimately the Entity’s economic value.

According to article 98 of Directive 2013/36/EU, the sensitivity of net interest income and of the value of equity to parallel shifts in interest rates (currently ±200 basis points) should be controlled. Meanwhile, sensitivity scenarios are developed from implied market rates in order to simulate curve movements of different magnitudes and on different horizons, along with other non-parallel movements that alter the curve of the various items included on the balance sheet. This systematic analysis is conducted for each currency in which the Entity does a significant volume of business, distinguishing between risk associated with trading activity and risk arising from commercial and sales activity.

Key assumption

The following scenarios are relied on when calculating sensitivity measures for the interest income and equity shown in the statements:

- Baseline scenario: The Entity adopts a static view of balance sheet items by maintaining both their current balance and structure. New transactions are carried out to replace items maturing in the period, following a pre-planned pricing and timing policy that responds to market conditions. The Entity’s assumption as to the future performance of interest rates is based on implied market rates.

- Risk scenario (regulatory): one-year time horizon. The Entity assumes an instant parallel shift in the market yield curve from its initial position, based on the criteria published by the Bank of Spain in respect of the reporting requirements set out in applicable solvency law.

Meanwhile, simulations are conducted of alternative scenarios with different interest rate changes to support the management’s work.

Treatment of demand deposits

When measuring the sensitivity of the Entity’s equity, the scenario relating to the behaviour of demand deposits acquires particularly importance because of their intrinsically financial nature and because they account for a high percentage of the Entity’s balance sheet. While these deposits have no contractually agreed maturity date, the fact that the balance of these items has remained historically stable means that the Entity must analyse their treatment as non-current liabilities when it comes to managing its structural interest rate risk.

For these purposes, the Entity inspects 36.32% of the demand deposits considered unstable, while granting other demand balances a term not exceeding four years. These assumptions, along with various others used in the official statements, have been validated through an in-house analysis of the behaviour and performance of demand deposits.

9.2 Change in income, in economic value, or in another relevant indicator used to analyse interest rate disruptions, in accordance with the management approach in place

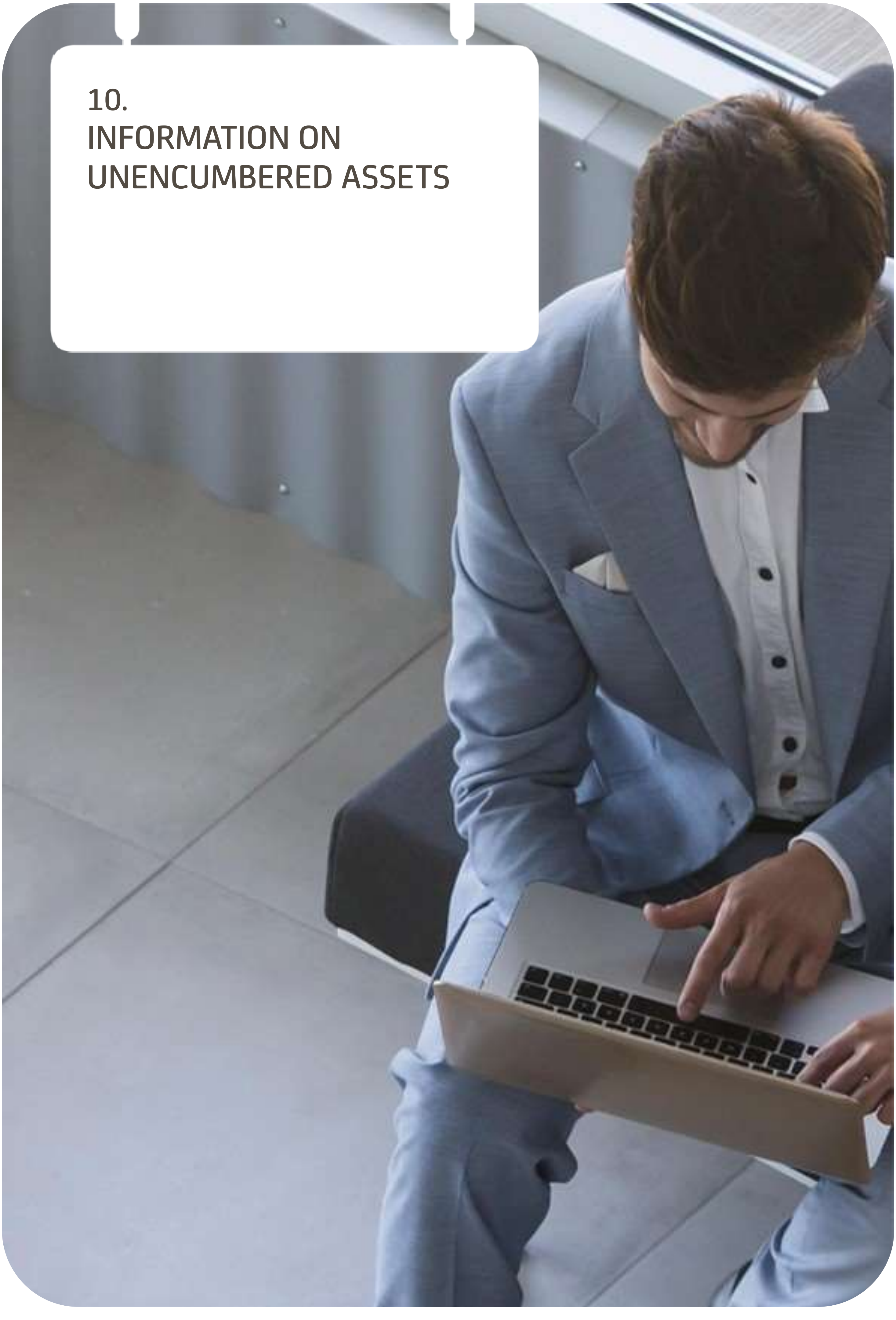
Sensitivity analysis information under the scenario analysis approach is provided for interest rate risk from both the following standpoints:

- Impact on results: at 31 December 2018, the sensitivity of net interest income (excluding the trading portfolio and financial activity not denominated in euros) to the worst-case scenario of a parallel downward shift of 200 bp in the yield curve over a one-year horizon and in a scenario where the balance sheet is unchanged, was -1.97% (the worst-case scenario at 31 December 2017 was also the downward shift, revealing a margin sensitivity of -4.33%).

- Impact on the economic value of equity, meaning the net present value of the future cash flows expected to arise from the different items that make up the balance sheet: at 31 December 2018, the sensitivity of the value of equity (excluding the trading portfolio and financial activity not denominated in euros) to the worst-case scenario of a parallel downward shift of 200 bp in the yield curve was -10.27% of the Group's equity and -4.92% of its economic value (7.64% and 3.39%, respectively, at 31 December 2017 in the 200 bp downward shift scenario).

The figures showing the sensitivity of net interest income and the sensitivity of the value of equity to the Group's own funds and economic value at 31 December 2018 coincide with the information provided in the consolidated financial statements of the BFA Group.

10.
INFORMATION ON UNENCUMBERED ASSETS



CHAPTER 10. INFORMATION ON ASSET ENCUMBRANCE

According to the final report published by EBA as of March 3, 2017 (EBA/RTS/2017/03) related to the regulatory technical standards on disclosure of encumbered and unencumbered assets under article 443 of CRR, this section provides information for the BFA Group on the median encumbrance ratio reported in the four quarters of 2018.

Encumbered and unencumbered assets

The following indicates carrying amount and fair value of encumbered and unencumbered assets, comprising mainly debt securities committed under current and mid-term credit facilities and loans connected with own issues, the latter reported under Other assets.

Table 59. Carrying amount and fair value of encumbered and unencumbered assets

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
Million €	**CARRYING AMOUNT**	**FAIR VALUE**	**CARRYING AMOUNT**	**FAIR VALUE**
Assets of the reporting entity	74,173		135,230	
Equity instruments	0	-	79	-
Debt securities	30,897	30,705	22,881	24,418
of which: secured bonds	11	12	126	37
of which: asset securitisation bonds	81	86	373	481
of which: issued by government institutions	18,474	18,289	12,215	14,688
of which: issued by financial institutions	12,913	12,910	9,535	9,640
of which: issued by non-financial institutions	205	109	92	69
Other assets	43,047	-	112,566	-

Received collateral available for encumbrance

The following indicates fair value of received collateral available for encumbrance, chiefly under repurchase agreements and other collateral received, including those relating to derivative trading and the volume relating to committed guarantees.

Table 60. Fair value of collateral received available for encumbrance

Million €	Fair value of collateral received or of encumbered own debt securities	Fair value of collateral received or of own debt securities available for encumbrance
Collateral received by the reporting entity	690	3,439
Demand loans	0	0
Equity instruments	0	0
Debt securities	690	624
of which: secured bonds	0	0
of which: asset securitisation bonds	0	0
of which: issued by government institutions	630	531
of which: issued by financial institutions	60	7
of which: issued by non-financial institutions	0	0
Loans and advances other than demand loans	0	0
Other collateral received	0	2,869
Own debt securities other than secured bonds or own asset securitisation bonds	0	0
Own secured bonds and asset securitisation bonds not yet pledged	-	7,106
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES	74,863	-

Financial liabilities issued

The following indicates the carrying amount of financial liabilities issued and their corresponding assets and collateral received and committed.

Table 61. Carrying amount of financial liabilities assets

Million €

	Correlative liabilities, contingent liabilities or lent securities	Assets, collateral received and own debt securities other than secured bonds or encumbered asset securitisation bonds
Carrying amount of selected financial liabilities	63,406	74,863
Equity instruments	0	0

At the end of the year, the use of committed assets and collateral in securing financing represents 34% of total assets and collateral received.

Encumbered assets mainly take the form of mortgage loans (included under Other assets) and debt securities (Table “Carrying amount and fair value of encumbered and unencumbered asset”).

The main sources of financing that generate encumbered assets include those relating to the financing of the bank’s lending business: mortgage covered bonds and securitisation bonds placed with third parties. These liabilities account for 39% (mortgage covered bonds) and 2.1% (securitisation bonds) of the total encumbered assets.

In relation to mortgage covered bonds, the extent of the asset's encumbrance is calculated through the use of an overcollateralisation percentage above and beyond the percentage required by law, based upon the assumption that covered bonds will maintain their present rating from S&P.

Meanwhile, securitisation bonds retained and pledged under the ECB facility effectively increase the encumbrance of the loans appearing on the balance sheet.

Moreover, financial assets sold under repurchase agreement (repos) and longer-term secured funding, account for 29.5% of total encumbered assets. This heading includes pledges generated on assets delivered as collateral for the main central counterparty clearing houses, which provide access to repo financing options.

Lastly, the remaining sources of asset encumbrance are essentially as follows:

- Trading in derivatives with counterparties that include CSA agreements, involving the posting of guarantees that qualify as encumbered assets.
- Specific types of commercial activity, such as transactions carried out through multilateral funding facilities, when these generate charges on asset classes such as bonds since those facilities require additional collateralisation.

