2019 PILLAR 3 DISCLOSURES REPORT

BFA TENEDORA DE ACCIONES S.A.U.

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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.

BFA TENEDORA DE ACCIONES S.A.U.

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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

CAPÍTULO 1. INTRODUCTION AND GENERAL PROVISIONS

1.1 Executive summary

Interest rates remained persistently low throughout 2019 (longer than initially anticipated), in a year of fierce competition, heavy regulatory pressure and political and macroeconomic instability, all of which fuelled uncertainty within the financial sector. Within this challenging landscape, a key highlight was the positive commercial trends of BFA Group, increase in performing lending and customer funds. The BFA's Group maintained a healthy pace of new lending in 2019, above all consumer loans. Another positive driver was the increase in customer funds, mainly off-balance sheet customer funds managed rose by 12.5% from the end of 2018, underpinned by the good performance of assets managed and marketed in investment funds.

During 2019 the BFA Group continued towards the focal points set out in the 2018-2020 Strategic Plan, with the overriding aim of becoming more competitive and profitable, and expanding the more recurring business so it can generate capital organically. The new Strategic Plan seeks to increase the Group's earnings by driving sales and commercial activity, while continuing to improve quality and the balance sheet and ultimately pay-out to shareholders.

In this way, the Group ongoing improvement in asset quality on the back of further declines in the balance of NPLs and foreclosed assets. The BFA Group's doubtful exposures fell further in 2019, by 23.3% (EUR 1,963 million) from 31 December 2018. This improvement was the result of stronger efforts in monitoring and recovery management, and the continued sale of portfolios of doubtful assets in 2019. As a result, the NPL ratio improved further, to 5.0% at 31 December 2019, 1.5 percentage points lower than at 31 December 2018. The Group's strategy for reducing problematic assets has also resulted in a reduction in the volume of foreclosed assets, the net value of which fell by 33.9% during 2019. As a result, by the end of 2019 the Group had reached 94% of the 2018-2020 Strategic Plan's target reduction in problem assets.

The positive impact of cost savings obtained following the integration of BMN led to a 4.7% fall in administrative expenses compared to 2018, boosting the BFA Group's core profit (net interest income and fee and commission income less administrative expenses and depreciation) to EUR 1,283 million in 2019. BFA's Group Net attributable profit in 2019 amounted to EUR 105 million, down 58,1% from the same period last year, impacted by lower trading income and provisions set aside during the year to reduce the level of problem assets.

The Group maintained an organic capital generation model throughout 2019, in accordance with the objectives of the Strategic Plan's, 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. So, BFA's Phase-in CET1 ratio of BFA's Group at 31 de December 2019, stood at 14.19%, up +76 bp compared to December 2018.

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 2019 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 BFA Group website).

Tabla 1. Executive summary

Amounts in millions of € and %

Indicator	2019	2018	Change
Common Equity Tier 1 – CET 1 %	14.19%	13.43%	+0,76 p.p.
Common Equity Tier 1 – CET 1	11,113	11,184	-0.63%
Total capital, %	17.21%	16.43%	+0.78 p.p.
Total capital	13,478	13,681	-1.49%
Risk-weighted assets	78,315	83,246	-5.92%
Of which, credit risk-weighted assets	71,640	75,639	-5.29%
Of which, market risk-weighted assets	1,080	1,579	-31.57%
Of which, operational risk-weighted assets	5,594	6,028	-7.20%
Leverage ratio	5.44%	5.56%	(0.12) p.p.
Profit for the year	311	521	-40.30%
Profit attributable to Group	105	250	-58.11%
Profit attributable to minority interests	206	271	-23.82%
Efficiency ratio	56.1%	55.5%	+0.6 p.p.
ROE [1]	1.1%	2.7%	(1.6) p.p.
NPL ratio	5.0%	6.5%	(1.5) p.p.
Coverage ratio	54.1%	54.7%	(0.6) p.p.
LCR	214.1%	174.0%	+40.1 p.p.

1.2 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 disclosure Pillar 3 information is as follows:

[1] Profit attributable to owners of the parent company on average equity.

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.coml 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 2019 Pillar 3 has been carried out by Ernst and Young by following a set of procedures agreed upon with BFA's management.

In 2019, the Joint Supervisory Team (JST) of the European Central Bank conducted its review of the 2018 Pillar 3 Disclosures Report so as to assess the degree of compliance with the disclosure requirements set out in part eight of the CRR. This verification process yielded satisfactory results, with no significant exceptions.

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).

1.3 Certification by the governing bodies

The BFA Group's Board of Directors certifies that the 2019 Pillar 3 Disclosures Report 2019 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 capital ratio is consistent with its business model, which is focused on retail banking.
- The level of capital is consistent with the target risk profile and risk appetite, covering all risks considered material.
- The Group's capital management is adequately integrated within the organisation, with sturdy governance across and involving the entire organization.

02.
GENERAL DISCLOSURE REQUIREMENTS

CAPÍTULO 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, (the “Entity”, “BFA” or the “Company”), is an entity incorporated on 3 December 2010 under a notarial instrument executed before the notary Mr. Manuel Ángel Rueda Pérez. The Company was originally set up as a credit institution. Pursuant to the resolution adopted by the FROB's Governing Committee, on 19 December 2013, BFA's Board of Directors resolved to submit an application to surrender its license to operate as such. Finally, on 23 December 2014, the Bank of Spain notified BFA that this application had been approved with effect from January 2015. On 28 January 2015, the Company placed on record at the Mercantile Register of Madrid the deed for the amendment of its bylaws. In April 2016 the Company received a communication informing about BFA´s classification in Government agencies segment due to its activity as public holding company instead of credit institution.

The Company's registered address is located in Madrid at Avenida General Perón 38, Edificio Masters II, floor 16. The corporate bylaws may be consulted, together with other relevant legal information, at the Company's registered office and on its web page (www.bfatenedoradeacciones.com).

BFA's bylaws set out the activities that it may undertake, which are now basically those of a holding company. Accordingly, the Company's corporate purpose includes the acquisition, enjoyment and disposal of all types of securities, including but not limited to interests in credit institutions, investment services firms or insurance companies or brokers, as allowed by legislation. The activities included in the Company's corporate purpose may be performed, wholly or partially, indirectly through any of the manners allowed by law and, in particular, through shareholdings or interests in companies or other entities with the same, analogous or similar corporate purpose or that engage in a business that is the same, analogous or supplementary to those constituting the corporate purpose.

2.1.2 Consolidated Group

BFA is the parent of a business group (the “Group” or “BFA Group”). At 31 December 2019, the scope of consolidation of the BFA Group encompassed 51 companies, including subsidiaries, associates and joint ventures. These companies engage in a range of activities, including among others, insurance, asset management, financing, services and property management.

Group companies include Bankia, S.A. (the “Bank”, “Bankia” or the “Entity”), in which BFA held an ownership interest at 31 December 2019 of 61.80% (62.25% including treasury shares). Bankia is a credit institution whose activities are those commonly carried out by credit institutions and, in particular, satisfy the requirements of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions. It is also parent of a business group (the “Bankia Group”).

Tabla 2. Bankia’s main shareholders by investor type

	%SHARE CAPITAL 12/31/2019
BFA	61.80%
Spanish institutional	6.09%
Foreign institutional	23.07%
Minority interests	9.05%

Bankia Group was founded in July 2010 when seven savings banks –Caja Madrid, Bancaja, Caja Canarias, Caja Ávila, Caixa Laietana, Caja Segovia and Caja Rioja– combined into an Institutional Protection Scheme (IPS). Under those initials, the new merged group integrated its organisation and management, acting as a single entity for accounting and regulatory purposes. BFA was created in December 2010 and under it Bankia was later created, formed by the merger of those seven savings banks.

Bankia's business model focuses on commercial banking products and services, designed to meet the needs of its 7.7 million customers (individuals and companies) through a global network of 2,275 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 Bank has 173,949 shareholders and a workforce of 15,609 employees.

Accordingly, the BFA Group is a consolidated group of credit institutions. Therefore, it is subject to compliance with the prudential requirements, on a consolidated or sub-consolidated basis, of Regulation (EU) No. 575/2013, of 26 June 2013, of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012, since it is subject to consolidated banking supervision in accordance with article 57 of Law 10/2014, of 26 June. At 31 December 2019, the contribution made by BFA and its direct investees to the Group's total risk-weighted assets was 0.87%

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.

In December 2017, Bankia carried out the merger by absorption of Banco Mare Nostrum, S.A. ("BMN"), which was the result of the 2010 merger of four savings banks –Cajamurcia, Cajagranada, Sa Nostra and Caixa Penedès. Its sole shareholder was the FROB following the capital management measures carried out and the public aid received in 2012 and 2013 under the framework of its Restructuring Plan approved by the European Commission, the Bank of Spain and the FROB in December 2012.

Royal Decree-Law 4/2016, of 2 December, on urgent measures on financial matters, extended the period for 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 2-year extension of the sale period for Bankia's privatisation to December 2021. The aim is to make more efficient use of public funds, maximising the recovery of the public aid given and allowing the FROB to exercise a divestment strategy that is more flexible in finding the right conditions in capital markets.

On 25 January 2019, the FROB, BFA and Bankia publicly announced an agreement regarding the management of the FROB's indirect holding, through BFA Tenedora de Acciones S.A.U, in Bankia, S.A. Under prevailing legislation, this management is designed to favour the recovery of the public aid, ensuring maximum efficiency in the use of public funds and safeguarding the stability of the financial system.

With all the banks receiving financial public aid from the FROB having completed their restructuring and resolution plans and with the FROB having sold all its public holdings, except in the BFA-Bankia Group, the FROB's policy was updated (article 54.7 of Law 11/2015). The update does not suppose any substantive novelty in the way the stake in the BFA-Bankia Group was being managed; i.e. based on responsible monitoring and reporting on the investment; non-intervention in the administration of the credit institution, allowing the administrators to operate with independence; and promoting best practices in the securities market.

Basis of consolidation

As per Note 2.1.2 to the Group's consolidated financial statements, the financial statements of subsidiaries are fully consolidated except those classified as non-current assets held for sale. 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.

Changes in the Group's composition

Merger between Bankia, S.A. and Bankia Inversiones Financieras, S.A.U.

On 18 November 2019, once all the administrative authorisations were secured, the deed of the merger by absorption between Bankia, S.A., as the absorbing company, and Bankia Inversiones Financieras, S.A.U, as the absorbed company, was executed. Bankia, S.A. was Bankia Inversiones Financieras, S.A.U.'s sole shareholder.

As the absorbed company was a single member company, the special procedure for the absorption of wholly owned subsidiaries provided for in article 49.1 of Law 3/2009, of 3 April, on structural modifications of business corporations, was implemented. Accordingly, the companies' management bodies did not prepare the Directors Report and there was no Independent Expert Report. A capital increase was not required and no exchange ratio was determined. Also applied was the special regime provided in article 51.1 of that law whereby approval from shareholders of the absorbed company in general meeting was not required since the absorption was instrumented in the Common Terms of Merger drawn up by the companies' respective boards and, in the case of absorbing company, posted on its corporate website, and in the case of the absorbed company, published in the Official State Gazette, BORME.

The merger balance sheets were the balance sheets as at 31 December 2018 included in the audited annual financial statements for 2018 of the two entities, closed within six months of the date of the Terms of Merger and approved at the Annual General Meeting of the absorbing company and the sole shareholder of the absorbed company (see Appendix XIII). The date of the merger for accounting purposes is 1 January 2019. From that date, the operations of the absorbed company are considered to be carried out by the absorbing company.

The merger is subject to the special tax regime provided for in Chapter VII of Title VII of Law 27/2014, of 27 November, on corporate income tax.

Other transactions

During 2019, the merger by absorption of BMN Mediación, Operador de Banca Seguros Vinculado, S.L.U. (absorbed company) by Bankia Mediación, Operador de Banca Seguros Vinculado, S.A.U. (absorbing company) was carried out.

During 2019, the Group's 49% stakes in Caja Granada Vida Compañía de Seguros y Reaseguros, S.A. and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. were reclassified to "Investments in joint ventures and associates – Associates" from "Non-current assets and disposal groups classified as held for sale" as at 31 December 2018. This did not have a significant impact on the Group's consolidated equity following the completion of the sale in 2019 of the remaining 51% stakes.

Gramina Homes, S.L. was incorporated in 2019, with the Group holding a 20% interest in its share capital at 31 December 2019.

On 31 December 2019, the stake in Caser, which until then had been considered an associate and accounted for using the equity method, was reclassified to "Non-current assets and disposal groups classified as held for sale". This did not have a significant impact on the Group's consolidated equity.

There were no significant changes in the Group's composition or scope of consolidation in 2019 other than those already described.

2.1.3 Regulatory framework and developments

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.

- Directive (EU) 2019/878 (or CRD V) amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (Text with EEA relevance).

- Regulation (EU) No 575/2013 (or CRR 575/2013) on prudential requirements for credit institutions and investment firms.

- Regulation (EU) 2019/876 (or CRR2) amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.

- Regulation (EU) 2016/445 of the European Central Bank for the harmonisation of regulations for credit institutions under its direct supervision. With this regulation, the European Central Bank aims to further harmonise legislation applicable to credit institutions under its direct supervision (significant credit institutions) and establish a level playing field for credit institutions. This regulation became effective on 1 October 2016, supplementing the options and discretions conferred on the national competent authorities.

- Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, to continue the transposition of the CRD IV initiated by Royal Decree Law 14/2013, of 29 November, and recast certain national provisions in place at the time regarding the organisation and discipline of credit institutions. This law introduces, inter alia, an express obligation for the first time on the part of the Bank of Spain to present an annual Supervisory Programme setting out the content and how it will perform its supervisory activity, together with the actions to be taken in accordance with the outcome. This programme must include a stress test at least once a year.

- Royal Decree Law 84/2015, of February 13, implementing Law 10/2014, of June 26, on the management and supervision of credit institutions.

- The following Spanish regulations:

    - Bank of Spain Circular 2/2014, of 31 January, for credit institutions regarding the various regulatory options contained in Regulation (EU) No. 575/2013. The purpose is to establish, in accordance with the powers granted, which options of those contained in the CRR attributed to national competent authorities will be required to consolidable groups of credit institutions and credit institutions, whether part of a consolidable group or not, by 1 January 2014 and to what extent. In this Circular, the Bank of Spain makes use of some of the permanent regulatory options included in the CRR, to allow the treatment that Spanish law had been giving to certain questions before the entry into force of the EU regulation to be continued, justifying this by the business model that Spanish institutions have traditionally followed. This does not preclude the exercise in future of other options for competent authorities provided for in the CRR, in many cases mainly when they are specific for direct application of the CRR without the requirement to be included in a Bank of Spain circular.