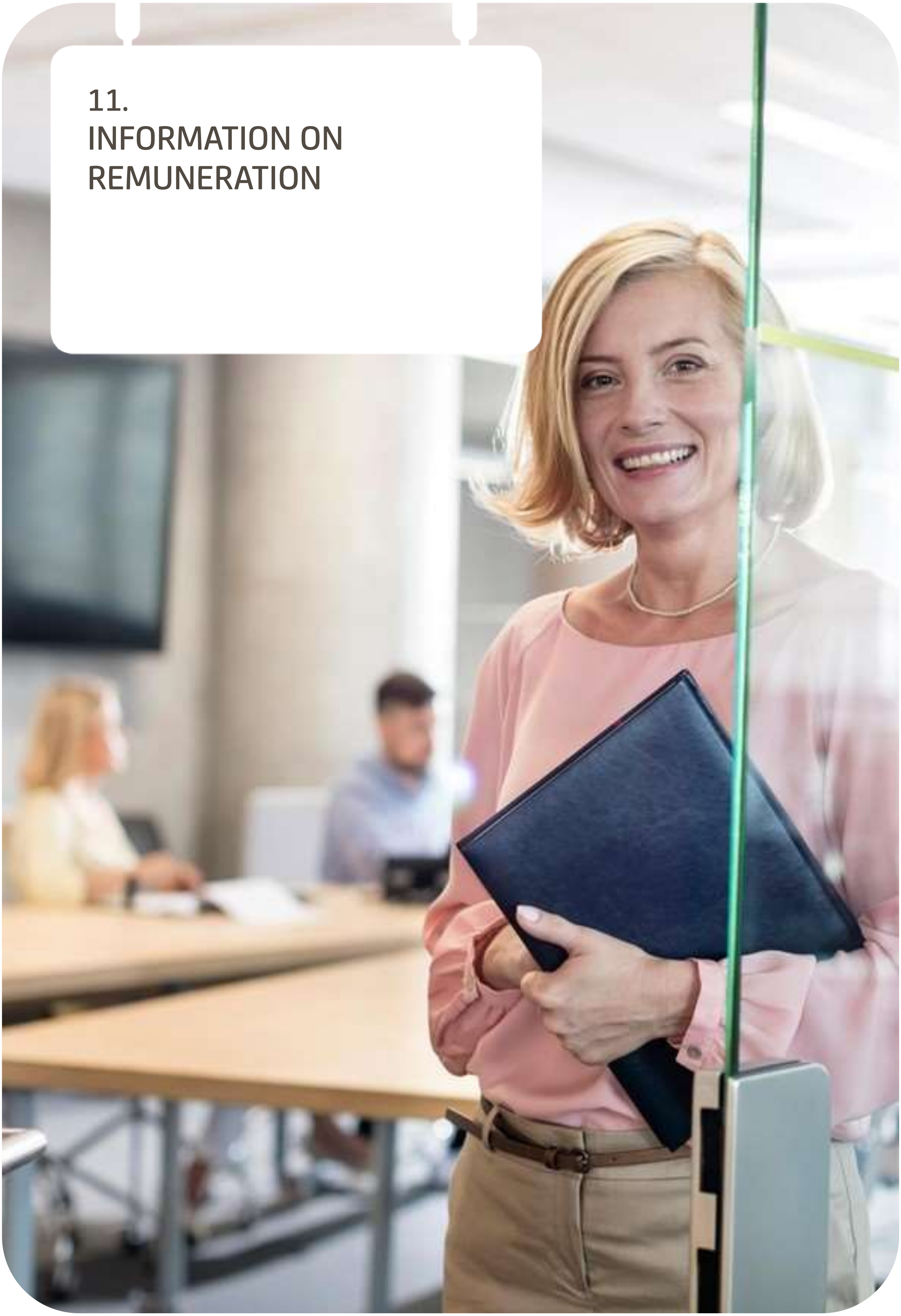
The collateral received is generated primarily from transactions involving derivatives with counterparties that have CSA agreements in effect, mainly in the form of guarantees received in cash (Table "Fair value of collateral received available for encumbrance").

Other assets within the wider category of unencumbered assets accounts for approximately 58% of total assets (Table 59 "Carrying amount and fair value of encumbered and unencumbered asset"). This heading includes items the Group does not believe could be committed within the normal course of its business, such as cash, trading and hedging derivatives, investments in controlled undertakings, joint arrangements and associates, real estate investments, property, plant and equipment, other intangible assets (including goodwill), deferred tax assets and certain other assets.

The volume of encumbered assets falls in 2018 which continues the downward trend of previous years, mainly because of the reduction of the encumbrance associated with the mortgage covered bonds in the fourth quarter of the year, a move S&P argues was warranted by the improvement in the credit quality profile of the mortgage portfolio and by the lower concentration of mortgage covered bonds maturing in the short term. A further highlight for the year was the widespread reduction across all sources of asset encumbrance, notably liabilities associated with the process of financing the Entity's lending business (such as mortgage covered bonds and securitisation bonds placed with third parties), but also in other sources of charges such as derivatives, repos and financing through the European Central Bank.

Lastly, and with respect to the narrative information relating to the last of the templates referred to in the report of the EBA cited at the start of this section, please note that the specifications regarding the terms and conditions of the collateralisation agreements on the associated liabilities, as well as their general description, are effectively market standards and therefore do not require additional information.

11.
INFORMATION ON REMUNERATION



CHAPTER 11. INFORMATION ON REMUNERATION

In accordance with article 85 of Act 10 of 26 June 2014, on the organisation, supervision and solvency of credit institutions (known by its Spanish acronym of “LOSS”), institutions must publicly disclose information on their remuneration policy and practices and update that information at least yearly, in accordance with article 450 of Regulation (EU) 575/2013 in relation to those categories of staff whose professional activities have a material impact on its risk profile or who exercise control functions (the “Identified Staff”).

This section therefore provides information on the remuneration policy and practices of the BFA Group in compliance with Regulation (EU) No 575/2013.

The information presented herein relates to the consolidable group of credit institutions whose parent is BFA, Tenedora de Acciones, S.A.U. (formerly Banco Financiero y de Ahorros, S.A.), even though it is at Bankia, S.A. where the banking business is effectively performed and at which the remuneration policy for the Identified Staff is effectively applied.

Therefore, while this section refers to the BFA Group, the remuneration policy described in this report is effectively applied at Bankia and all members of BFA's Board of Directors receive their remuneration from Bankia –subject to the legal limits in place– for services rendered at Bankia.

11.1 Information on the decision-making process used to determine the remuneration policy

Pursuant to the Capital Enterprises Act (Ley de Sociedades de Capital, or “LSC” for short), as per the wording provided in Royal Legislative Decree 1 of 2 July 2010, enacting the revised text of the Corporate Enterprises Act, the boards of directors of BFA, Tenedora de Acciones, S.A.U. and Bankia, S.A. are responsible for reaching the following decisions on the remuneration policy:

- Decisions relating to the remuneration of directors, subject to the terms of the bylaws and any specific remuneration policy approved at the general meeting.
- Approving contracts entered into between the Entity and the CEO or board members who exercise executive functions.
- Determining the remuneration of directors for the performance of executive functions.
- Setting basic contractual terms and conditions, including pay, for those executives that report directly to the board and for board members.

In accordance with article 33.2 of the LOSS, Bankia’s Board of Directors also adopts and regularly reviews the general principles governing the remuneration policy and oversees its effective application.

Meanwhile, Bankia’s Remuneration Committee is tasked with the functions set out in article 529 quindecies of the LSC and in article 39 of Royal Decree 84 of 13 February 2015, implementing Act 10 of 26 June 2014, on the organisation, supervision and solvency of credit institutions (“Royal Decree 84/2015”).

Article 15 bis of Bankia's Regulations of the Board of Directors describes the competences of the Remuneration Committee:

Competences on the Remuneration Committee
Making proposals to the Board of Directors for the policy on the remuneration of directors and general managers or senior managers who report directly to the board, Executive Committees or the chief executive officer, as well as the individual remuneration and other contractual terms of executive directors, as well as overseeing compliance.
Reporting on senior management remuneration. In all events, it will oversee the remuneration of the heads of internal audit, risks and regulatory compliance.
Periodically reviewing and weighing the appropriateness and effectiveness of remuneration programmes and the remuneration policy applied to directors and senior officers, including share-based compensation systems and their application, and ensuring that their individual remuneration is proportionate to the amounts paid to other directors and senior officers at the Company.
Ensuring transparency in remuneration and seeing to it that information on directors' remuneration is included in the annual report on directors' remuneration and the annual corporate governance report, submitting such information as may be necessary to the board for that purpose.
Monitoring compliance with the remuneration policy set by the Company.
Making proposals to the board on any remuneration decisions to be made by the board that may have an impact on risk and the Company's risk management, taking the long-term interests of shareholders, investors and other stakeholders into account, as well as the public interest, all this without prejudice to any related functions assigned to the Risk Advisory Committee.
Ensuring that conflicts of interest do not undermine the independence of any external advice the committee may engage.
Verifying the information on director and senior officers' pay contained in different corporate documents, including the annual report on directors' remuneration. This will require the committee to report to the Board of Directors.

At the date of this report, Bankia's Remuneration Committee comprised four members, all independent:

Remuneration Committee of Bankia, S.A.
Eva Castillo Sanz (chairwoman)
Joaquín Ayuso García (member)
Fernando Fernández Méndez de Andés (member)
Jorge Cosmen Menéndez-Castañedo (member)
Miguel Crespo Rodríguez (non-board member secretary)

All such persons are fully capable of performing their functions on the Remuneration Committee because they possess extensive experience in the banking sector and/or at senior management positions and considerable knowledge of matters relating to remuneration. They are therefore adept at effectively and independently controlling remuneration policies and practices and the incentives set up to manage risk, capital and liquidity.

Bankia's Remuneration Committee met on 8 occasions in 2018.

The main items of business discussed in 2018 by the Remuneration Committee were as follows:

Main decisions adopted by the Remuneration Committee
Report on the Annual Report of the Remuneration Committee for 2017, for subsequent board approval.
Report of the internal, central and independent assessment of the 2017 remuneration policy, for subsequent board approval.
Report of the motion put forward in relation to the information on remuneration contained in the 2017 financial statements, for subsequent board approval.
Report of the annual report on directors' remuneration and of the annual corporate governance report for 2017, for subsequent board approval.
Report on the proposal regarding the remuneration of corporate directors.
Report on the proposal to terminate the relationship of certain members of the Identified Staff.
Acknowledgement of the report on the conclusions relating to the audit of the remuneration of active personnel.
Resolution seeking payment of variable remuneration for 2016 to the members of the Executive Committee.
Hearing and taking note of the report on the analysis of Bankia's variable remuneration policy.
Report on the draft contract to be signed between Bankia and a new executive director of the Bank.
Report on the motion of the General Meeting to pay part of the annual variable remuneration of executive directors for 2018 in Bankia shares, for subsequent submission to the Board of Directors.
Hearing and taking note of the report drawn up by the Corporate Human Resources Department in relation to the conclusions of the internal audit regarding remuneration.
Hearing and taking note of the annual review of Bankia's Remuneration Policy.
Report on Bankia's variable remuneration proposal for 2017.
Report on the proposed contracts for new corporate directors.
Report on the legal study of contract terminations for certain members of the Identified Staff under the Workforce Adjustment Plan.
Report on the proposed 2018 objectives of the Management Committee.
Acknowledgement of the report on aligning guidance and targets with the risk appetite framework ("RAF") of 2018.
Report on the proposed addendum to the commercial contract signed between a new executive director and Bankia.
Hearing and taking note of the report on the identification of the Identified Staff for 2018.
Report on the multi-year variable remuneration proposal for 2018.
Report on the proposed senior management contract to be signed between Bankia and the Deputy General Director of Investees and Associated Undertakings.
Hearing and taking note of the contract termination of certain members of the Identified Staff.
Resolution seeking payment of the 2017 variable remuneration payable to executive directors and members of the Management Committee.
Hearing and taking note of the report/proposal on the remuneration of the Identified Staff.
Report on the proposed communication to be sent to the European Central Bank in relation to variable remuneration for 2017.
Report on the report/proposal reviewing the remuneration of executive officers.

To help it perform its duties more effectively, the Remuneration Committee may seek the advice of outside professionals on matters that fall within its remit. In this regard, the Remuneration Committee and the Board of Directors secured the assistance of Willis Tower Watson as a provider of market information on remuneration and as an advisor on how best to design the Bank's remuneration policy.

The Risk Advisory Committee also sees to it that the Bank's remuneration policies and practices are rational. Without prejudice to the functions entrusted to the Remuneration Committee, the Risk Advisory Committee checks whether the remuneration policy gives proper consideration to risk, capital, liquidity and the probability and timing of profits.

11.2 Determination of the Identified Staff

In accordance with the LOSS, Identified Staff includes senior officers, risk takers, persons who exercise control functions, and any worker who receives global remuneration that places them on the same remuneration scale as senior officers and risk takers and whose professional activities have a material impact on the institution’s risk profile.

Meanwhile, Bank of Spain Circular 2/2016 of 2 February, on the supervision and solvency of credit institutions, which completes the transposition into Spanish law of Directive 2013/36/EU and Regulation (EU) No 575/2013 (“Circular 2/2016”) defines Identified Staff as follows: “staff members comprising directors, senior executives and employees whose professional activities have a material impact on an institution’s risk profile, and including at least those persons who satisfy the criteria set out in articles 2, 3 and 4 of Commission Delegated Regulation (EU) No 604/2014”.

In this regard, the Group has determined the professionals affected by these regulations (Identified Staff) in line with the criteria set out in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (“Delegated Regulation No 604/2014”).

The criteria contained in Delegated Regulation No 604/2014 are split into two main blocks:

- Qualitative criteria relating to the responsibility of the employee’s position and their capacity to assume risks.

- Quantitative criteria, consisting of:

    - where the staff member has been awarded total annual remuneration of 500,000 euros or more;

    - where the staff member is within the top 0.3% of the institution’s highest paid staff members; or

    - where the staff member was awarded total remuneration that is equal to or greater than the lowest total remuneration awarded to a member of the Identified Staff under certain qualitative criteria.

Bankia’s Board of Directors ratified a procedure in 2014 to apply the quantitative and qualitative criteria set out in Delegated Regulation No 604/2014 at the Bank.

The Corporate Human Resources Department applies that procedure to determine the professionals to be included in the Identified Staff and it keeps the list permanently updated to reflect additions or departures of executives, changes in the organisational chart or any other circumstances that might alter the composition.

The Identified Staff comprised 96 professionals at 31 December 2018, as shown below:

Employee category	Number	Comments
Non-executive directors	11	Members of the Board of Directors who do not perform executive functions.
Executive directors	4	Board members who perform executive functions.
Senior officers	5	Members of the Management Committee who are not board members.
Risk takers and those responsible for control functions	62	Functions relating to the qualitative criteria set out in paragraphs 4 to 15 (both inclusive) of article 3 of Delegated Regulation (EU) 604/2014.
Employees included on the basis of quantitative criteria.	14	Employees who meet the quantitative criteria set out in article 4 of Delegated Regulation No 604/2014.

11.3 Description of the remuneration system for the Identified Staff

The Remuneration Policy for Bankia professionals regulates their remuneration, including all relevant pay items and the specific terms and conditions governing the variable remuneration for the Identified Staff. This policy has been approved by Bankia's Board of Directors and was last updated on 26 April 2018.

The system of remuneration is essentially as follows:

11.3.1 Principles of the system of remuneration

The following principles guide Bankia's remuneration policy, subject in all cases to strict compliance with applicable law and regulations:

Principle	Development
Balance between pay items	The remuneration system provides an efficient balance between fixed and variable components, wherein fixed items account for a sufficiently high proportion of total remuneration (in accordance with applicable regulations).
Results-oriented: rewarding excellence	The remuneration system rewards the attainment of extraordinary results on the basis of pay for performance criteria.
Strategy: time horizon	Remuneration is envisioned as a medium- and long-term system to link employee performance to the Bank's strategy while helping to achieve results in the short term.
Engagement: Bank, shareholders and clients	The amount of remuneration is linked directly to the degree of achievement of the Bank's objectives, the interests of shareholders and clients.
Easy to understand: regulation and communication	The various segments of Bankia's remuneration policy are suitably regulated and communicated so that staff members know exactly how much remuneration they can earn at the end of the year and what conditions they need to meet in order to earn that pay.
Compatible: risk and management	The remuneration policy is compatible with effective risk management and the Bank's strategy, values and long-term interests and will include measures to avoid conflicts of interest.
Equal treatment within the company	Remuneration is set on the basis of job category and the functions effectively discharged and positions with similar duties and responsibilities typically receive equal or similar pay.
Competitive with peer companies	The remuneration policy and the amounts paid to employees are consistent with prevailing market conditions and are among the best to the found in the sector in accordance with the Bank's strategic vision.
Gender equality	The pay conditions of Bankia professionals are based strictly on the job performed, with no gender discrimination whatsoever.

As regards board members and executives with a special senior management relationship of employment, the overriding principle is one of compliance with the limits prescribed by Royal

Decree-Law 2 of 3 February 2012, on restoring health to the financial sector ("Royal Decree-Law 2/2012"), Act 3 of 6 July 2012, on urgent measures to reform the job market ("Act 3/2012") and Order ECC/1762/2012.

11.3.2 Pay items of the Identified Staff

Bank's Remuneration Policy comprises the following main items:

(i) Fixed remuneration.

Fixed remuneration is the core component of the remuneration policy and is the guaranteed part of an employee's pay, depending on their job and the functional and personal supplements applicable in each case.

Fixed remuneration is broken down as follows by job category:

- Non-executive directors: The Board of Directors determines the relevant amount of fixed annual remuneration of each director, which may never exceed 100,000 euros per year in accordance with the law and regulations just mentioned.

- Executive board members and executives with a special senior management relationship of employment: in no event may their total fixed remuneration for the year, including all items, exceed the limit of 500,000 euros prescribed by the aforementioned law and regulations.

- Corporate officers and other executives: their annual remuneration is treated as contractually agreed pay and is determined on the basis of their job functions, reflecting professional experience and responsibility in the organization, and in accordance with the principles of equal treatment within the company and pay that is competitive with peers companies.

- Other staff members: Annual fixed remuneration will respect the terms of the worker's collective bargaining agreement and will be consistent with other functional circumstances up to the level of fixed remuneration in place for the specific function to be performed.

(ii) Annual variable remuneration.

Bankia employees took part in an annual variable remuneration scheme in 2018 aligned and compatible with: (i) the interests of shareholders; (ii) prudent risk management and; (iii) long-term value generation for the Bank.

a) Objectives to which annual variable remuneration for 2018 is tied:

Bankia's Board of Directors sets the objectives that must be met in order for employees to earn some or all of their annual variable remuneration. This process is carried out at year-end, or sometimes during the year. Bankia picks targets that take into account the Bank's strategic needs, among other considerations. These needs are determined on the basis of an internal capital assessment, planning of liquidity needs, control policies and risk management, as well as the projects and priorities that each of the functions must have assigned for the current year.

This process assigns specific objectives and measures to each department, unit or individual, employing a target allocation process that is based on the levels of responsibility and duties of each subject.

There are three types of target included in Bankia's annual variable remuneration system, depending on their scope.

- Overall objectives of the Bank ("V1"): these quantitative targets are linked to the Bank's overall figures and are contingent on maintaining a solid capital base, adequate and effective risk management and fulfilling the relevant strategic and/or restructuring plans in place.

The global objectives were as follows in 2018:

- Fully-loaded CET 1 capital ratio.
- Recurring RoE.
- Efficiency (ex-trading income).
- Non-performing asset ratio.
- Quality.

While Bankia's remuneration policy envisages a minimum eligibility threshold of 55% achievement for employees to earn the part of their variable remuneration linked to this V1 target, for 2018 the Remuneration Committee agreed to raise the minimum eligibility threshold to 90%.

- Unit-Specific Objectives ("V2"): individual contribution towards the achievement of the objectives of the unit or group at which the employee provides his or her services. Each unit member may contribute individually and cumulatively with others towards the fulfilment of their unit's objectives. Where individual targets cannot be set, the objectives of the unit to which the individual belongs are assigned. These objectives should ideally be quantitative and, as far as possible, should take into account current and potential risks, capital consumption and liquidity.

Targets of individuals who exercise control functions are related to their functions and are therefore independent of the results of the business areas they control.

At least 60% attainment of V2 objectives must be reached in order to be eligible for this part of the variable remuneration.

- Individual Assessment ("V3"): measures results-orientation, customer-orientation and commitment to continuous improvement, including in all cases the quality of service provided to the customer. Any V3 assessment that exceeds 90% will require further authorisation from the Corporate Human Resources Department.

At least 55% attainment of V3 objectives must be reached in order to be eligible for this part of the variable remuneration.

The following weights are assigned to each objective:

Function	V1	V2	V3
Executive Chairman	90%		10%
Executive directors	70%	20%	10%
Other members of the Management Committee	40% 30%	50%	10% 20%
Corporate executives	30%	60%	10%
Top 300 and Top 600 executives	20%	70%	10%

b) Determining the annual variable remuneration for 2018:

The amount of annual variable remuneration payable is calculated as follows:

Variable remuneration = (Target Variable Remuneration) x (Percentage of Overall Achievement) x (Dividend Factor)

where:

- Target Variable Remuneration: amount of reference variable remuneration payable if 100% of the assigned objectives are met.
- Percentage of Overall Achievement (POA): the weighted sum of the results obtained, calculated as follows:

POA = (%CV1 X PV1) + (%CV2 X PV2) + (%CV3 X PV3)

Where:

- *POA:* Percentage of Overall Achievement.
- *%AV(n):* percentage of achievement reached for each of the objectives.
- *%WV(n):* weight of each of the objectives, provided a minimum objective attainment threshold is reached.
- *Dividend Factor:* applicable correction factor, as shown below:

Payment of dividends (percentage of the amount of dividends resulting from the guidance approved by the Board of Directors)	Coefficient
Less than 50%	0.00
≥ 50% but less than 60%	0.50
≥ 60% but less than 70%	0.60
≥ 70% but less than 80%	0.70
≥ 80% but less than 90%	0.80
≥ 90% but less than 100%	0.90
100% or more	1.00

Under no circumstances may annual variable remuneration exceed 140% of the target annual variable remuneration, with the exception of executive directors, for whom the percentage is limited to 100%.

Nevertheless, the remuneration policy states that once the degree of attainment of the V1, V2 and V3 objectives has been established for the purpose of calculating the annual variable remuneration, the Bank will be entitled to lower the total amount of annual variable remuneration payable in the following circumstances:

- where the Bank has reported losses, whether from previous years or at credit institutions that belong to Bankia's peer group;
- where the capital ratios have performed negatively, whether in relation to previous years or at the credit institutions that belong to Bankia's comparison group;
- where the competent supervisory authority requires or formally recommends that Bankia restrict its dividend policy.

c) Assessment of objectives – Objectives Committee:

This entire process is overseen and supervised by the Objectives Committee, which guarantees and certifies the deployment, tracking, measurement and calculation of variable remuneration, in accordance with the relevant criteria, methodology and process in place. The committee comprises the following departments:

Members of the Objectives Committee	
Corporate Financial Control Department (President)	Deputy General Director of Business Banking
Corporate Human Resources Department	Corporate Legal Services Department
Corporate Risk Department	Corporate Retail Network Department
Corporate Credit Risk Department	Head of Remuneration and Management Systems (Secretary, non-member)

d) Procedure for paying annual variable remuneration:

Annual variable remuneration is calculated and paid through a specific system intended for members of the Identified Staff:

- 50% of the annual variable remuneration is paid in cash and the remaining 50% in Bankia shares.
- When determining the number of shares to be delivered, if any, as part of the annual variable remuneration, the Bank takes into account: (i) the net amount after applying the relevant taxes (withholdings or payments on account); and (ii) the price of the Bankia share. For these purposes, the share price will be taken as the average quoted price of the share over the three months prior to the accrual date (31 December 2018).
- Bankia shares delivered to the Identified Staff as part of their annual variable remuneration will be retained by the Bank for one year from their delivery. During this period, the person undertakes not to sell or otherwise dispose of the shares, whether or not the Bank is able to implement mechanisms to verify compliance with the share lock-up period. Once this

period has ended, the shares may be transferred without restriction. This lock-up system will apply even if the employment status of the individual concerned changes in any way.

- A total of 60% of the annual variable remuneration –both the part payable in cash and the part payable in Bankia shares– is paid during the first quarter of the year following the one in which the objectives were assessed, once the Bank has verified that such payment is viable in view of the Bank's overall situation and warranted in view of the results of the Bank, the business unit and the individual concerned. In the case of executive directors and senior officers, 100% of their variable remuneration is deferred.

- The remaining 40% of the annual variable remuneration is deferred. The deferred amount is then paid in three equal parts over the three following years, except for executive directors and senior officers, who have a different deferral calendar, as discussed in due course.

- This notwithstanding, the Remuneration Committee may weigh up the merits of applying the proportionality principle in certain cases, though always in line with the criteria prescribed by the competent supervisory authority.

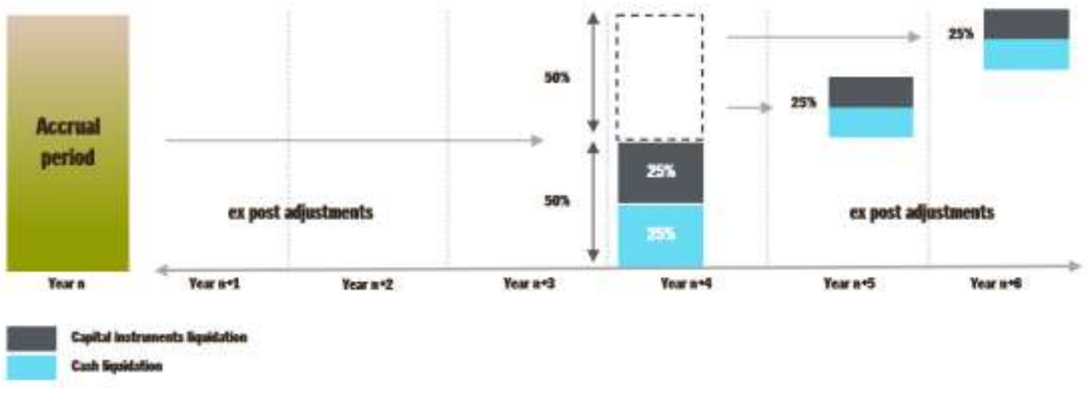
As mentioned, executive directors and senior officers are subject to a different deferral system, which must satisfy the following requirements:

- Royal Decree-Law 2/2012 establishes that 100% of the variable remuneration of this group should refer for three years from the accrual date and is conditional in all cases on obtaining the results that warrant such remuneration, in relation to compliance with the plan drawn up to obtain financial support.