    - Bank of Spain Circular 3/2014, of 30 July, for credit institutions and authorised appraisal firms and services. Among other measures, this Circular amends Circular 2/2014 of 31 January on the exercise of the regulatory options contained in Regulation (EU) No. 575/2013, on prudential requirements for credit institutions and investment firms in order to unify the treatment of the deductions of intangible assets during the transitional period set out in Regulation (EU) No. 575/2013, equating the treatment of goodwill to that of all other intangible assets.

    - Circular 2/2016, of 2 February. This Circular completes the transposition of Directive 2013/36/EU and includes additional regulatory options for the national competent authorities to those included in Circular 2/2014 and developed in Royal Decree Law 84/2015. Specifically, it includes the possibility of treating, subject to prior authorisation by the Bank of Spain, certain exposures with public sector entities with the level weightings as the administrations to which they belong.
    - Bank of Spain Circular 3/2017 (of 24 October 2017) amending certain aspects of Circular 2/2014 (of 31 January 2014). Its scope of application has been limited to the less significant entities, the contents of the Circular have been fine-tuned to reflect the guidelines issued by the ECB and it eliminates the rules regarding the transitional arrangements that were in effect until 2017.

- Royal Decree Law 22/2018 of 14 December 2018 establishing macroprudential tools and 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.

The following are the main developments in current regulation affecting the prudential area.

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. 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.

On 7 June 2019, the European Parliament and the Council of the European Union published a legislative package for the reform of (i) CRD IV, (ii) CRR, (iii) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 , establishing a framework for the recovery and resolution of credit institutions and investment firms (the "BRRD") and (iv) Regulation (EU) 806/2014 of the European Parliament and of the Council (the "SRM Regulation") (the "EU Banking Reforms") in order to strengthen the capital and liquidity situation of banks and to consolidate the framework for the restructuring and resolution of distressed financial institutions.

The entry into force of these EU Banking Reforms is on 27 June 2019, with a progressive implementation timetable of up to 2 years for certain modifications. The provisions of CRR2 that took effect on 27 June include notable changes in respect of own funds, capital deductions, credit risk under the standardised and IRB approaches and authorisations. Meanwhile, CRD V is not yet applicable, as Member States have until 28 December 2020 to transpose it into national law.

In relation to capital requirements, the following have been approved:

- The CRR II- Regulation of the European Parliament and of the Council amending Regulation No 575/2013 on the leverage ratio by setting a minimum requirement of 3% for all entities and an additional requirement buffer in the case of those considered to be entities of global systemic relevance, the requirements on eligible own funds and liabilities (MREL), capital requirement for counterparty credit risk and market risk, treatment of exposures to counterparties exposures to collective investment bodies, large risks, reporting and disclosure requirements and amending Regulation No. 648/2012.

- The CRD V- Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards exempt entities, joint holding companies, remuneration, supervisory measures and measures to conserve powers and capital.

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.

Additionally, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms requires Member states to, among other measures, to make financial arrangements to ensure the effective application by the resolution authority of its powers.

As part of the reform package approved in 2019, the lawmakers have enacted Regulation (EU) 2019/877 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms. This regulation applies from 28 December 2020. Directive (EU) 2019/879 (BRRD2) of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU (BRRD) has also been approved. The date of implementation is 28 December 2020, meaning Member States have until that time to push through the law and regulations needed to comply with the Directive.

With the entry into force on 1 January 2016 of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014, the Single Resolution Board replaced the national resolution authorities and assumed management of the resolution financing arrangements of the credit institutions and certain investment firms under the Single Resolution Fund (SRF) as an key element of the Single Resolution Mechanism (SRM) established with Directive 2014/59/EU. The first ex-ante contributions made by institutions to SRF were for the 2016 contribution period. In 2019, Bankia made a contribution to the SRF of EUR 75,062 thousand (EUR 71,566 thousand in 2018).

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.

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.

As for the crisis management framework, the Financial Stability Board (FSB) issued a report in 2019 concerning the implementation of the total loss-absorbing capacity (TLAC) across the home and host jurisdictions, concluding that no amendments were needed. In 2020, the FSB will continue to monitor implementation of the TLAC across the different jurisdictions, including the volume of issuances of TLAC instruments. It is expected to conduct at least one review per year on the progress made in these areas.

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 (NPEs). This amendment was made through the publication in April 2019 of Regulation 2019/630, which includes calendars of quantitative requirements for minimum provisioning of NPEs. Note that the CET1 deductions do not apply to non-performing exposures originating prior to 26 April 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.

In March 2017, the European Central Bank published guidance to banks on non-performing loans to clarify the supervisory expectations regarding NPL identification, management, measurement and write-offs in areas where existing regulations, directives and guidelines are silent or lack specificity. 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 appendix is not binding but serves as a basis for supervisory dialogue with credit institutions. The ECB will assess, at least annually, differences between the institutions' practices and the expectations for prudential provisioning set out in this appendix. The ECB will take account of these supervisory expectations in relation to new NPEs that are classified as such from 1 April 2018. Failure to comply could result in a higher capital charge under Pillar 2.

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.

Tabla 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 security-sation 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	13,203	13,203	13,224	0	0	0	0
Financial assets held for trading	6,691	6,691	19	6,691	0	6,691	0
Financial assets at fair value through other comprehensive income	11,982	11,982	11,927	0	53	0	0
Financial assets at amortised cost	157,641	157,641	150,925	5,702	1,107	0	0
Non-trading financial instruments mandatorily measured at fair value through profit or loss	35	35	24	0	0	0	0
Derivatives - Hedge accounting	2,499	2,499	7	2,499	0	0	0
Investments in joint ventures and associates (*)	455	464	420	0	0	0	44
Tangible assets	2,617	2,618	2,618	0	0	0	0
Intangible assets	401	407	0	0	0	0	407
Tax assets	11,498	11,498	8,925	0	0	0	2,572
Other assets	1,602	1,593	549	0	0	0	1,062
Non-current assets and disposal groups classified as held for sale	2,158	2,155	2,069	0	0	0	78
TOTAL ASSETS	**210,781**	**210,785**	**190,706**	**14,892**	**1,160**	**6,691**	**4,163**
Financial liabilities held for trading	6,750	6,750				6,750	0
Financial liabilities measured at amortised cost	185,985	186,002		21,846	310		163,846
Derivatives - Hedge accounting	87	87					87
Provisions	1,883	1,882					1,882
Tax liabilities	556	556					556
Other liabilities	920	912					912
Liabilities included in disposal groups classified as held for sale	27	23					23
TOTAL LIABILITIES	**196,208**	**196,212**	**0**	**21,846**	**310**	**6,750**	**167,306**

(*) 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 amounts and the exposure amounts used for regulatory purposes (EAD):

Tabla 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 amount under the scope of regulatory consolidation (as per template EU LI1)	**213,449**	**190,706**	**14,892**	**1,160**	**6,691**
Liabilities carrying amount under the regulatory scope of consolidation (as per template EU LI1)	28,905		21,846	310	6,750
Total net amount under the regulatory scope of consolidation	**242,354**	**190,706**	**36,738**	**1,470**	**13,441**
Prudential adjustments to trading book (netting, etc)	-13,441		0	0	-13,441
Off-balance-sheet amounts	16,808	16,808	0	0	0
Derivatives regulatory Addon	279		279	0	0
Difference in exposure of temporary transfers and acquisitions	-21,516		-21,516	0	0
Ineligibility of margin posted in cash (collateral provided)	-2,373		-2,373	0	0
Differences due to CRMs	-6,586		-6,586	0	0
Differences due to consideration of provisions	2,526	2,526	0	0	0
Differences due to application of standard security interests	-9	-9	0	0	0
Differences due to securitisations with significant transfer of risk	-1,006		0	-1,006	0
Exposure amounts considered for regulatory purposes (EAD)	**217,035**	**210,031**	**6,541**	**464**	**0**

2.1.5 Impediments to transfers 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 2019, 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 2019, 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 2019 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 2019, 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.

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

Million €	Financial information	Regulatory regulation impact	Regulatory information
Common equity Tier 1 (CET1)	**14,574**	**-1,687**	**12,887**
Equity	1,918		1,918
Share Premium	417		417
Accumulated earnings	105		105
Accrual of interests from subsidiaries' AT1 instruments		*0*	
Other comprehensive eligible and accumulated income	**112**		**91**
Actuarial gains or (-) losses on pension plans		-21	
Cash flow hedges and rest of prudential adjustments		0	
Other reserves	**6,978**		**6,941**
Accrual of interests from subsidiaries' AT1 instruments		*0*	
Prudential treasury stock attributable to minority interests		*-8*	
Deferred expense by SRB contribution		*-30*	
Minority interests	**5,043**		**3,415**
Differences on the consolidation method		*0*	
Other comprehensive income from minority interests		*0*	
Expected dividend from Bankia to minority interests		*-135*	
Prudential treasury stock of Bankia attributable to minority interests		*-5*	
Non-financial minority interests		*-2*	
Surplus of computables over CET1 requirements		*-1,487*	
Deductions and prudential filters of Common Equity Tier 1	**11,456**	**-9,789**	**1,667**
Additional valuation adjustments (negative amount)		38	38
Intangible assets (*)	401	127	529
Deferred tax assets depend on future incomes	**11,054**		**1,089**
Differences on the consolidation method		*1*	
Monetisable and not monetisable		*-8,560*	
Tax liabilities		*-391*	
Transitional arrangements		*-1,015*	
Negative amounts resulting from the expected loss calculation		5	5
Instruments that can be weighted 1.250%, if the Entity chooses the deduction		5	5
Additional Tier I Capital (AT1)	**1,250**	**-810**	**440**
Additional Tier 1 instruments issued by subsidiaries	1,250		0
Additional Tier 1 instruments issued by subsidiaries computable as Tier2		-1,250	
Surplus of computables over minority requirements computables in AT1		440	440
Tier 2 capital	**1,672**	**253**	**1,925**
Tier 2 capital instruments issued by subsidiaries	1,672		1,672
Additional Tier 1 instruments issued by subsidiaries computable as Tier2		1,250	1,250
Surplus of computables over minorities requirements computables in Tier2		-997	-997
Credit risk adjustments		0	0

(*) 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 2019.

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

At 31 December 2019, 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.

At 31 December 2019, share capital of the parent totalled 1,918,367 thousand euros, consisting of 19,183,670,108 bearer shares with a par value of 0.10 euros each, fully subscribed and paid in by the FROB, of the same class and series, numbered consecutively from 1 to 19,183,670,108.

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.

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

- Prudential filters

At 31 December 2019, 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 -33.4 million euros (-20.6 million euros at 31 December 2018).

- Deductions

The deductions applied to CET1 as per Articles 36, 56 and 66 of Regulation (EU) No 575/2013 (CRR) at 31 December 2019 amount to 2,673.1 million euros, shown in the following table:

Tabla 6. Phase-in deductions with transitional provisions

	million €
DEDUCTIONS	**2019**
Intangible assets	-318.8
Goodwill	-209.9
Deferred tax assets that rely on future profitability	-2,104.5
Expected loss on equity exposures	-4.8
Calendar adjustment	-
First-loss tranche of securitisations	-5.4
Other deductions	-29.7
Total deductions	**-2,673.1**

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

At 31 December 2019, 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 2019, 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 BFA, Tenedora de Acciones, S.A.U 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.

On 24 July 2019, the Board of Directors, following a favourable report from the Audit and Compliance Committee, the Appointments and Responsible Management Committee and the Remuneration Committee, approved amendments of Articles 15 (the Appointments and Responsible Management Committee) and 15 bis (the Remuneration Committee) of the Regulations of the Board of Directors to accommodate recommendations and guidelines set out in the Guía Técnica 1/2019 (Technical Guide) issued by the Spanish National Securities Market Commission (CNMV) on appointments and remuneration committees and, specifically, to establish that the provisions of these articles may be further implemented in the Regulations of the Appointments and Responsible Management Committee and in the Regulations of the Remuneration Committee.

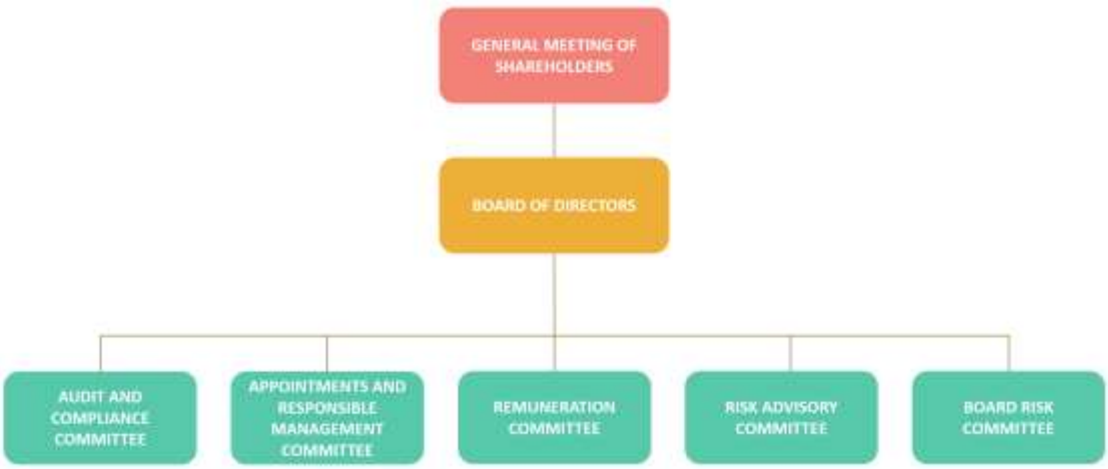
Therefore, on the same day, the Board of Directors approved the Regulations of the Appointments and Responsible Management Committee and the Regulations of the Remuneration Committee.

The information on internal governance contained in this document may be read in conjunction with Bankia's Annual Corporate Governance Report for 2019, 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



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. At 31 December 2019 the Board of Directors of Bankia was composed of 12 directors: 3 are executive directors, 8 independent directors and 1 external director.

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.