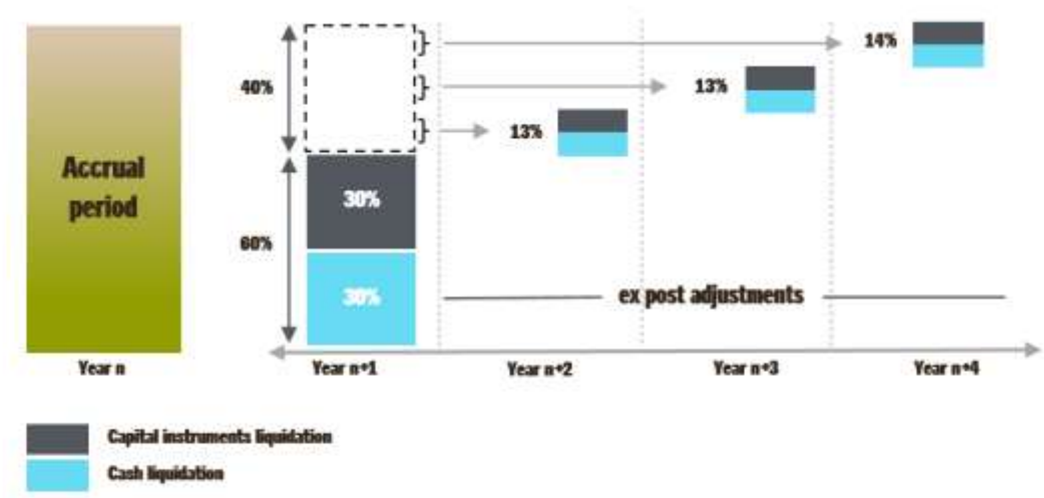
- The Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 released by the European Banking Authority ("EBA") require institutions to defer variable remuneration of this group for at least five years and insist that the percentage of the deferred part payable in shares exceeds 50%.

The following diagrams show the differences between the variable remuneration payment system of executive directors and senior officers and the system for other members of the Identified Staff:

Calculation and payment of annual variable remuneration for executive directors and senior officers



Calculation and payment of annual variable remuneration for the other members of the Identified Staff



The annual variable remuneration payable to Identified Staff under this system will be reduced upon the occurrence of any of the following circumstances during the vesting period ("malus" clauses):

- Where Bankia's financial performance is insufficient. This circumstance will exist when the Bank reports a net financial loss in a year. Possible losses arising from one-off transactions during the year are not counted when determining whether a net financial loss has occurred.

  This circumstance will also exist when the person belonging to the Identified Staff was involved in or responsible for behaviours that generated material losses for the Bank. In such cases, the person belonging to the Identified Staff will receive neither the annual variable remuneration for the year in which the losses were incurred nor the deferred amounts otherwise payable in the year in which the financial statements recording those losses are approved.

- Material restatement of the Bank's financial statements attributable to the managerial actions of the person belonging to the Identified Staff, except where the restatement was required because of a change in accounting rules; or significant changes in economic capital and the qualitative assessment of risks.

- Where significant errors or mistakes are made in managing risk at the Bank, the business unit or the risk control unit at which the member of the Identified Staff works.

- Where the capital requirements of the Bank or of the business unit at which the member of the Identified Staff works rise significantly and where that increase was not envisaged at the time the risk exposures were generated.

- Where the member of the Identified Staff fails to earn the right to the annual variable remuneration for a given year as a result of the effect on that year's results of transactions reported in previous years in which the member *did* earn the right to receive the annual variable remuneration.

- Where the member of the Identified Staff or Bankia is handed a regulatory fine or sanction or sentenced by the courts for acts that might be attributable to the unit for which that member is, or was, responsible at the time those acts took place.

- Where the member of the Identified Staff has been disciplined for breaching the code of conduct or other internal regulations, in particular those concerning risks.

- Where any negative impact results from the marketing and sale of unsuitable products, insofar as the member of the Identified Staff or their unit was responsible for taking those decisions.

- Where the member of the Identified Staff falls short of the suitability requirements set out in the suitability assessment manual for board members, general managers or similar executives and key office holders.

These clauses will apply equally to those professionals currently in service and those who have left the Bank's service.

Moreover, if in a given year Bankia reports a net financial loss that is not considered exceptional or non-recurring, then the member of the Identified Staff will receive neither the annual variable remuneration for the year to which those losses relate nor any deferred amounts otherwise payable in the year in which the financial statements recording those losses are approved.

In all cases, variable remuneration will be paid only to the extent that it is viable based on Bankia's overall situation and provided also that such payment is warranted based on the Bank's results.

The Remuneration Committee will determine whether the relevant circumstances have been met in order to trigger "malus" clause and will establish the amount of the variable remuneration that should be deducted. Where the affected member of the Identified Staff is an executive director or executive who reports directly to the Board of Directors or to any board member, then that decision will be made instead by the Board of Directors upon a proposal from the Remuneration Committee.

Meanwhile, if any of the following circumstances arise during the three years following the calculation and payment of the annual variable remuneration, Bankia may insist that the member of the Identified Staff repay up to 100% of the variable remuneration received, or may even offset such remuneration against any other remuneration to which that member may be entitled ("clawback" arrangements). These circumstances are as follows:

- Where the member of the Identified Staff has been disciplined for serious breach of the code of conduct or other internal regulations, in particular those concerning risks.

- Where it comes to light that the calculation and payment of the annual variable remuneration was based entirely or partly on information reliably shown to be false or seriously inaccurate *ex-post*, or where risks assumed during the period under consideration or other circumstances that were not foreseen or accepted by the Bank subsequently materialise, insofar as these have a material negative effect on the income statements for any of the years of the clawback period.

- Where significant errors or mistakes have been made in managing risk at the Bank, the business unit or the risk control unit at which the member of the Identified Staff works and where those errors or mistakes have been reliably demonstrated *ex-post* during the years of the clawback period.

- Where the capital requirements of the Bank or of the business unit at which the member of the Identified Staff works rise significantly during the years of the clawback period and where that increase was not envisaged at the time the risk exposures were generated.

- Where the member of the Identified Staff or Bankia is handed a regulatory fine or sanction or sentenced by the courts for acts that might be attributable to the unit for which that member is, or was, responsible at the time those acts took place.

- Where any negative impact materialises during the years of the clawback period as a result of the marketing and sale of unsuitable products, insofar as the member of the Identified Staff or their unit was responsible for taking those decisions.

The Remuneration Committee will determine whether the relevant circumstances have been met in order to trigger "clawback" clause and will establish the amount of any variable remuneration that should be returned to the Bank. Where the affected member of the Identified Staff is an executive director or executive who reports directly to the Board of Directors or to any board member, then that decision will be made instead by the Board of Directors upon a proposal from the Remuneration Committee.

To ensure the full effectiveness of these mechanisms for aligning remuneration with risk, Identified Staff members are prohibited from engaging in any kind of hedging arrangement or taking out any insurance in relation to the deferred part of the remuneration or any shares subject to a retention period, as mentioned previously.

(iii) Multi-year variable remuneration.

The Bank implemented a multi-year variable remuneration plan ("MYVRP") in 2016, aimed at members of the Identified Staff included therein on the basis of qualitative criteria. Entitlement to this remuneration is conditional on achieving: (i) the annual objectives set for the annual variable remuneration described above; plus (ii) the multi-year objectives over a three-year horizon, aligned with an adequate and effective risk management and with the Bank's Strategic Plan. MYVR is awarded annually and ensures that variable remuneration falls within a multi-year framework.

The general shareholders' meeting of 24 March 2017 passed a resolution for Bankia's executive directors to take part in the MYVRP, with the exception of Mr. Egea who does not participate in the variable remuneration systems.

Under no circumstances may the sum of the multi-year variable remuneration plus the annual variable remuneration payable to members of the Identified Staff exceed 100% of the sum of the fixed items of the total remuneration of each such member, unless the General Meeting of Shareholders of Bankia agrees to raise the level, subject to an absolute cap of 200% of the fixed component, as described and subject to the requirements and procedures set out in the LOSS. However, in the case of Management Committee members and executive directors the aforementioned percentage may not exceed 60% for as long as financial support continues to be received from the Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring).

- Objectives to which the multi-year variable remuneration is linked:

As explained previously, entitlement to this remuneration is conditional on fulfilment of: (i) the annual objectives in place for the annual variable remuneration; and (ii) the multi-year objectives over a three-year horizon.

The multi-year objectives will relate to the level of tolerance of certain indicators set out in Bankia's Risk Appetite Framework. These objectives are determined, defined and calculated by the Remuneration Committee and may be adjusted each year to keep them suitably aligned with the prevailing Risk Appetite Framework.

The multi-year objectives under MYVRP 2018 are as follows:

- Total Capital (Fully Loaded).
- Liquidity coverage ratio (LCR)
- Net new defaults
- Recurring RoE, CET1
- Time horizon

The MYVRP will have the following timeline:

- For the Management Committee, the MYVRP has a time horizon of six years: three years for measuring multi-year objectives ("n", "n+1" and "n+2"), plus a further three years of deferral ("n+3", "n+4" and "n+5"). For executive directors, the MYVRP calculation and payment system is set out in the remuneration policy for Bankia board members, as approved at the general shareholders' meeting held on 24 March 2017. Under this system, multi-year objectives are assessed over a three-year period that commences upon reaching the end of year "n" ("n+1", "n+2" and "n+3"), followed by two further years of deferral ("n+4" and "n+5").
- For all other members of the Identified Staff, the MYVRP has a four-year horizon: three year measurement period for the multi-year objectives ("n", "n+1" y "n+2"), plus a further year of deferral ("n+3").
- Determining the multi-year variable remuneration:

The Board of Directors shall assign each member ("Member") a reference amount or "target incentive" ("Target MYVR"), meaning the maximum amount they will receive if they meet 100% of the annual and multi-year objectives to which the MYVR is linked.

Subsequently, the actual achievement of the objectives for year one of the MYVR cycle (year "n") will be used to measure the "Granted Multi-Year Variable Remuneration" ("Granted MYVR"), as follows.

$$\mathbf{MYVR_{Granted} = MYVR_{target} \times DIF_{(year\ "n")} \times Dividend\ factor \times (n^{o}\ days/365)}$$

where:

- *$MYVR_{conditional}$*: incentive comprising a cash amount plus a number of shares, conditional on attaining the multi-year objectives. The cash amount will represent 50% of the granted MYVR while the value of the shares will make up the remaining 50%. The number of shares of the granted MYVR will be calculated by reference to Bankia's average share price over the last three months of each calendar day in which the annual objective measurement period ends.

- *$MYVR_{target}$*: amount of the target multi-year variable remuneration assigned individually.
- *DIF $_{(year\ “n”)}$*: Degree of Incentive Fulfilment, meaning the extent to which the objectives for year “n” have been met, and to be calculated as follows:
    - The percentage of achievement of V1 is applied to the Target MYVR.
    - The percentage of achievement of V2 and V3 (90% and 10%, respectively) is then applied to the amount obtained from step one above.
- *Dividend Factor*: as defined above in the case of the annual variable remuneration.
- *Nº days:* number of natural days during which the Member has been a beneficiary of the Plan.
- *365:* 365 days (for leap years “n”, this reference will become 366).

The amount of the Granted MYVR will be determined on the First Calculation Date on which the annual objectives are measured, throughout the first quarter of the following year (“n+1”) (“Granted MYVR Calculation Date”).

The amount of the Granted Multi-Year Variable Remuneration may be reduced upon the occurrence of any of the circumstances described in section 2.b) above, in relation to the process of determining the annual variable remuneration.

Over the two years following the period in which they have been measured the year-one objectives (year “n”), the previously determined amount relating to the Granted MYVR may be maintained, lowered or even eliminated, depending on the attainment of the multi-year objectives. Under no circumstances will the Granted MYVR be increased.

The Final Multi-Year Variable Remuneration (“Final MYVR”), will be calculated as follows:

$$MYVR_{final} = MYVR_{granted} \times (MYDIF_{(“n+2”)} \times Weight_{(“n+2”)})$$

where:

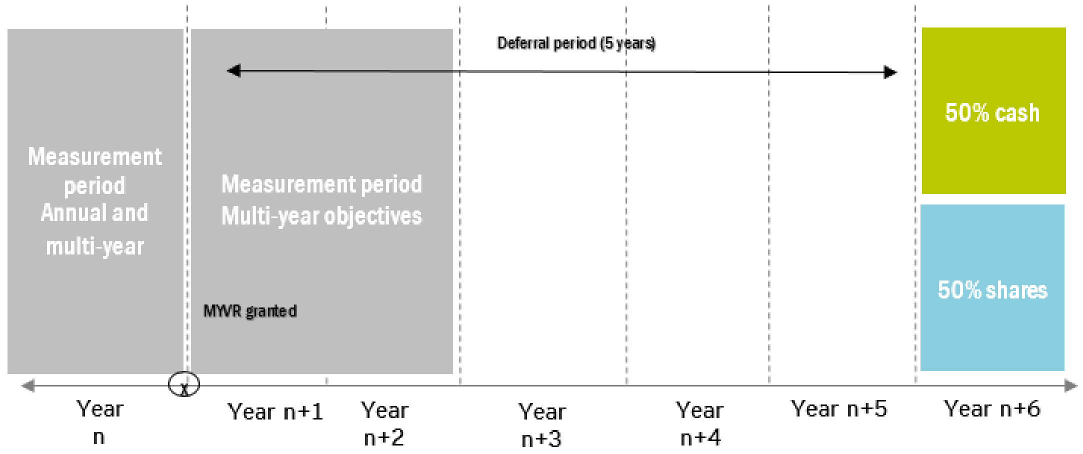
- *$MYVR_{final}$*: cash amount plus number of shares under the Final Multi-Year Variable Remuneration.
- *$MYVR_{granted}$*: amount of the Granted Multi-Year Variable Remuneration.
- *MYDIF $_{(“n+2”)}$*: degree of Incentive Attainment, based on the extent to which each Multi-Year Objective pegged to year “n+2” is fulfilled.
- *Weight $_{(“n+2”)}$*: weight of each Multi-Year Objective pegged to year “n+2”.

The amount of the final MYVR shall be determined on the second calculation date on which the multi-year objectives are measured during the first quarter of year “n+3”.

In addition to the final valuation at 31 December of year “n+2”, partial valuations will be carried out on 31 December of each year of payment deferral (“n” and “n+1”). If, during the deferral period, any of the indicators falls below the relevant threshold, the level of achievement of that objective will be 0, irrespective of the value taken at the end of the deferral period (31 December of year “n+2”).

- Procedure for paying multi-year variable remuneration:
- Members who sat on the Management Committee (excluding executive directors) for more than three months in the year in which the annual objectives were measured, the settlement date of the final MYVR will be entitled once no less than 60 months and no more than 61 months have passed from the Conditional MYVR Calculation Date.

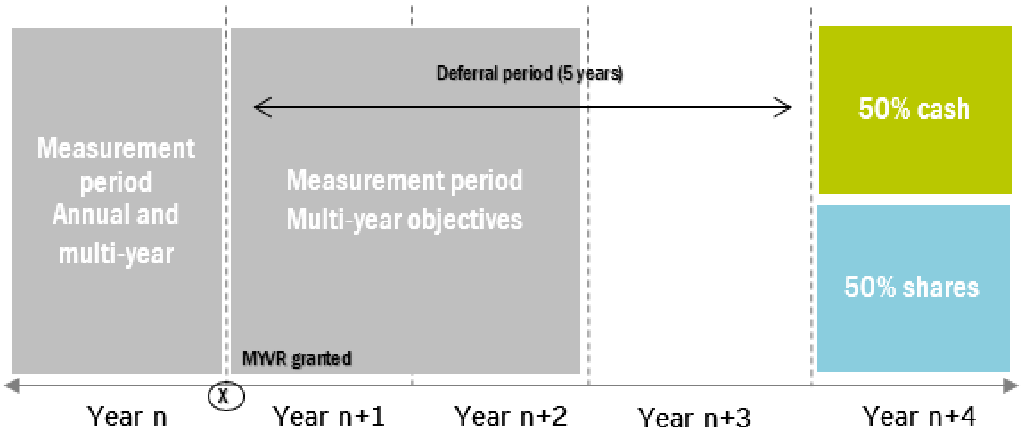
To purposes of clarification, the following diagram provides a graphical depiction of the system for calculating and paying the MYVR for this group:



Nevertheless, and as mentioned previously, the multi-year objective assessment period is three years (“n+1”, “n+2” and “n+3”) for the executive directors, with a further two years of deferral (“n+4” and “n+5”). The final MYVR is also received in year “n+6”.

- For the members who did not sit on the Management Committee during more than three months in the year in which the annual objectives where measured, the settlement date of the final MYVR will be entitled once no less than 36 months and no more than 37 months have passed from the Granted MYVR Calculation Date.

To illustrate, the following diagram provides a graphical depiction of the system for calculating and paying the MYVR for the remaining Members:



All shares delivered to Members as part of their multi-year variable remuneration package will be unavailable during the year immediately following date of delivery. During this period, the person undertakes not to sell or otherwise dispose of the shares, whether or not the Bank is able to implement mechanisms to verify compliance with the share lock-up period. Once this period has ended, the shares may be transferred without restriction. This lock-up system will apply even if the employment status of the individual concerned changes in any way.

Once the levels of compliance with objectives V1, V2 and V3 have been determined for calculating the MYVR, the Bank may reduce the total resulting amount of multi-year variable remuneration if the same circumstances arise as those envisioned in the previous paragraph regarding the reduction in annual variable remuneration.

Meanwhile, the multi-year variable remuneration pending payment will be reduced if any of the circumstances envisioned in the preceding paragraph exist (*malus* clauses).

These clauses will apply both to employees currently in service and those who are no longer in the Bank's employ.

If, in a given year, Bankia reports a net financial loss that is not considered exceptional, the Member will receive neither the MYVR for the year to which those losses relate nor any deferred amounts payable in the year in which the financial statements recording those losses are authorised for issue.

In all cases, MYVR will be paid only to the extent that it is sustainable, based on Bankia's overall situation, and only if it is justified on the basis of the Bank's earnings and results.

Where applicable, the Remuneration Committee will determine whether grounds exist for applying the *malus* clauses and the amount by which variable remuneration should be reduced. When the Member is an executive director or an executive officer who reports directly to the Board of Directors or any of its members, such decision shall be taken by the Board of Directors, upon a proposal from the Remuneration Committee.

Meanwhile, if any of the circumstances set out in this section in relation to the recovery of the annual variable remuneration materialise within three years from payment and settlement of the MYVR, then Bankia may demand that the Member return up to 100% of MYVR received, or may even offset such remuneration against any other remuneration to which that person may be entitled.

Where applicable, the Remuneration Committee will determine whether there are grounds for applying this *clawback* clause and the amount of the variable remuneration that must be returned to the Bank. When the affected Member is an executive director or an executive officer who reports directly to the Board of Directors or any of its members, such decision shall be taken by the Board of Directors, upon a proposal from the Remuneration Committee.

(iv) Pension scheme

The Supplementary Pension Scheme covers retirement, disability and death, which are covered for all workers through the Bankia Group Pension Plan.

The Bankia Group Pension Plan was set up in August 2013 upon adding to the plan all members who were linked with the Bank under its previously existing supplementary pension schemes at their entities of origin. Additionally, in October 2018 the BMN Employee Pension Plan was included in said Plan.

The Bankia Group Pension Plan is configured as a defined contribution scheme and there are no groups or collectives included under a defined benefit plan. For professionals whose contribution exceeds the maximum legal amount after applying a certain percentage to their remuneration, the Bank pays the excess into the collective life and savings insurance policies it has arranged.

Contributions to the pension plan for retirement purposes are made by applying a percentage to the employee's remuneration or their pensionable salary, which will vary depending on the employee's entity of origin.

There are currently no discretionary pension benefits at Bankia.

11.4 Description of the criteria applied to assess the results and adjustments based on risk, the deferral policy and the rights acquisition criteria

As mentioned previously, the remuneration policy for the Identified Staff is aligned with the interests of shareholders and the Bank's prudent approach to risk management. The key features of the 2018 policy are as follows:

- Both the annual variable remuneration system and the MYVRP combine the results of the individual employee (assessed against financial and non-financial criteria), of the business unit concerned and of the wider Bank
- The global objectives (V1) to which the annual variable remuneration is linked and the multi-year variable remuneration objectives take into account the capital base, liquidity and timing of profits.
- The V2 and V3 objectives of those employees who carry out control functions are linked to the achievement of objectives relating to their specific functions, irrespective of the results of the business areas they control.
- In accordance with the ESMA Guidelines on remuneration policies and practices (MiFID), overall customer satisfaction is a relevant component of the V2 objectives for most of the commercial and sales managers of the retail network and also of the V3 objectives concerning the individual assessment of employees.

- By paying 50% of the variable remuneration in shares and by retaining those shares for one year, the Bank has successfully aligned the remuneration of the Identified Staff with the interests of its shareholders.

- The Bank also applies deferral clauses, whereby 40% of the variable remuneration of the members of the Identification Staff (100% in the case of executive directors and senior officers) is deferred for a minimum of three years (five years in the case of executive directors and senior officers), thus giving the variable remuneration of the Identified Staff a multi-year structure so that the assessment process is based on long-term results.

- As a result, effective payment of this remuneration is staggered over a period of time to take account of the underlying economic cycle and the business risks.

- Meanwhile, the “malus“ and “clawback” arrangements described in the previous section: (i) prevent or limit payment of the variable remuneration in response to certain actions committed by the individual and the results reported by the wider Group (“malus” arrangements); and might (ii) require the employee to return their variable remuneration (“clawback” arrangements)

11.5 Information on the link between remuneration of the Identified Staff and results

As discussed previously, the V1 objectives were linked in 2018 to the Bank’s overall figures and were contingent on maintaining a solid capital base and fulfilling the targets set out in the relevant strategic and/or restructuring plans.

These objectives can account for up to 40% of the variable remuneration for members of the Management Committee, up to 30% for corporate officers, and up to 20% for other executives.

Meanwhile, the V2 objectives of the business units are related to the results reported by those units. In the case of control units, V2 is linked to the performance of the employee’s control functions and not to the results of the areas they control.
Lastly, the application of the variable remuneration system will be contingent (trigger objective) on the dividend payment recommended by Bankia’s Board of Directors, which shall apply a correction factor to the annual variable remuneration ultimately paid.

The following table shows the level of achievement of the V1 objectives and the trigger objective; i.e. the variables most closely related to the Bank’s results.

	OBJECTIVE	% PARTIAL	WEIGHT	% PARTIAL ACHIEVE.	% FINAL ACHIEVE.
Trigger	Proposed dividend payment	102.94%	--	102.94%	100.00%
V1	Recurring ROE	60.97%	20%	12.19%	88.14%
	Quality	114.61%	20%	22.92%	
	Non-performing asset ratio	100.54%	20%	20.11%	
	Fully-loaded CET1 ratio	76.74%	20%	15.35%	
	Cost to income ratio (ex-trading income)	87.83%	20%	**17.7%**	

Moreover, and as discussed previously, the malus arrangements include the scenario whereby if in a given year Bankia reports a net financial loss that is not considered exceptional or non-recurring, then the member of the Identified Staff will receive neither the annual variable remuneration, nor the multi-annual variable remuneration for the year to which those losses relate, nor any deferred amounts otherwise payable in the year in which the financial statements recording those losses are approved.

In any case, all outstanding variable remuneration will be paid to the extent that it is viable given the Bank's overall situation.

11.6 Main parameters and incentives for any component of the variable remuneration plans and for other non-monetary benefits

The main parameters and incentives for the components of the variable remuneration plans of the Identified Staff have been discussed previously in this report.

Bankia’s objective is to have an annual and multi-year variable remuneration system that is aligned with: (i) the interests of shareholders; (ii) prudent risk management and; (iii) long-term value generation for the Bank.
The greater the managerial responsibility of the employee, the higher the weighting of objectives linked to the Bank’s overall results.

As already mentioned, the variable remuneration of employees who perform control functions at the Bank has a higher weighting of objectives related to their functions, thus helping to ensure their independence from the business areas they supervise.

11.7 Remuneration mix

As discussed previously, a key principle of Bankia’s remuneration policy is to achieve a suitable balance between remuneration components, where fixed remuneration accounts for a sufficiently high proportion of total remuneration.

For the other members of the Identified Staff, Bankia has a professional classification system in place that determines the internal level of employees. The remuneration bands associated with the different levels are set in terms of total remuneration, such that each internal level has a defined fixed remuneration plus reference variable remuneration. The system conforms with good market practices and is considered rational in terms of human resources.

The system is calibrated so that variable remuneration accounts for a certain weight of fixed remuneration, in accordance with the relevant reference band associated with the employee’s internal level.

The variable remuneration of the Identified Staff (annual variable remuneration and MYVRP) may not exceed 100% of the fixed remuneration. In the case of Management Committee members and executive directors, this percentage may not exceed 60% for as long as financial support continues to be received from the Fund for Orderly Bank Restructuring.

The following bullet points provide a comparison of variable remuneration for 2018 (annual variable remuneration and MYVRP) with fixed remuneration:

- The maximum effective percentage of variable remuneration to fixed remuneration of the Identified Staff was 69.41% in 2018.
- The maximum percentage of variable remuneration for 2018 that could be awarded in relation to the fixed remuneration of the members of Bankia’s Identified Staff in 2018 did

not exceed 100% (60% in the case of Management Committee members and managers similar to General Manager).

- The average percentage of variable remuneration accrued in 2018 to the fixed remuneration of executive directors, members of Bankia's Management Committee and similar to Bankia's General Manager was 48.05%.

11.8 Information relating to Rule 40.1 under Circular 2/2016

Pursuant to Rule 40.1 of Circular 2/2016, institutions must report on severance payments resulting from early termination of contract when those payments exceed an amount equivalent to two years of fixed remuneration.

Accordingly, Bankia now confirms that it made no severance payments in 2018 for early termination of contract that exceeded two years of fixed remuneration.

11.9 Quantitative information on the remuneration of the Identified Staff

The following table provides aggregate figures by business area on the remuneration of the Identified Staff and number of employees:

Table 62. Identified Staff by business area

BUSINESS AREA	Investment banking	Commercial banking	Asset management	Other	Total
Number of employees included in the Identified Staff	8	33	7	48	96
Total remuneration	2,723	10,803	2,394	13,825	29,745
Of which: variable remuneration [3]	768	3,177	820	4,212	8,977

Row 1 shows the exact number of employees in question. In rows 2 and 3, the amounts are reported in thousands of euros, rounded up or down.