At 31 December 2019 the Board of Directors of Bankia and BFA are composed of the following members:

Bankia, S.A. Board of directors

Executive Chairman:	Mr. José Ignacio Goirigolzarri Tellaeche.
Chief Executive Officer:	Mr. José Sevilla Álvarez.
Directors:	Mr. Joaquín Ayuso García.
	Mr. Francisco Javier Campo García.
	Mrs. Eva Castillo Sanz (lead independent director):
	Mr. Jorge Cosmen Menéndez-Castañedo.
	Mr. Carlos Egea Krauel.
	Mr. José Luis Feito Higueruela.
	Mr. Fernando Fernández Méndez de Andés.
	Mrs. Laura González Molero.
	Mr. Antonio Greño Hidalgo.
	Mr. Antonio Ortega Parra.

BFA, Tenedora de Acciones, S.A.U. Board of directors

Executive Chairman:	FROB, represented by Mr. José Ignacio Goirigolzarri Tellaeche.
Directors:	Mr. Antonio Ortega Parra.
	Mr. José Carlos Pla Royo.
	Mrs. Paloma Sendín de Cáceres.
	Mr. José Sevilla Álvarez.

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.

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:

a) to see to overall compliance with the bylaws and implementation of the resolutions of the General Meeting and the Board of Directors;

b) to exercise top-level oversight of the Company and all its departments;

c) 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;

d) together with the managing director, to handle matters related to ordinary management of the Company;

e) 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;

f) to call and chair the meetings of the Board of Directors, setting the agenda and directing discussions and deliberations;

g) to chair General Meetings of Shareholders;

h) to ensure that directors receive sufficient information in advance to deliberate on the points of the agenda;

i) 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

j) 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 2019.

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, and previous invitation of the Chairman 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.

A member of the Audit and Compliance Committee is considered to have knowledge and experience in accounting, auditing or both, when he or she has:

a) Knowledge of the Accounting regulation, auditing regulation, or both.

b) Ability to value and interpret the implementation of Accounting regulation.

c) Experience in preparing, auditing, analysing or evaluating the financial statements with a certain level of complexity, similar to the Entities one, or experience supervising one or more individuals performing such tasks.

d) Understanding of the internal control mechanisms related to the elaboration process of financial information.

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.

On 25 February 2019, the Board of Directors resolved to appoint Francisco Javier Campo García and Fernando Fernández Méndez de Andés as members of the Committee, replacing Joaquín Ayuso García and Jorge Cosmen Menéndez-Castañedo. At its meeting of 26 June 2019, the Board of Directors resolved to appoint Carlos Egea Krauel as a member Committee, with effect from 28 June 2019.

Consequently, from the latter date until the end of the 2019 financial year, the Audit and Compliance Committee has been composed of 4 independent directors and 1 other external director.

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:

a) 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.

b) 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.

c) Reporting on proposed changes of accounting standards and principles suggested by management.

d) 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.

e) 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.

f) 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.

g) 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:

a) 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.

b) 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.

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

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

e) 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.

f) 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.

g) 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:

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

b) 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.

c) 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.

d) 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.

e) 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.

f) 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.

g) 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:

a) 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.

b) 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.

c) 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.

d) 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.

e) 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.

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

g) 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

a) 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.

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

c) 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.

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

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

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

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

h) 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.

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

j) 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 18 meetings in 2019.

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.

On 25 February 2019, the Board of Directors resolved to appoint Mr. Joaquín Ayuso García, replacing Mr. Francisco Javier Campo García, and Mr. Antonio Greño Hidalgo as members of the Risk Advisory Committee. The Board of Directors also resolved to appoint Mr. Joaquín Ayuso García as Chairman of the Risk Advisory Committee, replacing Mr. Francisco Javier Campo García. Consequently, from the latter date until the end of the 2019 financial year, the Risk Advisory Committee has been composed of 4 members, all of them with the category of independent directors.

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

The Risk Advisory Committee will have the following functions:

a) 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.

b) 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.

c) 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.

d) 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.

e) Submitting risk policies to the Board of Directors.

f) 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.

g) 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.

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

i) 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.

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

k) 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.

l) 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.

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

n) 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.

o) 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 29 meetings in 2019.

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
Follow-up of Improvements Detected in the ILAAP	Half-yearly
ICAAP- Internal capital adequacy assessment process	Annual
ILAAP- Internal liquidity adequacy assessment process	Annual
Report on refinancing operations	Half-yearly
Divestment Activity Report issued by the Debt and Portfolio Management Department	Annual
Report on Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) Assumptions/Scenarios	Annual
RAC Report to the Board of Directors – 2018	Annual
Pillar 3 Disclosures Report	Annual
Follow-up Report on Risk Appetite, Capital Planning and Recovery (RAFUR).	Quarterly
Follow-up Report on the Strategy for Managing Non-productive Assets (FURNPAMS, formerly NPL Monitoring)	Quarterly
Monitoring Report on the Credit Rating System	Half-yearly
Report on the Internal Control Framework: Control of Compliance with Credit Risk Policies	Half-yearly
Follow-up Report on Recommendations: Internal and External Audit, Internal Validation, Internal Control, Bank of Spain and ECB	Half-yearly
Internal Validation Reports: Annual planning and half-yearly monitoring	Half-yearly
Sundry reports Supervisor: Scorecard for ECB Activities	Quarterly
Sundry reports: New project on the internal control system: supervisory reporting status	Half-yearly
Manual on Credit Risk Powers	Annual
Manual on Internal Control Policies	Annual
Manual on Liquidity and Financing Risk Policies + ILAAP Management Framework	Annual
Manual on Market Risk Policies relating to Trading Activities	Annual
Manual on Risk Policies for Private Banking Portfolios	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 Credit Risk in Market Activities (updates to Collateral Manual and CVAs Manual)	Annual
Non-Productive Asset Management Framework (NPAMF)	Annual
NPL Strategy - Strategy for reducing the NPL portfolio and NPL Policies	Annual
ILAAP Management Framework	Annual
Risks Model Governance Framework: Approval and Models Modification Protocol	Annual
RAR Governance Framework	Annual
Framework of Credit Risk Policies, Methods and Procedures.	Annual
Capital Planning Framework and Policies	Annual
Framework/Statement of Risk Appetite and Tolerance and Manual on Risk Appetite and Tolerance Policies	Annual
Special Reports on Credit Risk. - Major Borrower Groups (Football Clubs and Media Outlets)	Annual
Special Reports on Credit Risk. - Sector (Hotels, Motorways)	Annual
Other sector reports: Energy Portfolio subject to Special Regime	Annual
Business Continuity Plan: Governance and Operational Model	Annual
CCR Annual Planning	Annual
Solvency Policy	Annual
Product and Service Governance Policies	Annual
Pricing Policies	Annual
RDA: Control of Compliance with RDA Principles (Risk Data Aggregation)	Annual
Recovery Plan	Annual
Portfolio Monitoring and Facilitation	Half-yearly
Monitoring of IRRBB implementation	Annual
Monitoring of Business Banking RAR	Half-yearly
Monitoring of Retail Banking RAR	Half-yearly
Global Risk situation (GRS)	Quarterly

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.

On 25 February 2019, Mr. Francisco Javier Campo García stepped down from the Board Risk Committee, leaving it composed of three directors.

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:

a) 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.

b) Within its scope of authority, set the overall pre-classification limits for account holders or customer groups in relation to exposures by risk class.

c) Report to the Board of Directors on risks that may affect the Company's capital adequacy, recurring results, operations or reputation.

d) 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 31 meetings in 2019.

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
Risk Limits of collateral for Guaranteed Funds	Annual
Bank Global Risk Limit	Annual
Framework for Authorisation for Project Finance for Energy Projects in the Special Regime	Annual
Financial transactions and programmes (within the scope of its remit)	When they occur
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 and at the invitation of its Chairman, of other directors, including executive directors, senior managers or any employee or third party, though only to address the specific agenda items for which they were asked to attend. Except in specific cases for which adequate justification must be provided in the minutes of the committee meeting, invitees shall not attend the discussion and voting stages of the meeting.

The members of the Appointments and Responsible Management Committee shall be appointed by the Board of Directors, having regard to their knowledge, skills and experience and the duties of the Committee. The members of the Committee, as a whole, must have knowledge and experience in the following areas:

a) Corporate governance;

b) Analysis and strategic evaluation of human resources;

c) Selection of directors and senior managers, including assessment of any suitability requirements that may be required under the regulations applicable to the Company; and

d) Performance of senior management duties.

Efforts will be made to ensure that the membership of the Committee is diverse, taking into account gender, career record, skills, personal capabilities and sector expertise.

The Appointments and Responsible Management Committee will have no fewer than three (3) and no more than five (5) members, all of whom shall be non-executive and with a majority of independent directors. Where the members of the committee expressly so agree, its meetings may also be attended by other directors, including executive directors, senior managers or 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.

On 25 February 2019, the Board of Directors agreed to appoint Eva Castillo Sanz as a member of the Committee, replacing Fernando Fernández Méndez de Andés. It was also resolved to appoint Eva Castillo Sanz as committee Chairman, taking over from Joaquín Ayuso García. As a result, the committee continued to comprise four directors, all independent.

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

On 24 July 2019, the Board of Directors agreed to amend Article 15 of the Regulations of the Board of Directors, governing the Appointments and Responsible Management Committee, so as to bring it in line with the recommendations contained in Technical Guide 1/2019 of the National Securities Market Commission (Comisión Nacional del Mercado de Valores, "CNMV"), on appointments and remuneration committees. The Regulations of the Appointments and Responsible Management Committee were likewise approved on that same date.

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.

The main role of the Committee is to contribute to attracting and retaining talent, ensuring that the Company has the best professionals in its governing bodies and senior management. The Committee is also responsible for reviewing the Company's Corporate Social Responsibility Policy, seeing that it is aimed at the creation of value, and monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance thereof. In addition to any other tasks assigned to it by the Board, the Committee has general powers to report on and propose the appointment and removal of directors and senior managers, on matters relating to responsible management and, in particular, without limitation, on the following responsibilities:

a) 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;

b) 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;

c) 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;

d) 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;

e) 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;

f) 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;

g) 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;

h) 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;

i) 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;

j) 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;

k) Proposing the policy for selection of directors to the Board of Directors, and annually verifying compliance therewith;

l) 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;

m) Reviewing the Company's corporate social responsibility policy, seeing to it that it is aimed at creation of value;

n) Monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance thereof;

o) Monitoring and evaluating the processes of relationships with the various stakeholder groups;

p) 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;

q) 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 13 meetings in 2019.

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.

Bankia's Board of Directors held 15 meetings in 2019.

The resolutions carried by the Boards of Directors of BFA and Bankia in relation to risk management, as well as the review of monitoring reports, are set out below.

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

Bankia Board of Directors meeting	Risk-related activities
Meeting of 24.01.2019	- Manual on Market Risk Policies relating to Trading Activities - Report on Divestment Activity
Meeting of 25.02.2019	- ILAAP Management Framework - Follow-up Report on the Non-Productive Asset Management Strategy Plan (4Q-2018) - TRIM 2814 Action Plan – Mortgage Model - Framework for the Delegation of Special Financing for Energy Facilities Operating Under the Special Regime
Meeting of 03.26.2019	- Manuals of Policies and Procedures of the Operational and Technology Risk Department - Non-Productive Asset Management Framework (NPAMF) - Follow-up report on the Non-Productive Asset Management Strategy (for information purposes)
Meeting of 04.25.2019	- ICAAP. Internal Capital Adequacy Assessment Process - ILAAP. Internal Liquidity Adequacy Assessment Process - P3R. Pillar 3 Disclosures Report (for information purposes) - Framework/Statement of Risk Appetite and Tolerance and Manual on Risk Appetite and Tolerance Policies.
Meeting of 05.30.2019	- Framework of Credit Risk Policies, Methods and Procedures. - Product and service governance policies - New project on the internal control system: supervisory reporting status at 30/04/19 (for information purposes) - Follow-up Report on Appetite, Capital Planning and Recovery (RAFUR). (To report) - Updating of technical and functional documentation to reflect the new Definition of Default (DoD) - Amendment of the protocol for approval and modification of models - Follow-up Report on the Non-productive Asset Management Strategy (FURNPAMS) (1T-2019). (To report) - Divestment activity report: debt and portfolio transactions to be performed (To report)
Meeting of 06.26.2019	- Manual on Risk Policies for Private Banking Portfolios. - RAR Governance Framework - Asset and Liability Pricing Policies - Sundry supervisory reports: OSI Refinancing's – Action Plan (for information purposes)
Meeting of 07.24.2019	- Capital Planning Framework and Policies. - Amendments to functional documentation to reflect the new Definition of Default (DoD) - Amendment to the Policy on Individual and Portfolio Sales
Meeting of 08.29.2019	- Policy on calculating the Capital Adequacy Ratio for regulatory purposes
Meeting of 09.30.2019	- Follow-up Report on Risk Appetite, Capital Planning and Recovery plan (RAFUR) (2T-2019). - Sundry reports on models: IMI – Behaviour.