The following table shows the aggregate remuneration of the Identified Staff by type of employee and remuneration item:

[3] Includes the amount relating to the Multi-Year Variable Remuneration awarded and conditional on meeting the multi-year objectives. In no event may the final amount received exceed the above limits, although it may be reduced to zero.

Table 63. Remuneration to the Identified Staff

IDENTIFIED STAFF	Executive directors	Non-executive directors	Other senior officers	Other employees	Total
1. Number of employees included in the Identified Staff	4	11	5	76	96
Of which: senior officers	0	0	5	0	5
Of which: exercising control functions	0	0	0	30	30
2. Amount of total fixed remuneration	1,733	865	1,917	15,000	19,515
3. Amount of total variable remuneration	900	0	973	7,104	8,977
3.1 In cash	450	0	486.5	4,020	4,956.5
3.2 In shares or similar instruments	450	0	486.5	3,084	4,020.5
3.3 In other instruments					
4. Amount of deferred variable remuneration [4]	900	0	973	4,088	5,961
4.1 In cash	450	0	486.5	2,044	2,980.5
4.2 In shares or similar instruments	450	0	486.5	2,044	2,980.5
4.3 In other instruments					
5. Amount of explicit ex-post performance adjustment applied in the year for remuneration accrued in previous years	0	0	0	0	0
6. Guaranteed variable remuneration	0	0	0	0	0
6.1 Number of recipients of guaranteed variable remuneration					
6.2 Total amount of guaranteed variable remuneration in the year					
7. Severance and termination pay					
7.1 Number of recipients of severance and termination pay	0	0	0	8	8
7.2 Total amount of severance and termination pay awarded in the year	0	0	0	2,788	2,788
8. Contributions to pension schemes	0	0	135	1,118	1,253
9. Discretionary pension benefits	0	0	0	0	0
9.1 Number of recipients of discretionary pension benefits					
9.2 Total amount of discretionary pension benefits					

Rows 1, 6.1, 7.1 and 9.1 show the exact number of employees in question. In the other boxes, amounts are reported in thousands of euros, rounded up or down.

[4] Includes the amount relating to the Multi-Year Variable Remuneration awarded and conditional on meeting the multi-year objectives. In no event may the final amount received exceed the above limits, although it may be reduced to zero.

ANNEX I: OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION

Table 64. Outline of the differences in the scopes of consolidation - entity by entity (LI3)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
BANKIA, S.A.	Full consolidation	x				Bank
ARRENDADORA DE EQUIPAMIENTOS FERROVIARIOS, S.A.	Full consolidation	x				Purchase and lease of trains
BANKIA FONDOS, S.G.I.I.C., S.A.	Full consolidation	x				Collective investment scheme management company
BANKIA HABITAT, S.L.U.	Full consolidation	x				Real estate
BANKIA INVERSIONES FINANCIERAS, S.A.U.	Full consolidation	x				Company manager
BANKIA MEDIACIÓN, OPERADOR DE BANCA SEGUROS VINCULADO, S.A.U.	Full consolidation			x		Insurance broker and insurance banking operator
BANKIA PENSIONES, S.A., ENTIDAD GESTORA DE FONDOS DE PENSIONES	Full consolidation	x				Pension fund management company
BEIMAD INVESTMENT SERVICES COMPANY LIMITED	Full consolidation			x		Business management and advice
BMN MEDIACIÓN OPERADOR DE BANCA-SEGUROS VINCULADO, S.L.U.	Full consolidation			x		Insurance broker and insurance banking operator
CAJA MADRID FINANCE PREFERRED, S.A.U.	Full consolidation	x				Financial brokerage
CAJAGRANADA VIDA, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A.	Full consolidation			x		Insurance broker and insurance banking operator
CAJAMURCIA VIDA Y PENSIONES DE SEGUROS Y REASEGUROS, S.A.	Full consolidation			x		Insurance broker and insurance banking operator
CENTRO DE SERVICIOS OPERATIVOS E INGENIERIA DE PROCESOS, S.L.U.	Full consolidation	x				Other independent services
CORPORACIÓN FINANCIERA HABANA, S.A.	Full consolidation	x				Financing for industry, trade and services
CORPORACIÓN INDUSTRIAL BANKIA, S.A.U.	Full consolidation	x				Company manager
COSTA EBORIS, S.L.U.	Full consolidation			x		Real estate
ENCINA LOS MONTEROS, S.L.U.	Full consolidation			x		Real estate
GEOPORTUGAL - IMOBILIARIA, LDA.	Full consolidation			x		Real estate development
GESMARE SOCIEDAD GESTORA, S.L.U.	Full consolidation	x				Business management consultancy
GESNOSTRUM SOCIEDAD GESTORA, S.L.U.	Full consolidation	x				Business management consultancy
GESTION Y RECAUDACION LOCAL, S.L.	Full consolidation			x		Tax revenue management
INMOGESTIÓN Y PATRIMONIOS, S.A.	Full consolidation			x		Company manager
INVERSION GENERAL DE GRANADA 2 , S.L. EN LIQUIDACION	Full consolidation			x		Real estate development
INVERSIONES Y DESARROLLOS 2069 MADRID, S.L.U., EN LIQUIDACIÓN	Full consolidation	x				Real estate
NAVICOAS ASTURIAS, S.L.	Full consolidation			x		Real estate
NAVIERA CATA, S.A.	Full consolidation	x				Purchase, lease and operation of shipping
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	Full consolidation	x				Company manager

PUERTAS DE LORCA DESARROLLOS EMPRESARIALES, S.L.U.	Full consolidation	X			Real estate development
RESIDENCIAL LA MAIMONA S.A.U., EN LIQUIDACIÓN	Full consolidation	X			Real estate
SEGURBANKIA, S.A.U., CORREDURÍA DE SEGUROS DEL GRUPO BANKIA	Full consolidation			X	Insurance broker
VALENCIANA DE INVERSIONES MOBILIARIAS, S.L.U.	Full consolidation	X			Company manager
VALORACIÓN Y CONTROL, S.L.	Full consolidation			X	Company manager
VECTOR CAPITAL, S.L.U.	Full consolidation	X			Business management consultancy
CARTERA PERSEIDAS, S.L.	Proportional consolidation		X		Company manager
INMACOR DESARROLLOS, S.A. DE CV	Proportional consolidation			X	Real estate
INMOBILIARIA PIEDRA BOLAS, S.A. DE CV	Proportional consolidation			X	Real estate
METRO HOUSE INVEST, S.L.	Proportional consolidation			X	Real estate development
PLAYA PARAISO MAYA, S.A. DE CV	Proportional consolidation			X	Real estate
PROMOCIONES Y PROYECTOS MURCILOR, S.L., EN LIQUIDACIÓN	Proportional consolidation			X	Real estate development
PROYECTOS Y DESARROLLOS HISPANOMEXICANOS. S.A., DE CV	Proportional consolidation			X	Real estate
QUIMANNA HORTAL, S.L. EN LIQUIDACIÓN	Proportional consolidation			X	Real estate development
SOL EDIFICAT PONENT, S.L.	Proportional consolidation			X	Real estate development

ANNEX II: CAPITAL INSTRUMENTS MAIN FEATURES

Table 65. Capital instruments main features 2018

		2018					
1	Issuer	BFA, SA	Bankia SA	Bankia SA	Bankia SA	Bankia SA	BANCO MARE NOSTRUM, SA
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)		ES0213307004	XS1645651909	XS1880365975	ES0213307046	ES0213056007
3	Law governing the instrument	Laws of Spain	Laws of Spain	Laws of Spain	Laws of Spain	Laws of Spain	Laws of Spain
4	Transitional CRR rules	Common Equity Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Eligible at individual/ (sub)consolidated/ individual & (sub)consolidated	Individual and consolidated	Individual and consolidated	Individual and consolidated	Individual and consolidated	Individual and consolidated	Individual and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated debt	Convertible contingent instruments	Convertible contingent instruments	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	1,796	1,000	750	500	500	175
9	Nominal value of instrument	1,795,900,000	1,000,000,000	750,000,000	500,000,000	500,000,000	175,000,000
9a	Issue price	100%	100%	100%	100%	100%	100%
9b	Redemption price	n/a	100%	100%	100%	100%	100%
10	Accounting classification	Equity	Liabilities - Amortised cost	Liabilities - Amortised cost	Liabilities - Amortised cost	Liabilities - Amortised cost	Liabilities - Amortised cost
11	Original date of issuance	n/a	05/22/2014	07/18/2017	09/19/2018	03/15/2017	11/16/2016
12	Perpetual or with fixed maturity	Perpetual	Fixed maturity	Perpetual	Perpetual	Fixed maturity	Fixed maturity
13	Original maturity date	Undated	05/22/2024	Undated	Undated	03/15/2017	11/16/2016
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	05/22/2019; tax and reg call; 100%	07/18/2022; tax and reg call; 100%	09/19/2023; tax and reg call; 100%	03/15/2022; tax and reg call; 100%	11/16/2021; tax and reg call; 100%
16	Subsequent call dates, if applicable	n/a	On every coupon payment from 05/22/2019	Quarterly on each payment date from 07/18/2022	Quarterly on each payment date from 09/19/2023	n/a	n/a
17	Fixed or floating dividend/coupon	Floating	Fixed to floating	Fixed to floating	Fixed to floating	Fixed to floating	Fixed to floating
18	Coupon rate and any related index	n/a	Annual coupon. 4% through to 05/22/2019; then	Quarterly coupon. 6% through to 07/18/2022; then	Quarterly coupon. 6.375% through to 09/19/2023; then	Annual coupon. 3.375% through to 03/15/2022; then	9% through to 11/16/2021; then

			5-year mid-swap + 3.166%	5-year mid-swap + 5.819%	5-year mid-swap+ 6.224%	5-year mid-swap + 3.35%	5-year mid-swap 896 bp
19	Existence of a dividend stopper	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Mandatory	Fully discretionary	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of a step up or other incentive to redeem	n/a	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	n/a	Noncumulative	Noncumulative	n/a	n/a
23	Convertible or non-convertible	n/a	Non-convertible	Convertible	Convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	CET1 < 5,125% Bankia individual and/or group	CET1 < 5,125% Bankia individual and/or group		n/a
25	If convertible, fully or partially	n/a	n/a	Total	Total	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	Variable	Variable	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	Compulsory	Compulsory	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	Common shares	Common shares	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	Bankia SA	Bankia SA	n/a	n/a
30	Write-down features	n/a	n/a	No	No	No	No
31	If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a	After unsecured creditors	Senior to common shares	Senior to common shares	After unsecured creditors	After unsecured creditors
36	Non-compliant transitioned features	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a

ANNEX III: MATERIAL DISCLOSURES

Appointments in the executive senior management

On 24 January 2019, the Board of Directors of Bankia, based on a favourable report from the Appointments and Responsible Management Committee, approved a change in the Bank's organisation to drive its transformation and that of its businesses, creating four new general subdivisions –Financial, Credit Risk, People and Culture, and Digital Strategy and Transformation. Their members will have a seat on the Management Committee. This comes after the transfer of duties following the departure of the Deputy General Director of Investees and Associated Undertakings, Joaquín Cánovas.

As a result, the composition of the Bank's highest management body increases from eight to twelve members, as follows:

- José Ignacio Goirigolzarri Tellaeche (Executive Chairman)
- José Sevilla Álvarez (Chief Executive Officer)
- Antonio Ortega Parra (Executive Director and General Manager of People, Resources and Technology)
- Miguel Crespo Rodríguez (General Secretary and Deputy General Director of the General Secretariat)
- Gonzalo Alcubilla Povedano (Deputy General Director of Business Banking)
- Leopoldo Alvear Trenor (Deputy General Director of Financial Management)
- Amalia Blanco Lucas (Deputy General Director of Communication and External Relations)
- Manuel Galarza Pont (Deputy General Director of Credit Risks)
- David López Puig (Deputy General Director of People and Culture)
- Fernando Sobrini Aburto (Deputy General Director of Investees and Asset Management)
- Eugenio Solla Tomé (Deputy General Director of Retail Banking)
- Carlos Torres García (Deputy General Director of Transformation and Digital Strategy)

Issuance of EUR 1,000 million subordinated notes

On 7 February 2019, the economic terms of an issuance of EUR 1,000 million of Bankia, S.A. subordinated notes under the "€ 10,000,000,000 Euro Medium Term Note Programme" were established. The base prospectus for the issue, dated 5 July 2018, was approved by the Central Bank of Ireland as competent authority. An application will be made for the subordinated notes to be listed on the Main Securities Market of the Irish Stock Exchange, currently called Euronext Dublin. Bankia will apply for the subordinated notes to be treated as tier 2 capital in accordance with the criteria of the CRR. No significant events occurred between 31 December 2018 and the date of authorisation for issue of the accompanying consolidated financial statements other than those included in this note or other notes to the consolidated financial statements.