Bankia Board of Directors meeting	Risk-related activities
	- Follow-up Report on the Non-Productive Asset Management Strategy (FURNPAMS) (2T-2019).
Meeting of 10.25.2019	- Manual on Internal Validation Policies. - Sundry reports relating to models: IRC Model (significant amendment) (for information purposes) - Manual on Credit Risk Powers.
Meeting of 11.29.2019	- Follow-up Report on Risk Appetite, Capital Planning and Recovery Plan (RAFUR 3T 2019). - Sundry supervisory reports: TRIMIX Obligations. Management Framework for the Market Risk Model - Risk Limits of collateral for Guaranteed Funds. - Amendment to the Acceptance Policy Manual - Follow-up Report on the Non-Productive Asset Management Strategy (FURNPAMS 3T 2019)
Meeting of 12.20.2019	- Recovery Plan. - Manual on Market Risk Policies relating to Trading Activities. - Manual on Structural Risk Policies and Limits - Manual on Internal Control Policies - Refinanced portfolio of companies - Collateral cleansing process

The main risk-related activities of BFA's Board of Directors in 2019 were as follows:

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

BFA Board of Directors meeting	Risk-related activities
Meeting of 01.24.2019	- Manual on Market Risk Policies relating to Trading Activities and Limits. (Informative).
Meeting of 02.26.2019	- ILAAP Management Framework - Follow-up Report on Risk Appetite, Capital Planning and Recovery Plan (4T-2018). - TRIM 2814 Action Plan – Mortgage Model
Meeting of 03.26.2019	- Manuals of Policies and Procedures of the Operational and Technology Risk Department - Management Framework for Non-Productive Assets (MFNPA) (informative). - Management Framework for Non-productive Assets and NPL Strategy (informative). - Threshold Breach Report: Sensitivity of the Economic Value of BFA

BFA Board of Directors meeting	Risk-related activities
Meeting of 04.25.2019	- ICAAP. Internal Capital Adequacy Assessment Process - ILAAP. Internal Liquidity Adequacy Assessment Process - Pillar 3 Disclosures Report. - Framework - Statement on Risk Appetite and Tolerance and Manual on Risk Appetite and Tolerance Policies.
Meeting of 05.30.2019	- Framework of Credit Risk Policies, Methods and Procedures. - New project on the internal control system: supervisory reporting status at 30/04/19 (for information purposes) - Report Monitoring of Risk Appetite, Capital Planning and Recovery Plan (RAFUR). (To report) - Updating of technical and functional documentation to reflect the new Definition of Default (DoD) - Amendment of the protocol for approval and modification of models - Follow-up Report on the Non-Productive Asset Management Strategy (FURNPAMS) (1T-2019). (To report)
Meeting of 06.27.2019	- Sundry supervisory reports: OSI Refinancing's – Action Plan (for information purposes)
Meeting of 07.25.2019	- Capital Planning Framework and Policies - Amendments to functional documentation to reflect the new Definition of Default (DoD) - Amendment to the Policy on Individual and Portfolio Sales
Meeting of 08.29.2019	- Policy on calculating the Capital Adequacy Ratio
Meeting of 10.01.2019	- Report Monitoring of Risk Appetite, Capital Planning and Recovery Plan (RAFUR) (2T-2019). - Sundry reports on models: IMI – Behaviour - Follow-up Report on the Non-Productive Asset Management Strategy (FURNPAMS) (T-2019)
Meeting of 10.24.2019	- Manual on Internal Validation Policies - Sundry reports on models: IRC Model (significant amendment) (for information purposes) - Manual on Credit Risk Powers.
Meeting of 11.28.2019	- Report Monitoring of Risk Appetite, Capital Planning and Recovery Plan (RAFUR 3T 2019). - Sundry supervisory reports: TRIMIX Obligations. Management Framework for the Market Risk Model - Amendment to the Acceptance Policy Manual - Follow-up Report on the Non-Productive Asset Management Strategy (FURNPAMS 3T 2019).
Meeting of 12.19.2019	- Recovery Plan. - Manual on Market Risk Policies relating to Trading Activities. - Manual on Structural Risk Policies and Limits.

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-. Internal control framework

An effective internal control framework based on the three lines of defence approach governed by the following general principles, 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.

- 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

An Effective risk governance, in which the Group has various inter-related processes approved annually by the Board of Directors:

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

The Group has a Risk Appetite Framework (RAF) approved by the Board of Directors of the Bank which provides a management tool for the Board of Directors to: (i) formalise the Group's risk appetite statement, (ii) establish a risk monitoring mechanism that ensures compliance with the risk appetite and (iii) strengthen the Entity's risk culture.

The RAF sets out the desired levels of risk and the maximum levels of risk (appetite and tolerance) that the Entity's governing bodies are willing to accept to achieve the business objectives, the mechanisms for monitoring the various kinds of risk, and the responsibilities of the various directorates, committees, and governing bodies involved.

If any of the key indicators in the RAF breaches the limits approved, an action procedure is in place where the Management Committee is charged with proposing, as appropriate, to the Risk Advisory Committee, for its analysis and subsequent escalation to the Board of Directors, the action plans that the Group may undertake to bring the indicators back to normal levels.

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

Capital Planning Framework

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.

Recovery Plan

The Recovery Plan, also approved by the Board of Directors, is triggered to manage potentially critical situations with a view to returning the Entity to a normal situation and includes the potential measures the Group can adopt in a hypothetical crisis situation.

Asset Allocation

The Group performs regular asset allocation exercises to establish targets and limits for exposure and expected loss for the various portfolios. The aim is to maximise risk-adjusted returns within the overall limits established in the RAF. Annual budgets, beyond being commensurate with the risk appetite statement, are drawn up comparing business development proposals with the optimal portfolios provided by the system.

Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP)

The Group performs Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with criteria provided in prevailing regulations. In these processes, the Group identifies and assesses the various risks to which it is exposed, performing a self-assessment of capital and liquidity adequacy in different stress scenarios. The results of the assessments were approved by the Board of Directors and reported to the European supervisor. This exercise is a core element of the single European banking supervision process.

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

An organisational model consistent with the function's general principals. The Group has a transparent organisational structure that includes clear allocation of duties and responsibilities, from senior management down to the Company's lowest levels. It has a responsible management team and an active internal control system, in which the Board of Directors is charged with setting the risk control and management policies and overseeing the effectiveness of internal control.

The Audit and Compliance Committee supervises the effectiveness of internal control, the internal audit, regulatory compliance and the risk management systems. It may issue recommendations or proposals related to these matters to the Board of Directors and verify their monitoring, where appropriate.

The Risk Advisory Committee advises the Board of Directors on the Company's overall propensity of current and future risk and the risk strategies. It also proposes to the Board of Directors the Company's and Group's risk control and management policy through the ICAAP report.

The Board Risk Committee is the body responsible for approving risks within the scope of authority delegated by the Board of Directors, and guides and administers the exercise of delegated authority by lower-ranking bodies, without prejudice to the supervisory authority corresponding to the Audit and Compliance Committee.

Accordingly, the Group's risk management and control model is based on the three lines of defence approach, the main functions and responsibilities of which are:

- The risk management directorates, which own the risk processes and are responsible for executing the established controls, comprise the first line of defence. Specifically, it comprises the business units and any Company unit that takes risks. These units carry out their activities in compliance with the Group's risk profile base on the approved risk appetite and policies.

  To perform its day-to-day risk management function within the scope of its activity and responsibility, the first line of defence has resources to identify, measure, address and reports the risks taken. It applies appropriate control and reporting procedures in accordance with the internal control framework in place and the procedures for monitoring the risk limits approved in the Group's RAF and policies.

- The second line of defence consists of the areas that oversee risks and define controls to mitigate them. It comprises the Corporate Risk Directorate and the Corporate Regulatory Compliance Directorate.

In April 2015, the Board of Directors appointed the Group's Chief Risk Officer ("CRO"), setting the conditions necessary for performance, its main responsibilities, and the rules and powers for appointment and removal. The status reinforces the independence of the Chief Risk Officer, which must maintain constant functional reporting to the Risk Advisory Committee and its Chairman. The CRO has two-way direct access to Senior Management and the governing bodies. 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 Corporate Regulatory Compliance Directorate is in charge of identifying and assessing compliance risk by checking compliance with the internal policies and procedures in place and exercising appropriate controls and coordinating the preparation and execution of action plans to mitigate compliance risk. It reports to Senior Management on the results of this activity. It is also responsible for liaising with regulatory and supervisory agencies.

- The third line of defence is composed of the Corporate Internal Audit Directorate. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. Its mission is to enhance and protect Bankia's and its Group's value by providing risk-based and objective assurance, advice and insight. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

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 project and

Transformation risk[2]). Virtually all of the objectives set for 2019 were accomplished during the year, and the planning for 2020 is now in progress as at the date of this report.

The Corporate Risk 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

[2] 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.

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 and periodically reviewed, 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, Operating Manuals and the Facilitating Framework, 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.

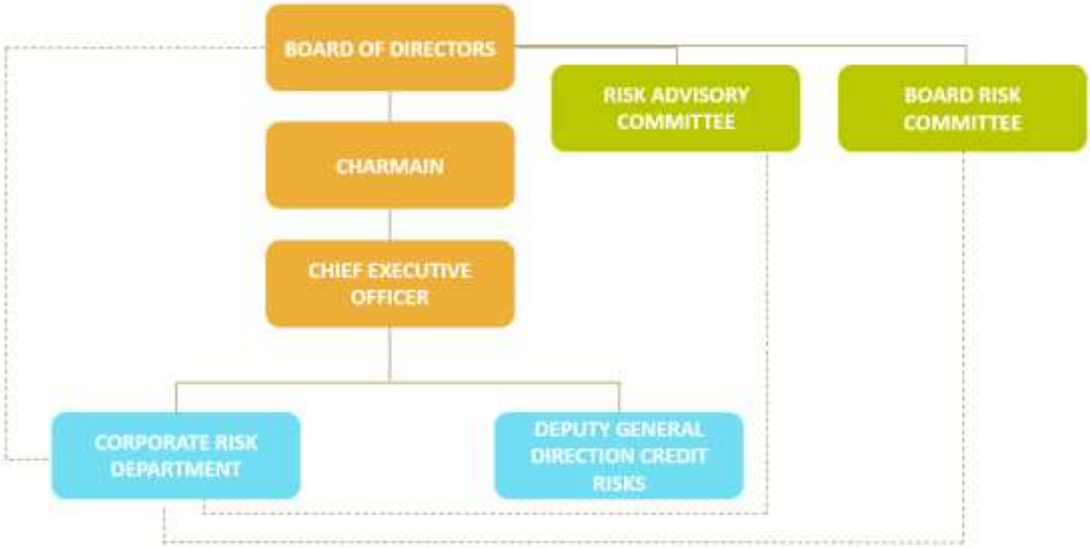
2.3.3 Organisation of the risk function

Below we describe the structure of the risk function, which operates through two key 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 Deputy General 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 2019:



2.3.3.1 Corporate Risk Department

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

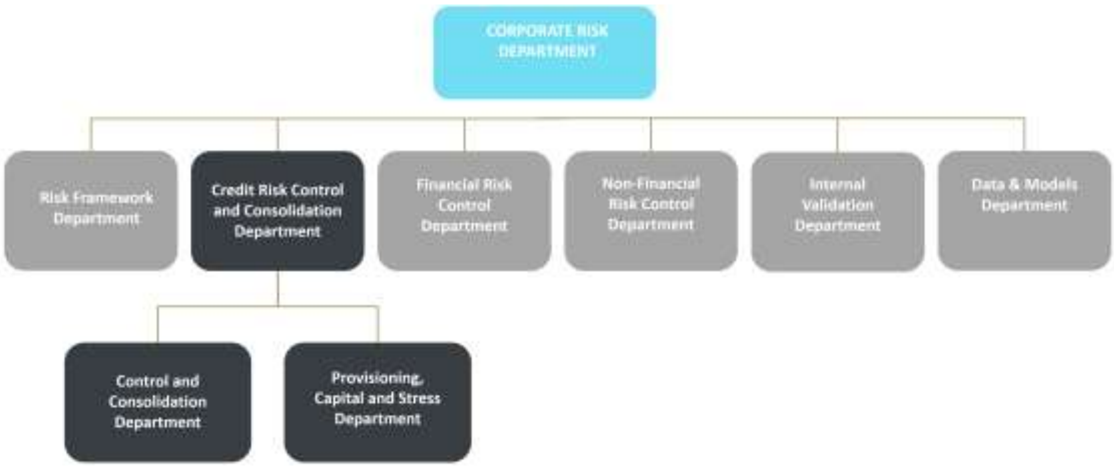
Risk Framework Direction

Its duties and functions include:

- Drawing up the Risk Framework: mission and general principles of the function, risk map, organisation and governance model, framework of risk appetite and limits, definition of a framework and procedure for the internal regulatory management of risks.
- Devising the internal risk regulation structure (frameworks, general policies and specific rules and criteria) with a transversal vision of all risk acceptance instances for approval by the governing bodies.
- Ensuring consistency and completeness when drawing up risk policies and recommending updates as and when needed.
- Reviewing regulatory requirements and their impact on internal risk rules and standards.
- Overseeing the various committees connected to the risk function that report to Corporate Risk Management, as well as the Risk Advisory Committee and the Board of Directors on risk-related matters.

- Compiling follow-up information on recommendations issued by the Corporate Internal Audit Department, External Audit and the Supervisor that affect the Corporate Risk Department and reporting to the pertinent committees.
- Ensuring coordination and overall clarity with the Supervisor on all risk-related matters.
- Defining, maintaining and coordinating Risk Identification Assessment exercises in order to identify risk factors, emerging risks and changes in the risk profile, while setting risk assessment rules and criteria, analysing risk significance and assessing risk materiality.
- Working alongside the risk managers to define risk appetite/tolerance levels in the form of Risk Appetite Statements for approval by the Board.
- Drawing up and updating the RaR Governance Framework.
- Coordinating and heading the task of drawing up the ICAAP and ensuring its consistency with the ILAAP.
- Further integrating the management of ICAAP/ILAAP to make it a daily management tool, along with other bank processes.

Credit Risk Control and Consolidation Department



Main remit of the Control and Consolidation Department:

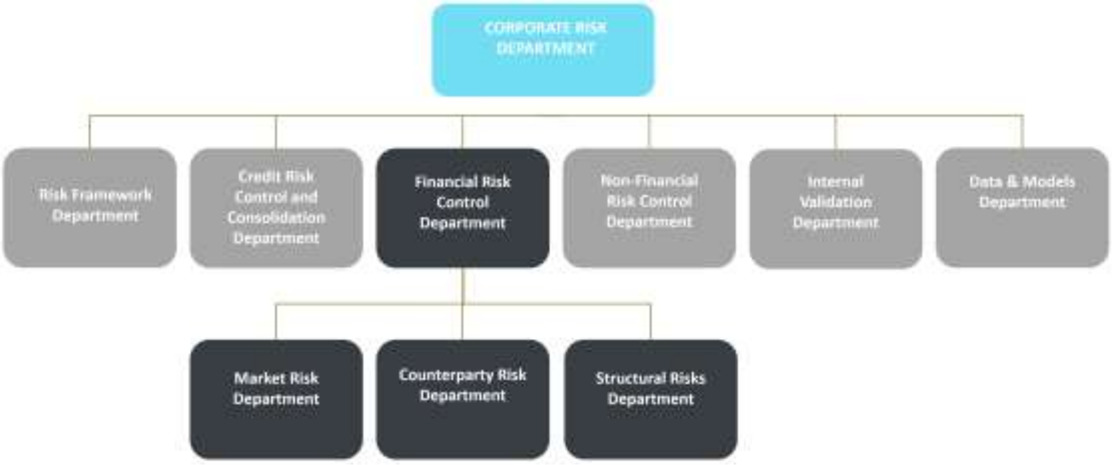
- Drawing up and generating reports that provide a global view of the Bank's risk profile.
- Monitoring compliance with the budget and NPL strategy.
- Recommending and monitoring asset allocation.
- Providing support and functional maintenance for RaR metrics.
- Monitoring rates and running ex-post transaction profitability reviews.

- Improving the systemization of reporting for both management purposes and official reports within the scope if its remit.
- Challenging the risk reporting framework and independent control system, especially for credit risk, so as to provide a constructive critical view of risk practices and control at the Bank, while recommending alternatives that are both feasible and reasonable.

Main remit of the Provisioning, Capital and Stress Department:

- Determining, optimising and simulating capital requirements for credit risk and consolidating requirements for the other risks under Pillar I.
- Continuously monitoring regulatory changes in relation to solvency and capital, carrying out impact assessments and relaying the relevant updates to information systems as and when needed.
- Coordinating and managing prevailing regulatory requirements (Pillars I and III).
- Functionally responsible for coordinating regulatory statuses in relation to credit risk.
- Reporting to supervisors (benchmarking exercises, Quantitative Impact Study, SREP and COREP statements – credit risk) and investors (Pillar 3 Report).
- Using information systems to simulate changes in capital adequacy (change of models, updating of parameters, reclassifications, portfolio sales and purchases, one-off transactions, etc.) and gauge the resulting impacts.
- Defining the criteria for determining Pillar II capital.
- Defining the criteria and analysing the results of provisioning activity under IFRS 9, as well as the results of the stress-test exercises relating to provisions/expected loss and credit risk-weighted assets.
- Identifying model-related needs and requirements in the realm of capital and provisions (model owner).

Financial Risk Control Department



Main functions of the Market Risk Department:

- Measuring, monitoring and controlling, in an integrated and consistent manner, the market risk present in the Bank's trading activity, in accordance with established risk tolerance thresholds, ensuring that the level of own funds for market risk is commensurate with the complexity and magnitude of the risks assumed.
- Drawing up, coordinating and running regular reviews of market risk policies and procedures in relation to trading activity, with the findings to be submitted to the appropriate bodies for approval.
- Identifying, developing and maintaining the relevant metrics and methodology for assessing the Bank's market risk and for assessing the related capital requirements. During stress events, developing the stress programme and helping to draw up EBA stress tests. Identifying, measuring and managing the risks not included in the internal models governing own fund requirements relating to market risk.
- Reviewing and analysing budgets or estimations of the various market factors needed to value the various positions held and regularly securing parameters that cannot be directly observed in the financial reporting systems (credit spreads, correlations between assets, etc.). Providing market values for accounting purposes at the end of the month.
- Assigning fair value levels and monitoring and controlling possible changes.
- Calculating Additional Value Adjustments (AVAs) and reviewing and analysing the results.
- Defining all applicable market risk limits and alerts for each of the books into which own-account trading activity is divided.
- Measuring and monitoring, on a daily basis: all applicable market risk limits and alerts for each of the books into which own-account trading activity is divided, regulatory capital figures for market risk (for both the general and the specific component), the results of backtesting of capital models and the results of valuation models that lie outside the main valuation system.

- Measuring and monitoring the results of the stress programme, the quality of the market data needed to assess the risk and capital requirements.
- Providing information to supervisors regarding the use of internal models to assess capital requirements for market risk (monitoring backtesting, benchmarking exercise), while providing support in the design of accounting hedges, developing and maintaining efficiency tests and controlling, reviewing and analysing their effectiveness.

Main functions of the Counterparty Risk Department:

- Drawing up, coordinating and running regular reviews of credit risk policies and procedures in relation to the Bank's market activity, with the findings to be submitted to the appropriate bodies for approval.
- Developing and maintaining suitable metrics and methodology for assessing the Bank's counterparty risk, under both normal and stress conditions.
- Measuring counterparty risk, calculating the risk by CVA (credit rating adjustment), adopting mitigating measures and studying new regulations on the subject.
- Monitoring maximum exposure limits by counterparty and controlling breaches of established limits.
- Handling the daily management of collateral in relation to derivatives and repo trading.
- Generating daily, monthly and quarterly reports on changes in the counterparty risks to which the Bank is exposed.
- Regularly reconciling the positions held with each counterparty in compliance with EMIR.

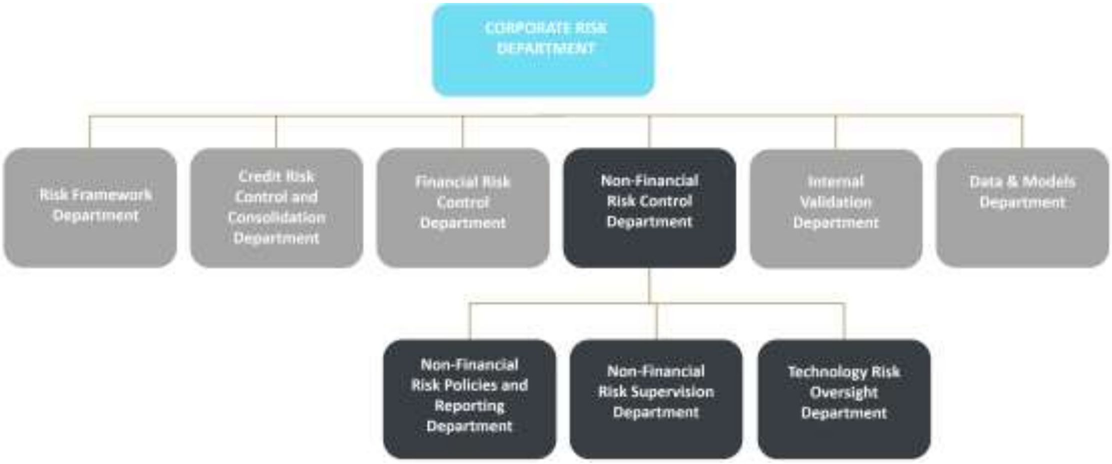
Main functions of the Structural Risks Department:

- Drawing up, coordinating and running regular reviews of policies and procedures in connection with structural, liquidity and financing risk and the risk associated with guaranteed funds, with the findings to be submitted to the appropriate bodies for approval.
- Developing, modelling and verifying the metrics and methodology associated with the structural, liquidity and financing risk function, quantifying the risk assumed under both normal and stress conditions, and modelling and quantifying capital needs in relation to risks.
- Drawing up regulatory reports about interest rate risk, exposure to sovereign risk and market risk of the structural portfolio and taking part in stress exercises.
- Analysing and monitoring liquidity and financing risks and the composition of the regulatory buffer, operational efficiency tests and, in general, any present or future aspect that might affect the Bank's liquidity and financing profile.
- Coordinating the ILAAP process (liquidity adequacy self-assessment) as part of the internal self-assessment process for the liquidity and financing profile.
- Analysing and monitoring structural risks, as well as any recommendations that may affect the Bank's balance sheet structure, while helping to analyse specific transactions and operations on demand (issuances, purchase and sale of securities, derivatives, etc.).

- Measuring and controlling the risk attaching to guaranteed funds, including the task of controlling the viability of new funds and ensuring their compliance with the risk policies established by the Board of Directors.

- Overseeing the measurement and control of insurance and pension risk and of the guarantee risk reported by the manager of guaranteed funds, while also handling the subsequent reporting of accounting data.

Non-Financial Risk Control Department



Main functions of the Non-Financial Risk Policies and Reporting Department:

- Coordinating the process of preparing and updating the manuals and policies that are the responsibility of the Non-Financial Risk Control Department, for submission to the competent bodies for approval.

- Analysing and identifying implications and observing applicable regulations and guidelines on assigned functions relating to non-financial risks.

- Drawing up the risk map, reviewing non-financial risk processes and running self-assessments of the control system.

- Overseeing the Operational and Technology Risk Committee.

- Defining and developing metrics and assessment methodologies for non-financial risks (appetite and tolerance).

- Calculating capital and making projections in respect of operational risk.

- Defining methods to identify and compile operational events that have resulted in losses.

- Running quantitative and qualitative assessments of operational loss events, including the construction and analysis of operational risk scenarios.

- Generating specific regulatory reporting (C16 and C17) and internal management reporting on non-financial risks, while also preparing matters relating to the ICAAP, QIS (Quantitative Impact Study) exercises, stress tests, Pillar 3 report and other documents (management report, prospectus, corporate governance, etc.) in relation to non-financial risks.

- Coordinating and monitoring projects of the Non-Financial Risk Control Department and consolidating a risk control culture at the Bank.

Main remit of the Non-Financial Risk Supervision Department:

- Establishing the Bank's internal control framework (for both credit risk and other material risks) by implementing an automated internal control tool, including the development of a training programme (as part of the first line of defence) on how to use the control tool.

- Monitoring the current policies of the Corporate Risk Department (credit risk, market risk in trading activities, credit risk in market activities, etc.), and preparing reports for the Risk Advisory Committee.

- Supporting the first lines of defence in defining and maintaining risk control processes across their different phases of identification, assessment, monitoring, control and mitigation.

- Periodically reviewing risk processes, running tests on the definition and performance of the controls in place and flagging or recommending critical points to be controlled.

- Supporting the process of identifying and monitoring risk/control indicators, including the duty to establish and monitor alerts.

- Monitoring compliance with the mitigation plans established by the first line of defence when defined tolerance thresholds are breached.

- Analysing and tracking loss events and conducting an overall assessment of the control environment.

- Coordinating self-assessment exercises and analysing the efficiency and effectiveness of those self-assessments on the risk control environment.

Main remit of the Technology Risk Oversight Department:

- Coordinating and running regular reviews of reputational risk policies and procedures at the Bank, with the findings to be submitted to the appropriate bodies for approval.

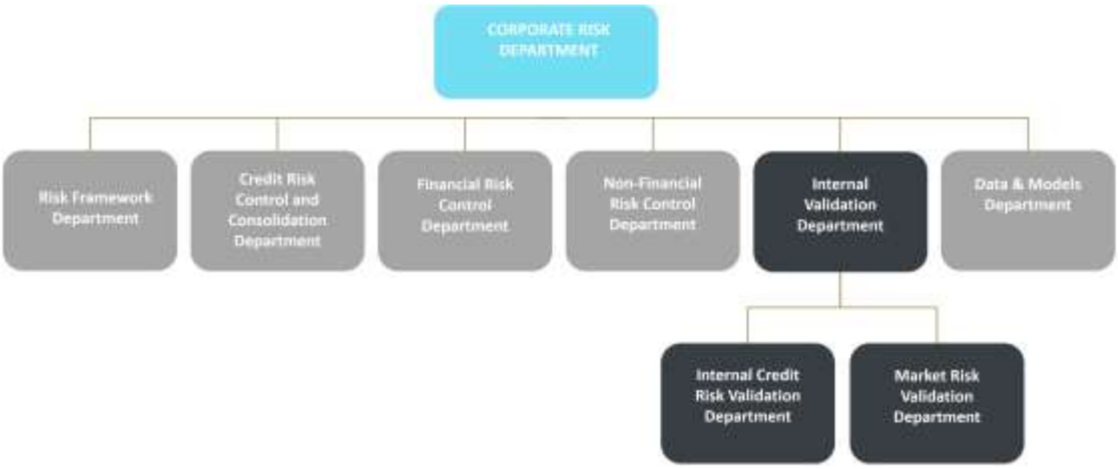
- Developing and maintaining suitable metrics and methodology for controlling reputational risk at the Bank, under both normal and stress conditions.

- Periodically reviewing technology and cybersecurity risk policies and procedures at the Bank.

- Helping to design, set up and implement the technology and cyber risk control system.

- Supporting the technology risk coordinators in defining and implementing risk control processes across all phases involved.
- Supervising the design and implementation of the Bank's IT risk control system.
- Overseeing the technology risk measurement methods applied by the first line of defence as part of the technology risk governance model.
- Defining the methods for identifying and compiling technology events that have resulted in losses.
- Monitoring compliance with the action plans rolled out by the first line of defence to mitigate technology risk.
- Identifying and assessing the operational risks attaching to outsourcing agreements and reviewing the analyses of outsourced essential services and the supplier risk analyses conducted by those running the first line of defence.

Internal Validation Department



Main remit of the Internal Credit Risk Validation Department:

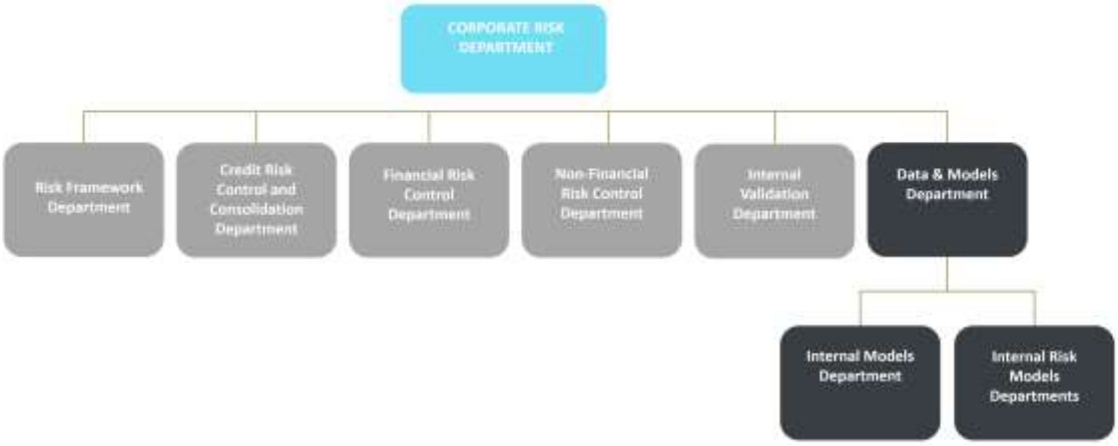
- Assessing the sound functioning of credit risk models and ensuring that they are put to proper use, both for management and regulatory purposes, while reporting to the Bank's governing bodies and supervisors.
- Defining and running regular tests on the behaviour of internal credit risk models (rating models, risk parameters, IFRS 9 models) and making them part of management processes.
- Reviewing the technological environment related to credit risk control and expanding the scope and perimeter of internal validation.
- Reviewing regulatory capital calculations for credit risk and scrutinising the models and methodologies involved in the ICAAP.

- Responding to new regulatory and supervisory requirements and recommendations emanating from the Corporate Internal and External Audit Department and the European Central Bank.
- Promoting and overseeing all improvement recommendations stemming from the validation process.
- Involved in forming recommendations and in granting approval for amendments to internal credit risk models.
- Ensuring compliance with requirements emanating from the competent authorities (Bank of Spain, European Central Bank, EU directives, etc.) regarding the internal validation of credit risk models, so as to meet the robustness, accuracy and consistency requirements for internal risk management and measurement systems.