Results of the supervisory review and evaluation process (SREP) and Pillar 2

On 11 February 2019, Bankia reported that:

- The European Central Bank (ECB) notifies Bankia, S.A, once completed and known the results of the supervisory review and assessment process, that it has maintained stable its requirement with respect to the year 2018, a Pillar 2 requirement of 2.0%.
- Thus, during 2019 a minimum Common Equity Tier 1 (CET 1) of 9.25% and a minimum Total Capital ratio of 12.75% are required, both measures in relation to transitional ("Phase-In") regulatory capital.
- These capital ratios include the Pillar 1 minimum requirement (4.5% CET1 and 8.0% Total Capital); the Pillar 2 requirement (2.0%); the capital conservation buffer (2.5%); and the requirement arising from the Bank's status as and Other Systemically Important Institution (O-SII), which for 2019 has been set at 0.25%.

The following table shows the Group's capital ratios at 31 December 2018 in respect of the minimum regulatory requirements.

(€ millions y %)	Phase In	Fully Loaded
Common Equity Tier 1 (%) - CET 1	**13.80%**	**12.39%**
Total capital (%)	**17.58%**	**16.17%**
CET1 minimum requeriment (*)	**9.25%**	**9.25%**
of which Pilar 1	4.50%	4.50%
of which Pilar 2R	2.00%	2.00%
of which Buffers	2.75%	2.75%
Total Capital minimum requeriment (*)	**12.75%**	**12.75%**
of which Pilar 1	8.00%	8.00%
of which Pilar 2R	2.00%	2.00%
of which Buffers	2.75%	2.75%
Excess CET1 Capital over minimum requirement	**455 bps**	**314 bps**
Excess Total Capital over minimum requirement	**483 bps**	**342 bps**

(*) The transitional period end in 2019, so the phase-in and fully loaded requirement are equal.

This decision by the ECB means that the consolidated[5] CET1 level below which Bankia, S.A. would be obligated to limit its discretionary distributions (payment of dividends, payment of coupons to AT1 instrument holders and/or variable remuneration), commonly referred to as the trigger level of the maximum distributable amount (or MDA trigger), is 9.25% for CET1 and 12.75% for Total

[5] At an individual level, as of 31 December 2018, Bankia´s Phase-in CET1 ratio stood at 13,03% while its Total Capital ratio was 16,72%, compared to a minimum requirement of 7,25% and 10,75% respectively.

Capital, thus implying that any deficit in the Pillar 1 requirements for additional Tier 1 capital (1.5%) and Tier 2 capital (2%) should be covered with CET1 for these purposes[6] .

In view of the capital levels reported above, these regulatory requirements do not entail any of the aforementioned restrictions.

Changes in the Committees of the Board of Directors

On 25 February 2019, Bankia's Board of Directors carried the following resolutions, acting on a favourable report from the Appointments and Responsible Management Committee:

- To appoint Eva Castillo Sanz as lead independent director, replacing Joaquín Ayuso García, once the existing term of office has run its course and to be effective from the date on which the corresponding regulatory authorisations are obtained.

- To appoint Francisco Javier Campo García and Fernando Fernández Méndez de Andés as members of the Audit and Compliance Committee, replacing Joaquín Ayuso García and Jorge Cosmen Menéndez Castañedo.

  Following these appointments, the composition of the Audit and Compliance Committee is as follows: Chairman: Antonio Greño Hidalgo. Members: Francisco Javier Campo García, José Luis Feito Higueruela and Fernando Fernández Méndez de Andés.

- To appoint Joaquín Ayuso García, in lieu of Francisco Javier Campo García, and Antonio Greño Hidalgo as members of the Risk Advisory Committee. The Board of Directors also resolved to appoint Joaquín Ayuso García as Chairman of the Risk Advisory Committee, in lieu of Francisco Javier Campo García.

  Following these appointments, the composition of the Risk Advisory Committee is as follows: Chairman: Joaquín Ayuso García. Members: Eva Castillo Sanz, Fernando Fernández Méndez de Andés and Antonio Greño Hidalgo.

- To appoint Eva Castillo Sanz as a member of the Appointments and Responsible Management Committee, replacing Fernando Fernández Méndez de Andés. The Board of Directors also resolved to appoint Eva Castillo Sanz as Chairman of the Appointments and Responsible Management Committee, replacing Joaquín Ayuso García.

  Following these appointments, the composition of the Appointments and Responsible Management Committee is as follows: Chairman: Eva Castillo Sanz. Members: Joaquín Ayuso García, Francisco Javier Campo García and Laura González Molero.

- To appoint Francisco Javier Campo García and Laura González Molero as members of the Remuneration Committee, replacing Eva Castillo Sanz and Fernando Fernández Méndez de

[6] At 31 December 2018, the Bankia Group had no deficit in either its additional Tier 1 capital or Tier 2 capital.

Andés. The Board of Directors also resolved to appoint Francisco Javier Campo García as Chairman of the Remuneration Committee, replacing Eva Castillo Sanz.

Following these appointments, the composition of the Remuneration Committee is as follows: Chairman: Francisco Javier Campo García. Members: Joaquín Ayuso García, Jorge Cosmen Menéndez-Castañedo and Laura González Molero.

- To remove Francisco Javier Campo García from the Board Risk Committee.

  Following these appointments, the composition of the Board Risk Committee is as follows: Chairman: José Sevilla Álvarez. Members: Eva Castillo Sanz and Fernando Fernández Méndez de Andés.

Sale of insurance companies Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.

On 1 April 2019, Bankia announced that on Friday, 29 March, following clearance by the competition authority and having received no objection from the Directorate General of Insurance and Pension Funds, the purchase and sale was completed whereby Bankia, S.A. ("Bankia") sold to Mapfre Vida Sociedad Anónima de Seguros sobre la Vida Humana, 51% of the share capital of insurance companies Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A., both such companies hitherto owned by Bankia.

The sale price amounted to 110,306,000 euros.

The closing of the abovementioned purchase and sale implies the completion of the restructuring the bancassurance business initiated by Bankia following the merger with Banco Mare Nostrum, S.A.

Early redemption of Subordinated Bonds

On 8 April 2019, Bankia announced its irrevocable decision to effect the early redemption of its Subordinated Bond issue made for a combined nominal amount of 1,000 million euros, with ISIN ES0213307004 (the "Issue"), and which qualifies as Tier 2 capital of the bank and its group. The early redemption will take effect on 22 May 2019, coinciding with the early redemption option date, once the corresponding clearance has been secured from the European Central Bank.

The redemption amount per security will be 100,000 euros, plus accrued and unpaid interest amounting to 4,000 euros per security through to but excluding 22 May 2019. The full amount will be paid as per the terms and conditions of the Issue. The foregoing is to be reported as price sensitive information for all applicable purposes.

ANNEX IV: DISCLOSURE REQUIREMENTS

The following table shows a list of standard disclosure templates recommended by various regulatory bodies. All templates that are not applicable to the Entity are reported as "N/A" (not applicable).

TEMPLATE	REGULATION	PILLAR 3 SECTION
	GUIDELINES ON DISCLOSURE REQUIREMENTS (EBA/GL/2016/11)	
LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	2.1.4
LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	2.1.4
LI3	Outline of the differences in the scopes of consolidation - entity by entity	ANEXO I
OV1	Overview of RWA	4.1
CR10	IRB (specialised lending and equities)	5.1.5.7
INS1	Non-deducted participations in insurance undertakings	N/A.
CRB-B	Total and average net amount of exposures	5.1.3.1.1
CRB-C	Geographical breakdown of exposures	5.1.3.1.2
CRB-D	Concentration of exposures by industry or counterparty types	5.1.3.1.3
CRB-E	Maturity of exposures	5.1.3.1.4
CR1-A	Credit quality of exposures by exposure classes and instruments	5.1.3.2.1
CR1-B	Credit quality of exposures by industry or counterparty types	5.1.3.2.2
CR1-C	Credit quality of exposures by geography	5.1.3.2.3
CR1-D	Ageing of past-due exposures	5.1.3.3
CR1-E	Non-performing and forborne exposures	5.1.3.4
CR2-A	Changes in stock of general and specific credit risk adjustments	5.1.3.5
CR2-B	Changes in stock of defaulted and impaired loans and debt securities	5.1.3.6
CR3	Credit risk mitigation techniques – overview	5.1.3.8.5
CR4	Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	5.1.4.4
CR5	Standardised approach	5.1.4.5
CR6	IRB – Credit risk exposures by exposure class and PD range	5.1.5.6
CR7	IRB – Effect on RWA of credit derivatives used as CRM techniques	N/A.
CR8	RWA flow statements of credit risk exposures under IRB	5.1.5.8
CR9	IRB – Backtesting of probability of default (PD) per exposure class	5.1.5.10
CCR1	Analysis of the counterparty credit risk (CCR) exposure by approach	5.2.1
CCR2	Credit valuation adjustment (CVA) capital charge	5.2.7
CCR8	Exposures to central counterparties	5.2.2
CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk.	5.2.3
CCR4	IRB approach – CCR exposures by portfolio and PD scale (CCR4)	5.2.4
CCR7	RWA flow statements of CCR exposures under Internal Model Method (IMM)	N/A.
CCR5-A	Impact of netting and collateral held on exposure values	5.2.5
CCR5-B	Composition of collateral for exposures to counterparty credit risk	5.2.6
CCR6	Credit derivatives exposures	N/A.
MR1	Market risk under standardised approach	N/A.
MR2-A	Market risk under internal models approach	6.2.2
MR2-B	RWA flow statements of market risk exposures under the IMA	6.2.3
MR3	IMA values for trading portfolios	6.2.4
MR4	Comparison of VaR estimates with gain/losses	6.2.5
	GUIDELINES ON LCR DISCLOSURE OF LIQUIDITY RISK MANAGEMENT (EBA/GL/2017/01)	
LIQ1	LCR detail (monthly average values)	2.3.8
LCR	LCR detail	2.3.8
	LEVERAGE RATIO – COMMISSION IMPLEMENTING REGULATION (UE) 2016/200	
LRSum	Summary reconciliation of accounting assets and leverage ratio exposures	4.3
LRCom	Common informative table of the leverage ratio	4.3
LRSpl	Split-up of on balance sheet exposures (excluding derivatives, SFTs and excluded expositions)	4.3

	OWN FUNDS REQUIREMENTS - COMMISSION IMPLEMENTING REGULATION (UE) 1423/2013	
	Capital instruments' main features template	ANEXO II
	Own funds disclosure template	3.2
	COUNTERCYCLICAL BUFFER – COMMISSION DELEGATED REGULATION (UE) 2015/1555	
	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer	4.2
	Amount of the institution-specific countercyclical capital buffer	4.2
	DRAFT REGULATORY TECHNICAL STANDARDS ON DISCLOSURE OF ENCUMBERED ASSETS (EBA/RTS/2017/03)	
	Carrying amount and fair value of encumbered and unencumbered assets	10
	Fair value of collateral received available for encumbrance	10
	Carrying amount of financial liabilities assets	10
	GUIDELINES ON UNIFORM DISCLOSURE OF INFORMATION UNDER ARTICLE 473a OF REGULATION (EU) No 575/2013 AS REGARDS TRANSITIONAL ARRANGEMENTS FOR MITIGATING THE IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS (EBA/GL/2018/01)	
IFRS 9-FL	Comparison of own funds and capital and leverage ratios of entities with and without the application of transitional arrangements for IFRS 9 or analogous ECLs	N/A.

ANNEX V: CORRELATION BETWEEN PROVISIONS OF CRR - PILLAR 3 DISCLOSURES 2018

In accordance with the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11), included below is an index providing the information to be disclosed under the different articles of the CRR and showing where that information can be found within the sections of this Pillar 3 Disclosures report.

REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES		PILLAR 3 SECTION
	General principles of disclosure	
Art.431 – Scope of disclosure requirements	Scope of application of the disclosure requirements and publication of data that transmit a comprehensive image of the institution's risk profile.	1.3
Art.432 - Non-material, proprietary or confidential information	Omission of disclosures considered not material or confidential and the reasons for classifying them as such.	2.1.11.
Art.433 - Frequency of disclosure	Information must be published at least on an annual basis in conjunction with the date of publication of the financial statements.	1.3 /2.1.12 / 2.1.13
Art.434 - Means of disclosures	Requirement to disclose information in one medium, or if published in two or more media, a reference to the information in the other media must be included within each medium. Compliance by publication of equivalent data in accordance with other requirements (accounting, public price, etc.).	1.3.
	Technical criteria on transparency and disclosure of information.	
Art.435.1 - Risk management objectives and policies for each separate category of risk	a) Strategies and processes to manage those risks.	2.1 / 2.2 / 2.3
	b) Structure and organisation of the risk management function.	2.1 / 2.2 / 2.3
	c) Scope and nature of risk reporting and measurement systems.	2.3
	d) Policies, strategies and processes for hedging and mitigating risk.	5.1.3.8
	e) Declaration approved by the management body on the adequacy of risk management arrangements.	1.4
	f) Statement approved by the management body describing the institution's risk profile.	1.4
Art.435.2 - Disclosure, including regular, at least annual updates, regarding governance arrangements:	a) Members of the management body.	2.2.3
	b) Recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise.	2.2
	c) Policy on diversity with regard to selection of members of the management body.	2.2
	d) Setting up a risk committee.	2.2.3
	e) Description of the information flow.	2.2.3
Art.436 - Scope of application	a) Name of institution.	1.2
	b) Differences in the basis of consolidation for accounting and prudential purposes.	2.1.4
	c) Any impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.	2.1.5
	d) The aggregate amount by which the actual own funds are less than required in all the subsidiaries not included in the consolidation, and the name or names of such subsidiaries.	2.1.6
	e) If applicable, the use of provisions in prudential or individual liquidity requirements	2.1.7

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
Art.437 - Own funds	a) A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution.	2.1.8
	b) A description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments, and Tier 2 instruments issued by the institution.	2.1.9
	c) The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.	ANEXO II
	d) Separate disclosure of the nature and amounts of the following: i) each prudential filter applied pursuant to Articles 32 to 35. ii) each deduction made pursuant to Articles 36, 56 and 66. iii) items not deducted in accordance with Articles 47, 51, 56, 66 and 79.	2.1.10
	e) A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply.	2.1.11
	f) where applicable, a comprehensive explanation of the basis on which capital ratios are calculated, when determined on a basis other than that laid down in the CRR.	2.1.13
Art.438 - Capital requirements	a) The institution's approach to assessing the adequacy of its internal capital to support current and future activities.	4.2
	b) Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process (ICAAP).	N/A
	c) Capital requirements by the standardised approach broken down by exposure classes.	4.1 / 5.1.4.4
	d) Capital requirements by the IRB approach broken down by risk classes.	4.1 / 5.1.5.6
	e) Own funds requirements calculated by position and market risk.	4.1
	f) Own funds requirements by operational risk.	4.1
	Disclosure requirement for exposure in specialised finance and equity in the investment portfolio by the simplified approach.	4.1
Art.439 - Exposure to counterparty credit risk	a) Methodology used to assign internal credit and capital limits for counterparty credit exposures.	2.3.7
	b) Discussion of policies for securing collateral and establishing credit reserves.	2.3.7
	c) Analysis of policies with respect to wrong-way risk exposures.	2.3.7
	d) Analysis of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating.	2.3.7
	e) Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure.	5.2
	f) Value of exposure under the mark-to-market method, original exposure, standardised method and internal models.	5.2
	g) Notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure.	N/A
	h) The notional amounts of credit derivative transactions.	N/A
	i) Estimate of α if applicable.	N/A
Art.440 - Capital buffers	a) The geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.	N/A
	b) Amount of its institution specific countercyclical capital buffer.	4.2
Art.441 - Indicators of global systemic importance	Disclosure of systemically important indicators.	4.2

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
Art.442 - Credit risk adjustments	a) Definitions for accounting purposes of past-due and impaired.	5.1.2
	b) Description of the approaches and methods adopted for determining specific and general credit risk adjustments.	5.1.2.1
	c) The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes.	5.1.3.1.1
	d) The geographic distribution of the exposures, broken down in significant areas by material exposure classes.	5.1.3.1.2
	e) Distribution of exposures by industry or counterparty type, broken down by exposure classes.	5.1.3.1.3
	f) Residual maturity breakdown of all the exposures, broken down by exposure classes.	5.1.3.1.4
	g) By significant industry, the amount of: impaired exposures and past due exposures, credit risk adjustments and charges for credit risk adjustments during the reporting period.	5.1.3.2.2
	h) The amount of the impaired exposures and past due exposures, credit risk adjustments, and charges for credit risk adjustments during the period by geographic area.	5.1.3.2.3
	i) Reconciliation of changes in the credit risk adjustments.	5.1.3.5
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	5.1.3.5
Art.443 - Unencumbered assets	Unencumbered assets.	10
Art.444 - Use of ECAIs	a) The names of the nominated ECAIs and export credit agencies and the reasons for any changes.	5.1.4.1
	b) Exposure classes for which each ECAI is used.	5.1.4.2
	c) Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	5.1.4.3
	d) Association of the external rating of each nominated ECAI or export credit agency with the credit quality steps prescribed in the CRR.	5.1.4.3
	e) Exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in the CRR.	5.1.4.4 / 5.2.3
Art.445 - Exposure to market risk	Disclosure of position, foreign-exchange, settlement and commodity risk and large exposures.	6.1
Art.446 - Operational risk	Scope of the approaches for the assessment of own fund requirements for operational risk.	7.1
Art.447 - Exposures in equities not included in the trading book	a) The differentiation between exposures based on their objectives, and an overview of the accounting techniques and valuation methodologies used.	8.1 y 8.2
	b) The balance-sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.	8.3
	c) The types, nature and amounts of exchange-traded exposures private equity exposures in sufficiently diversified portfolios, and other exposures.	8.4
	d) Cumulative realised gains or losses arising from sales and liquidations in the period.	8.5
	e) Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	8.6
Art.448 - Exposure to interest-rate risk on positions not included in the trading book	a) The nature of the interest-rate risk and the key assumptions, and frequency of measurement of interest-rate risk.	9.1
	b) Variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest-rate risk, broken down by currency.	9.2

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
Art.449 - Exposure to securitisation positions	a) Description of the institution's objectives in relation to securitisation activity.	5.3.1.
	b) The nature of other risks, including liquidity risk inherent in securitised assets.	5.3.2
	c) The type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with re-securitisation activity.	5.3
	d) The different roles played by the institution in the securitisation process.	5.3
	e) The extent of the institution's involvement in each of the roles referred to in point (d).	5.3
	f) A description of the processes in place to monitor changes in the credit risk and market risk of securitisation exposures, including how the behaviour of the underlying assets impacts securitisation exposures and a description of now these processes differ for re-securitisation exposures.	5.3.4
	g) A description of the institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures, including identification of material hedge counterparties by relevant type of risk exposure.	5.3
	h) The approaches to calculating risk weighted exposure amounts that the institution follows for its securitisation activities, including the types of securitisation exposures to which each approach applies.	5.3.5
	i) the types of SSPE that the institution, as sponsor, uses to securitise third-party exposures.	N/A
	j) A summary of the institution's accounting policies for securitisation activities.	5.3.6
	k) The names of the ECAIs used for securitisations and the types of exposure for which each agency is used.	5.3.7
	l) Description of the Internal Assessment Approach (IAA).	5.3.5
	m) Explanation of significant changes to any of the quantitative disclosures since the last period of reference.	5.3
	n) Separately for the trading and the non-trading book, the following information broken down by exposure type:	5.3
	i) the total amount of outstanding exposures securitised by the institution.	5.3
	ii) the aggregate amount of on-balance-sheet securitisation positions retained or purchased and off-balance-sheet exposures.	5.3
	iii) the aggregate amount of assets awaiting securitisation.	5.3
	iv) for securitised facilities subject to the early amortisation treatment, the aggregate exposures and aggregate capital requirements.	N/A
	v) the amount of securitisation positions that are deducted from own funds or risk-weighted at 1 250%.	5.3
	vi) a summary of the securitisation activity of the current period.	5.3
	o) Separately for the trading and the non-trading book, the following information:	5.3
	i) the aggregate amount of securitisation positions retained or purchased and the associated capital requirements, broken down into risk-weight bands.	N/A
	ii) the aggregate amount of re-securitisation exposures retained or purchased broken down according to the exposure before and after hedging/insurance and the exposure to financial guarantors.	5.3
	p) The amount of impaired/past-due assets and losses recognised by the institution during the current period, both broken down by exposure type.	5.3.9
	q) The total outstanding exposures securitised by the institution and subject to a capital requirement for market risk, broken down into traditional and synthetic securitisations and by exposure type.	5.3.8
	r) Where applicable, whether the institution has provided support within the terms of Article 248(1) of the CRR, and the impact on own funds.	5.3

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
Art.450 - Remuneration policy	a) Information concerning the decision-making process used for determining the remuneration policy.	11.1
	b) Information on the link between pay and performance.	11.5
	c) The most important design characteristics of the remuneration system.	11.3
	d) The ratios between the fixed and variable remuneration.	11.7
	e) Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based.	11.4
	f) The main parameters and rationale for any variable component scheme and any other non-cash benefits.	11.6
	g) Aggregate quantitative information on remuneration, broken down by business area.	11.9
	h) Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution.	11.9
	i) The amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries.	11.9
	ii) The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types.	11.9
	iii) The amounts of outstanding deferred remuneration, split into vested and unvested positions.	11.9
	iv) Amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments.	11.9
	v) New sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments.	11.9
	vi) The amounts of severance payments awarded ruing the financial year, number of beneficiaries and highest such award to a single person.	11.9
	i) The number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000, and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million.	11.9
	j) Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	11.9
	For institutions of systemic importance, the information referred to in this Article shall also be made available to the public at the level of members of the management body of the institution.	11.9
Art.451 - Leverage	a) The leverage ratio.	4.3
	b) A breakdown of the total exposure measure as well as its reconciliation with the relevant information disclosed in published financial statements.	4.3
	c) Where applicable, the amount of derecognised fiduciary items.	4.3
	d) A description of the processes used to manage the risk of excessive leverage.	4.3
	e) A description of the factors that had an impact on the leverage ratio during the period.	4.3

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
Art.452 - Use of the IRB Approach to credit risk	a) The competent authority's permission of the approach or approved transition.	5.1.5
	b) An explanation and review of:	
	i) The structure of internal rating systems and relation between internal and external ratings.	5.1.5.1
	ii) The use of internal estimates other than for calculating risk-weighted exposure amounts.	5.1.5.2
	iii) The process for managing and recognizing credit risk mitigation.	5.1.5.3
	iv) The control mechanisms for rating systems.	5.1.5.5
	c) A description of the internal ratings process, provided separately for the different exposure classes.	5.1.54
	d) The exposure values for each of the exposure classes, separately for the AIRB and FIRB approaches.	5.1.5.6
	e) For each of the exposure classes and across a sufficient number of obligor grades (including default) to allow a meaningful differentiation of credit risk, institutions shall disclose the sum of sum of outstanding loans and exposure values for undrawn commitments, where applicable; and the exposure-weighted average risk weight.	5.1.5.6
	f) For the retail exposure class, the disclosures outlined in the above point, to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis).	5.1.5.6
	g) The actual specific credit risk adjustments in the preceding period, and an explanation of them.	5.1.5
	h) A description of the factors that impacted on the loss experience in the preceding period.	5.1.5.14
	i) The institution's estimates against actual outcomes over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class.	5.1.5.13
	j) For all exposure classes calculated according to the internal rating approaches, disclose risk-weighted average PD and LGD in percentage for each relevant geographic location, where applicable.	5.1.5.6 / 5.1.5.9 / 5.1.5.11
Art.453 - Use of credit risk mitigation techniques	a) The policies and processes for on- and off-balance-sheet netting.	5.1.3.8
	b) The policies and processes for collateral valuation and management.	5.1.3.8
	c) A description of the main types of collateral taken by the institution.	5.1.3.8.3
	d) The main types of guarantor and credit derivative counterparty and their creditworthiness.	5.1.3.8.3
	e) Information about market or credit risk concentrations within the credit mitigation taken.	5.1.3.8.3.5
	f) For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, the total exposure value that is covered by collateral calculating the risk-weighted exposures.	5.1.3.8.5
	g) The total exposure that is covered by guarantees or credit derivatives.	5.1.3.8.5
Art.454 - Use of the Advanced Measurement Approaches to operational risk	Description of the use of insurances and other risk transfer mechanisms for the purpose of mitigation of this risk.	N/A

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
Art.455 - Use of Internal Market Risk Models	a) For each sub-portfolio covered:	2.3.6 y 6.2.1
	i) The characteristics of the models used.	
	ii) A description of the processes followed to measure incremental default and migration risk.	
	iii) A description of stress testing applied to the sub-portfolio.	
	iv) The approaches used for backtesting and validating internal models and modelling processes.	
	b) The scope of permission by the competent authority.	6.2.1
	c) A description of the extent and methodologies to determine the classification of the trading portfolio, in compliance with the requirements of the CRR.	2.3.6 y 6.1.1
	d) The highest, the lowest and the mean of the value-at-risk (VaR), the stressed value-at-risk (SVaR) and risk numbers for incremental default risk.	6.2.4
	e) The elements for the own funds requirement.	6.2.1
	f) The weighted average liquidity horizon for each sub-portfolio covered by the internal models.	6.2.1
	g) A comparison of the daily end-of-day value-at-risk to the one-day changes of the portfolio's value by the end of the subsequent business day.	6.2.5


BFA
TENEDORA DE
ACCIONES S.A.U.