Main remit of the Internal Market Risk Validation Department:

- Assessing the sound functioning of market risk models and ensuring that they are put to proper use, both for management and regulatory purposes, while reporting to the Bank's governing bodies and supervisors.
- Defining and running regular test plans on the behaviour of internal market risk models.
- Defining and running regular test plans for the validation of other risks: counterparty risk, liquidity risk and interest rate risk.
- Responding to new regulatory and supervisory requirements and recommendations emanating from the Corporate Internal Audit Department, external audit and the European Central Bank.
- Promoting and overseeing all improvement recommendations stemming from the validation process.
- Involved in forming recommendations and in granting approval for amendments to internal market risk models.
- Ensuring compliance with requirements emanating from the competent authorities (Bank of Spain, European Central Bank, EU directives, etc.) regarding the internal validation of market and other risk models (counterparty, liquidity and interest rate), so as to meet the robustness, accuracy and consistency requirements for internal risk management and measurement systems.

Data & Models Department



Main remit of the Internal Models Department:

- Building, implementing and maintaining internal credit rating models (scoring, pre-authorisation, behaviour and rating).
- Simulating the impact of internal models on Bankia's customer classification so as to anticipate changes in the Bank's management.
- Estimating the risk parameters (PD/LGD/EAD) used to manage risk appetite, capital requirements and provisioning.
- Performing statistical monitoring, running back test exercises and benchmarking the robustness of the Bank's rating system (models, parameters, use).
- Building projection models associated with macroeconomic scenarios used for internal capital planning and both internal and regulatory provisioning (stress test exercise) or budgets for the management of non-performing loans and cost of risk.
- Coordinating and planning requests and proposals to the regulator regarding changes in, or extensions/reductions of the models currently in place (roll-out plan).
- Maintaining and ensuring the continuous improvement of the methodology and calculation of economic capital.
- Managing projects related to internal risk models and request demand, while supporting innovation and making it part of the management.

Main remit of the Internal Risk Models Department:

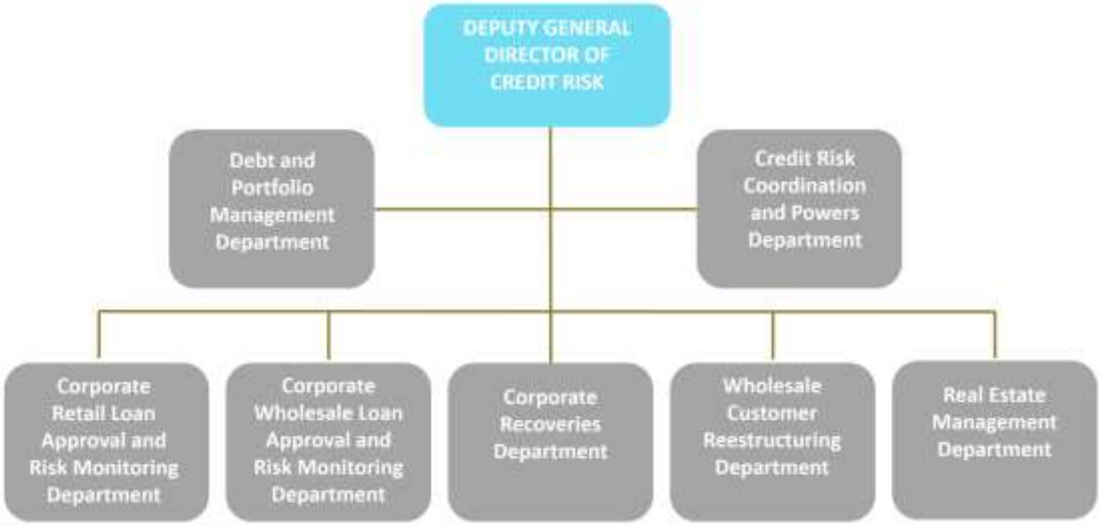
- Defining and managing the risk information and reporting system according to the principles of "Risk Data Aggregation".
- Coordinating requests for risk information and supporting the generation of necessary information ahead of inspections from the supervisor, internal validation, internal control and internal and external audits.

- Coordinating the necessary action to ensure the proper management of risk information between the Corporate Risk Department, the Systems Development Department and the Financial Controller's Department.

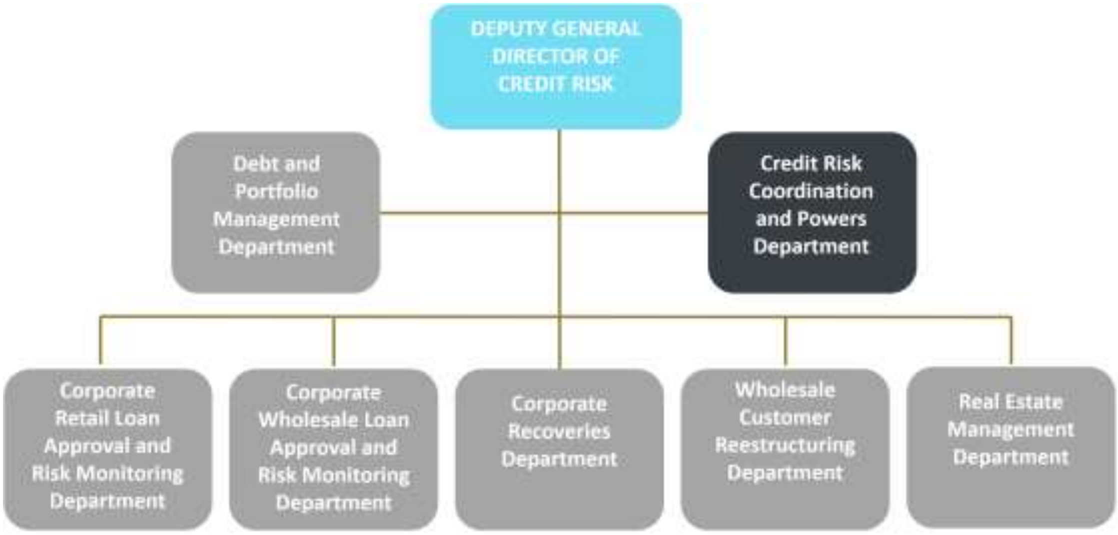
- Lending support on complex regulatory projects by generating and analysing the necessary information.

2.3.3.2 Deputy General Director of Credit Risk

Main remit of the Deputy General Director of Credit Risk:



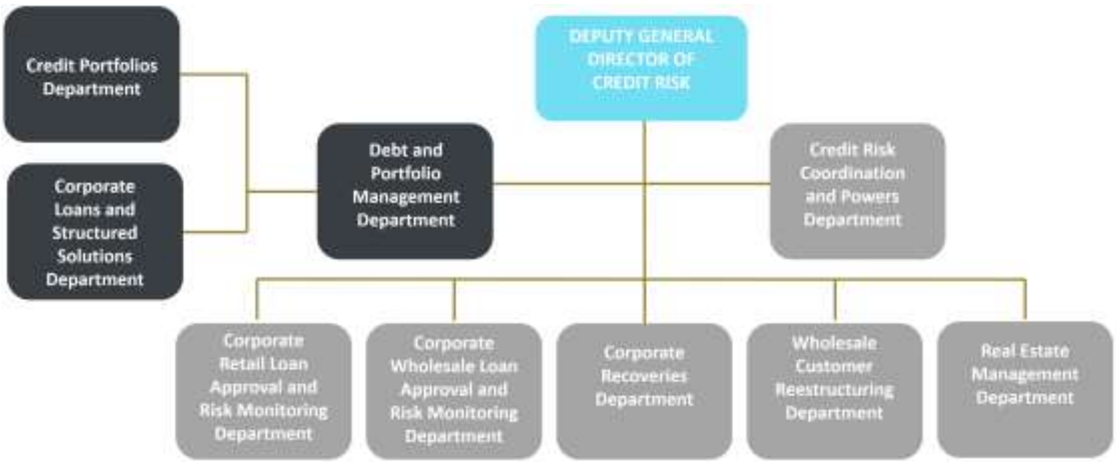
Credit Risk Coordination and Powers Department



Main remit:

- Updating and controlling the credit risk powers system and coordinating its sound implementation and automation across Bankia systems and applications.
- Championing the risk culture by providing support through different channels (general mailbox, risk site, publications, etc.).
- Organising the main committees associated with the risk function and coordinating matters with the risk committees attached to the governing bodies (Risk Advisory Committee, Delegate Risk Committee and Board of Directors).
- Coordinating transversal risk projects and procedures on matters relating to definition, execution and monitoring, working alongside the Systems Development Department and the Organisation Department, while also controlling the budget allocated for that purpose and managed through unplanned requests.
- Coordinating the definition, publication and dissemination of credit risk policies and specific rules and criteria.
- Monitoring compliance with and response to the recommendations made in relation to credit risk control and management by the Corporate Internal Audit Department and by the different supervisory bodies.
- Supervising the data compiled by the Deputy General Director of Credit Risk in analytical and management reports, while identifying deviations from budget at the Deputy General Director of Credit Risk and coordinating remediation plans to mitigate any such deviations.

Debt and Portfolio Management Department

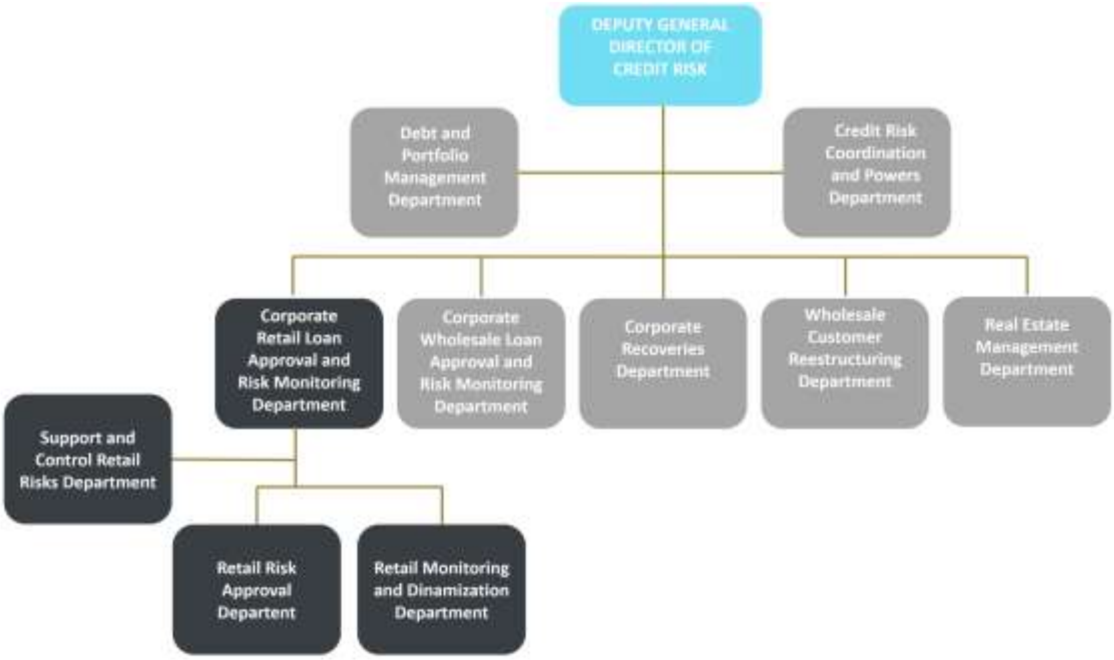


Its principle responsibilities are:

- 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.
- Seeking out and acting on investment opportunities by purchasing debt on the secondary market, once approved by the competent committees.

Corporate Retail Loan Approval and Risk Monitoring Department



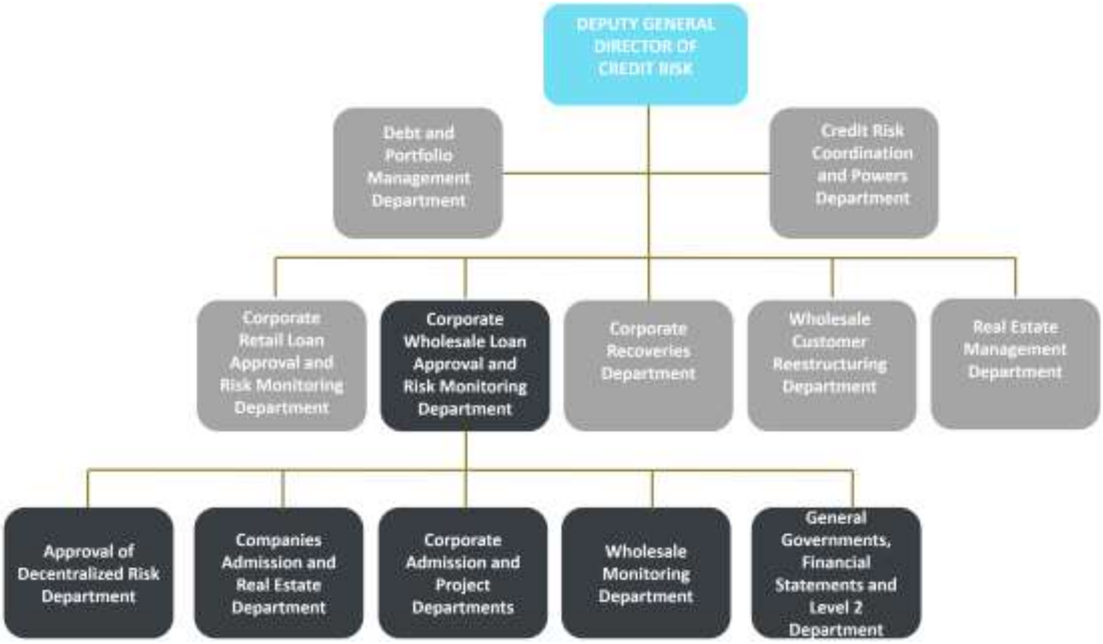
Its main responsibilities:

- 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.

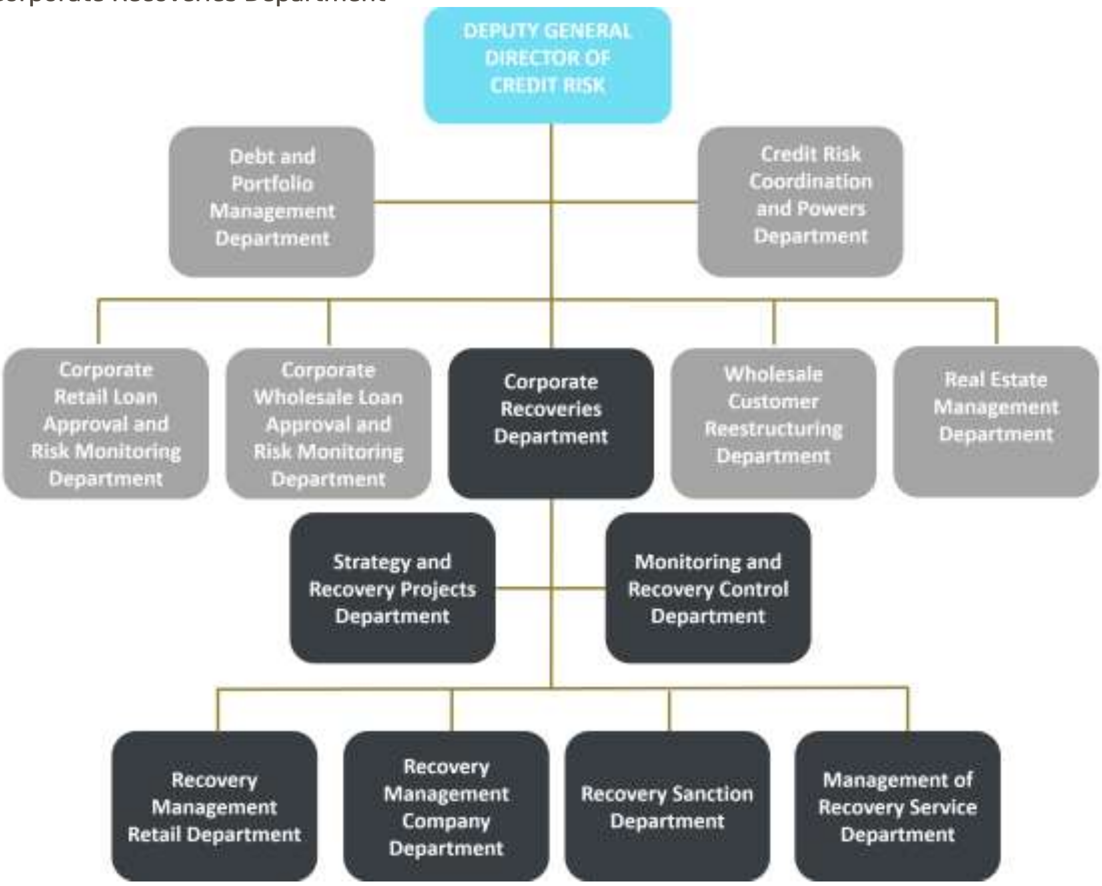
- Facilitating the commercial activity of the centres by proactively analysing potential customers and devising the "Relay to Committee" system.

- Ensuring that risk policies are widely known and complied with.

- Analysing, assessing and resolving credit risk transactions (new lending arrangements, renewals, modifications, over limits 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

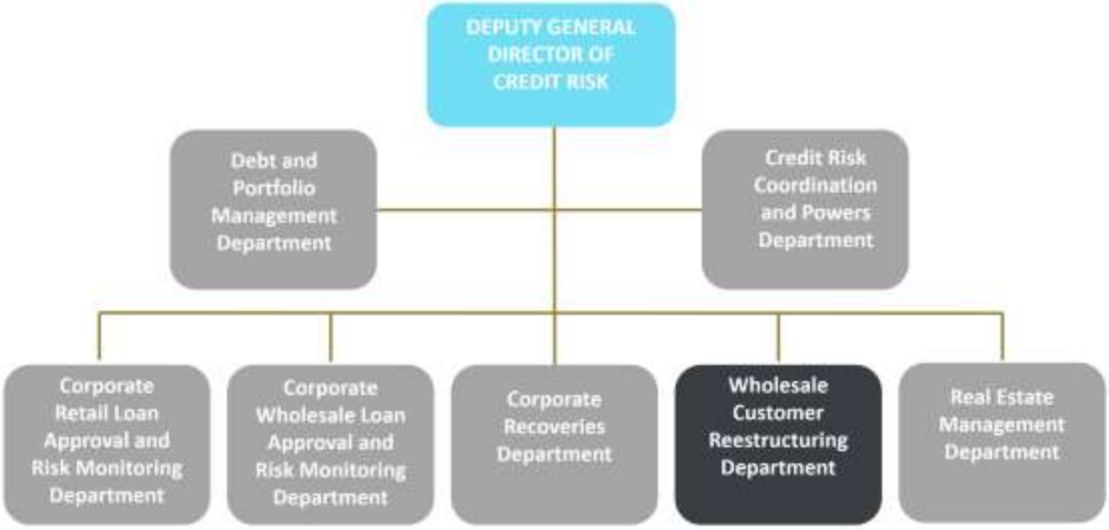


Its main responsibilities are:

- Enhancing the efficiency and performance of services to the Corporate Recoveries Department through management and industrialisation.
- Planning and controlling the budget for expenses and requests for technology from the Management.
- Managing the recovery of unpaid debts from retail customers.
- Managing and controlling the portfolio of companies that have defaulted or are at risk of defaulting, in some cases through restructuring and insolvency proceedings.
- Analysing and resolving customer transactions, in line with existing credit risk powers, and escalating certain matters to more senior committees. Reaching decisions on customer transactions pending approval in relation to recoveries and carrying out follow-ups.
- Overseeing and ensuring the sound execution of recovery strategies when it comes to collection agencies in a bid to maximise the success of recovery action.
- Managing and monitoring all aspects relating to tenders and competitive bidding.

Wholesale Customer Restructuring Department

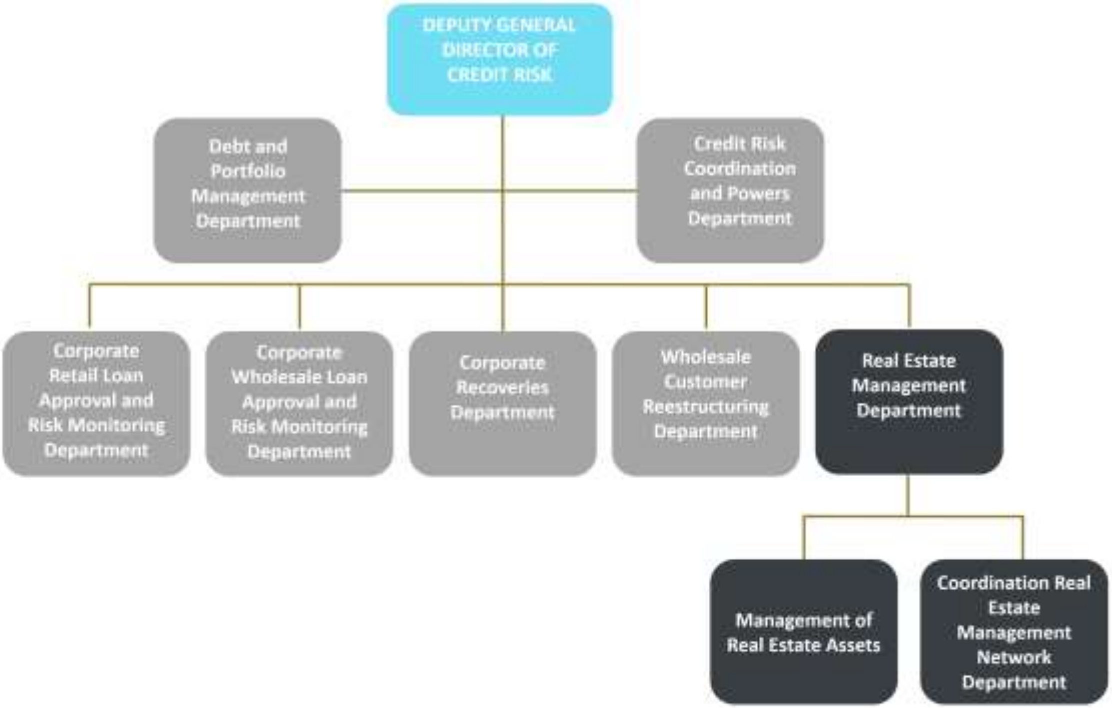
The Wholesale Customer Restructuring Department has no junior areas or departments reporting to it. The following chart shows its position within the wider Corporate Credit Risk Department:



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.

Real Estate Management Department



Its main responsibilities are:

- Steering and controlling all tasks inherent in the marketing and sale of real estate assets through any available channel, including the task of preparing portfolios.
- Ensuring compliance with obligations related to foreclosed assets.
- Managing and controlling the sale and divestment of movable assets.
- Defining various types of policy, including commercial policies, while drawing up budgets for real estate assets.
- Supervising relations with the real estate servicer for all manner of tasks that concern and fall within the remit of the management.

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.

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.

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. It must also decide on investment and hedging strategies to keep risks within the approved limits and budget for the year.

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.

Provisioning Committee

Its responsibility to ensure compliance with prevailing standards for recognising impairments for credit risk; approve the framework of risk classification policies, criteria and approaches and of allowances under the general framework of policies established by the Board of Directors; to monitor and control the budget of non-performing loans and NPL provisions, as well as watchlist; to approve the proposals of individual classification following the appearance of evidence of impairment; to authorize the approvals scheme to allow the risks teams to decide on the classification and individualised allowances for borrowers and exposures of smaller amounts; to approve reclassifications (standard, watchlist , doubtful, failed) and changes in portfolio provisions of sets of exposures; to approve the approach for determining credit valuation adjustments (CVA) in the derivatives portfolio; and to monitor the CVA.

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.

Operational and IT risk committee

Meets on a monthly basis and its risk-related functions include controlling, overseeing and exercising effective challenge to trends in the Group's risk profile, the risk appetite approved by the Board of Directors, and the business model from a holistic and forward-looking perspective, analysing any deviations affecting the Group's risk profile, solvency and/or liquidity, proposing, where necessary, any measures considered appropriate.

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 risks profile, solvency and/or liquidity and proposes, where necessary, any measures deemed appropriate.

Regulatory Compliance Committee

This committee meets monthly. Its duties related to risk include mainly identifying, assessing and managing compliance risks related to the Group's operations; updating and managing codes of conduct; and drafting, maintaining and overseeing compliance manuals and policies

Cybersecurity Committee

This committee meets monthly. Its functions include monitoring the status of cybersecurity and reporting regularly to the Board of Directors. In addition, its competencies include strategic decision-making on cybersecurity investments.

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.

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 and periodically updated.

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, the Operating Manuals and Facilitating Framework.

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.
- Bankia defines the Facilitating Framework as any proactive action relating to the pre-approval of loans or credit carried out through the use of available tools where doing so enhances and streamlines processes for granting credit and arranging financing. The Board of Directors approved the Facilitating Framework.

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.
- Borrower 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. Law 5/2019, of 15 March, on real estate credit agreements includes provisions aimed to promoting legal security, transparency and understanding contracts and their clauses, and a fair balance between the parties. It contains rules on transparency and conduct that impose obligations on lenders and loan brokers, and their appointed representatives. It completes and improves the current framework in Finance Ministry Order EHA/2899/2011 and Law 2/2009, of 31 March, governing customer loan and mortgage agreements and brokerage services in the execution of loan or credit contracts.

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.

Risk quantification

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 losses, 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; 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.

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.

Committees involved in market risk management within the trading activity.

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			✓

Departments involved in the management, monitoring and control of Market Risk.

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	Financial Risk Control Department Internal Validation	✓		✓
Financial Control Dept.	Planning			✓
Internal Audit	Audit			✓

(*) Mainly includes the assets and liabilities whose measurement is part of the structural risk management framework (ALCO).

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 Financial Risk Control 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 Financial Risk Control 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 over limits 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 2019, there were 2,379 netting agreements and 242 collateral agreements (123 derivatives, 82 repos and 37 securities lendings). Credit risk on derivatives trading has fallen by 91.51% 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 2019, 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 Deputy General Manager of Finance, through their different divisions, 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 Risks Department of the Financial Risk Control 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 Corporate 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 relayed to the Credit Risk Control and Consolidation 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 Bank has designed an internal risk governance framework featuring tools, procedures and mechanisms that are appropriate and commensurate with the Bank's scale, nature, risk profile and business model. Under this framework, the Board of Directors is ultimately responsible for all liquidity risk assumed, giving it the ultimate say in shaping and defining the most appropriate risk profile. It is also tasked with establishing a framework of policies and procedures to ensure a robust risk management and control framework.

Senior management is primarily responsible for developing and implementing the liquidity and financing risk management strategy in accordance with the Bank's Risk Appetite Framework and the structure of risk management policies and limits. The ALCO takes decisions based on reports and proposals provided by various departments and, where appropriate, requests them through departments authorised to do so. The Deputy General Directorate of Finance carries out the related transactions in capital markets and sets transfer costs. In managing the business, the Deputy General Directorates of Retail Banking and Business Banking generate liquidity and funding risks, which is quantified through the commercial gap and LtD ratio. The Corporate Risk Department reports to the ALCO and the Board of Directors on the status and performance of indicators within the existing framework of limits, as well as Recovery Plan indicators and qualitative alerts associated with the Contingent Liquidity Plan. The ALCO also relies on the Research Department to ensure that decisions are made within the existing economic and financial context of the business model.

The Board of Directors, assisted by the Risk Advisory Committee, oversees that the strategy is implemented and that the defined tolerance limits are not breached

The Corporate Finance Department, through different business divisions, executes decisions within its remit. In addition, 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 Risks Department of the Financial Risk Control 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 Corporate 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 April 2019, 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 GOOD 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. It also runs stress tests to measure the period of economic and regulatory survival under extreme scenarios.

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 2019. At year-end, the Group had a liquidity reserve of 33,909 million euros (gross liquid assets) consisting mainly of eligible assets; a regulatory liquid asset buffer (HQLA) of 33,329 million euros; a regulatory LCR (liquidity coverage ratio) of 214%, and a NSFR (net stable funding ratio) above 100% in 2019.

Tabla 7. Regulatory LCR

Million €	dec.-18	dec.-19
High quality liquid assets (numerator)	32,495	33,329
Total net cash outflows (denominator)	18,686	15,564
Regulatory LCR	**174%**	**214%**

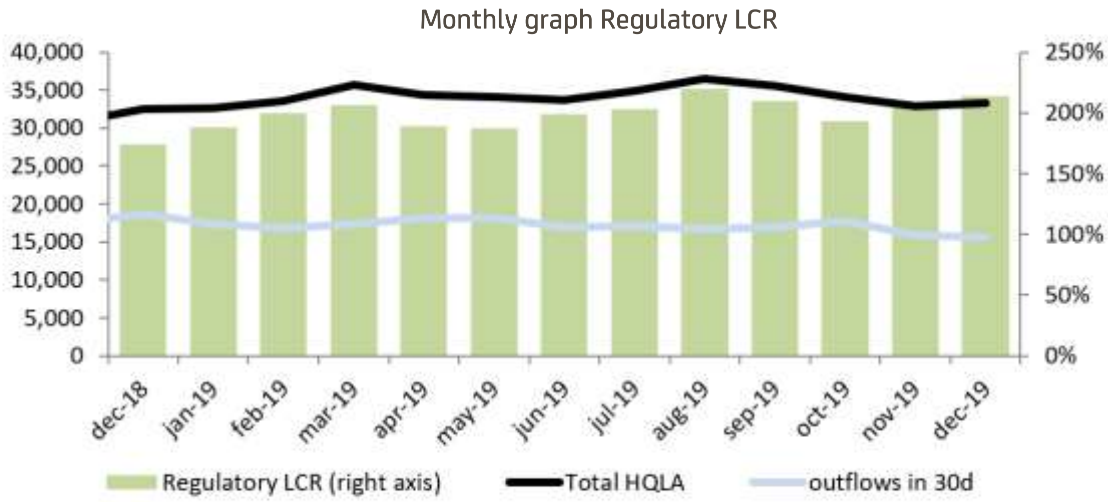


Tabla 8. Breakdown of regulatory liquid asset buffer

Millions of €	dec.-18 Market value	dec.-18 Haircut	dec.-19 Market value	dec.-19 Haircut
Level 1	**31,614**	**31,614**	**33,006**	**33,006**
Cash and central banks	2,921	2,921	11,418	11,418
Treasuries and sovereign guarantee	28,326	28,326	21,407	21,407
Regional governments	367	367	180	180
Level 1B	**529**	**492**	**251**	**233**
Non-Bankia AA- rated covered bonds	529	492	251	233
Level 2A	**0**	**0**	**0**	**0**
Non-Bankia A- rated covered bonds	0	0	0	0
Level 2B	**523**	**389**	**121**	**91**
Non-Bankia AA- rated mortgage covered bonds	511	383	120	90
BBB- to A+ rated corporate bonds	10	5	0	0
Other	3	1	1	0
Total HQLA	32,666	32,495	**33,377**	**33,329**

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

	dec.-18		mar.-19		jun.-19		sep.-19		dec.-19	
Amounts in millions of €	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
HIGH-QUALITY LIQUID ASSETS										
Total high-quality liquid assets (HQLA)		**31,006**		**31,094**		**31,744**		**33,641**		**34,263**
CASH – OUTFLOWS										
Retail deposits and deposits from small business customers, of which:	**94,038**	**6,045**	**94,814**	**6,076**	**95,792**	**6,090**	**96,796**	**6,118**	**97,799**	**6,173**
Stable deposits	77,123	3.856	77,890	3,894	78,928	3,946	79,967	3,998	80,981	4,049
Less stable deposits	16,763	2.037	16,791	2,048	16,773	2,053	16,767	2,059	16,756	2,062
Unsecured wholesale funding	**22,931**	**11,770**	**22,759**	**11,423**	**22,406**	**10,968**	**22,515**	**10,876**	**21,804**	**10,422**
Operational deposits (all counterparties) and deposits in networks of cooperative Banks	6.879	1,676	7,102	1,730	7,348	1,791	7,593	1,850	7,727	1,883
Non-operational deposits (all counterparties)	15,592	9,634	15,226	9,261	14,648	8,768	14,540	8,644	13,743	8,205
Unsecured debt	460	460	431	431	409	409	382	382	334	334
Secured wholesale funding		**4**		**8**		**12**		**16**		**16**
Additional requirements	**7,439**	**1,064**	**7,828**	**1,040**	**8,369**	**1,084**	**9,126**	**1,192**	**9,914**	**1,293**
Outflows related to derivative exposures and other collateral requirements	392	389	311	310	292	292	315	315	326	326
Outflows related to loss of funding on debt products	29	29	30	30	30	30	32	32	34	34
Credit and liquidity facilities	7,019	646	7,487	700	8,046	762	8,779	846	9,554	933
Other contractual funding obligations	**39**	**39**	**31**	**31**	**27**	**27**	**24**	**24**	**22**	**22**
Other contingent funding obligations	**14,612**	**1,009**	**14,927**	**1,071**	**14,805**	**1,090**	**14,607**	**1,077**	**14,432**	**1,117**
TOTAL CASH OUTFLOWS		**19,931**		**19,649**		**19,270**		**19,304**		**19,043**

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CASH – INFLOWS										
Secured lending (e.g. reverse repos)	**420**	**0**	**642**	**10**	**734**	**10**	**703**	**10**	**836**	**10**
Inflows from fully performing exposures	**3,245**	**1,746**	**3,261**	**1,743**	**3,413**	**1,811**	**3,559**	**1,880**	**3,711**	**1,951**
Other cash inflows	**56**	**40**	**32**	**32**	**33**	**33**	**22**	**22**	**22**	**22**
(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	3,720	1,786	3,935	1,785	4,180	1,855	4,284	1,913	4,569	1,983
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	3,720	1,786	3,935	1,785	4,180	1,855	4,284	1,913	4,569	1,983
										TOTAL WEIGHTED VALUE
LIQUIDITY BUFFER		31,006		31,094		31,744		33,641		34,263
TOTAL NET CASH OUTFLOWS		18,145		17,863		17,416		17,391		17,060
LIQUIDITY COVERAGE RATIO (%)		171%		174%		182%		193%		201%

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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 (Eurex, 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.
- 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. Additionally to the LCR, a programme of monthly stress tests is carried out to measure stress indicators (in accordance with Article 5 of Delegated Regulation 2018/1620 amending (EU) 2015/61 as regards 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 2020 onward and the residual maturities of the assets and liabilities appearing on the consolidated balance sheet at 31 December 2019.

2.3.9 Operational risk

Operational risk control is overseen by the Non Financial Control Risk Department, which is part of the Corporate Risk 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.

BFA'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 2019, 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 2019, 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 2019

- Various new developments in the realm of operational risk management were implemented in 2019. In July 2019, the Non-Financial Risk Control Department was set up as part of the wider Corporate Risk Department.

  This department brings together the former Operational and Technology Risk Department and the Internal Risk Control Department.

  Functions and duties are now distributed among three new departments:

  - Non-Financial Risk Policies and Reporting Department
  - Non-Financial Risk Oversight Department
  - Technology Risk Oversight Department

  The creation of this new department has unlocked synergies, allowing for improved control and monitoring of the Bank's non-financial risks.

  The most notable development is the implementation of the ARCHER tool for the new Internal Risk Control System (IRCS), into which operational risk management will now be integrated (self-assessment questionnaires, actual loss database, indicators, action plans, etc.).

- The ICUs (Intermediate Control Units) have been given a bigger role, as a bridging unit between the Non-Financial Risk Control Department and the OROC (Operational Risk Originating Centre). In some cases, no Intermediate Unit was needed and therefore the OROC remains the direct point of contact.

  Both the ICUs and the OROCs collaborate actively and oversee the risk management process by identifying, evaluating, monitoring and controlling operational risks that affect both their unit and any services to 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 March 2019.

- Following the publication of the new EBA Guidelines on outsourcing arrangements in February 2019, the OGM Functions Manual (approved in November 2019) has now been amended to assign specific functions to the Non-Financial Risk Control Department on matters relating to risk control. More to the point, the department has been assigned second line of defence functions in drawing up operational and reputational risk analysis reports for services delegated or outsourced to suppliers.

In 2019, a total of 12 reports were drawn up in relation to essential services, 47 on high-risk services, and 13 on other services carrying a significant risk (for both IT and 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.

- The Synthetic IT Risk Indicator is monitored for future calibration in line with its performance.
- In 2019, the process of requesting the purchase of products and services was improved to automatically include the departments responsible for running risk analyses on the processing of personal data, information security, the cloud and operational and reputational risks.
- 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.
- During 2019, the functions, meeting schedule and members of the Operational Risk Committee were updated so as to ensure that it reflects the actual functioning of the committee and the matters it addresses.

2.3.10 Compliance risk

The Bankia Group defines compliance risk as the risk of suffering legal or regulatory fines or sanctions, material economic or financial loss or reputational damage, as a result of failing to comply with laws, regulations, standards and codes of conduct applicable to the Group. The Bankia Group attaches particular importance to operating 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 Compliance function, alongside other business and control areas of the Bank, identifies and evaluates the compliance risks surrounding the Bank's business activities, including matters related to compliance with applicable law and regulations on anti-money laundering and the counter financing of terrorism, product governance, conflicts of interest, consumer protection, 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 with annual processes for reviewing and quantifying the risks identified and proposing 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. Non Financial Control 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:

- Fill in 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. 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.
- Report 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.
- Reporting to the Responsible Management Committee on all aspects related to the monitoring and measurement of reputational risk.

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

The Non-Financial Risk Policies and Reporting 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.
- 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 Corporate Risk Department, 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.)
- Analysis of risk events contemplated by other banks and institutions operating within the sector
- Criteria used by corporate reputation rankings, monitoring bodies and standards to assess entities within the sector
- Main matters in relation to which claims and complaints are submitted to the Bank of Spain

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 2019

In March 2019, the Board of Directors approved a new version of the Reputational Risk Policies and Procedures Manual.

In 2019, 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 Corporate Risk Department

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, divided into two departments — Internal Credit Risk Validation Department and Internal Validation of Market and Other Risks Department— 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 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:

- In the Models Committee
- 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.
- Business risk.

- Operational risk.
- Real estate asset depreciation risk

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 found in the previous section 2.3.1.

In 2019 the Internal Control Department fulfilled the following main functions in the domain of risks:

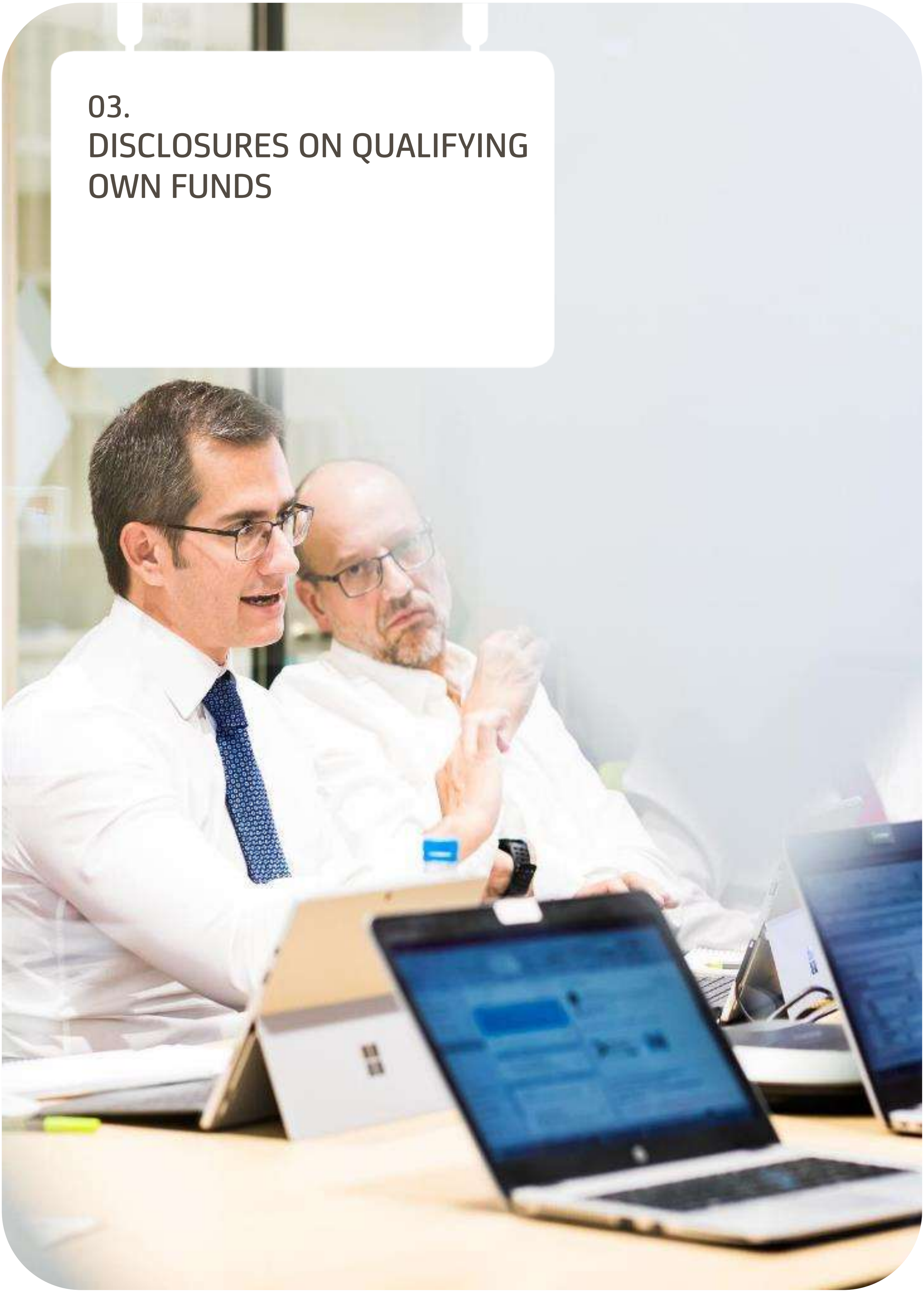
- Control of monitoring activity in relation to Credit Risk Policies, reporting the results to the Risk Advisory Committee.
- All processes connected to credit risk were reviewed. Risks and first line of defence controls were identified, along with the associated roles and responsibilities. A framework was designed to supervise and monitor the control environment of these processes and a GRC tool was implemented to enable the global management of the control model. Together with the tool, we managed to automate the assessment of risks and controls based on key risk indicators (KRIs) and key control indicators (KCIs), allowing for the continuous monitoring of all risks and controls associated with these indicators. Deviations in control

indicators trigger alerts, which are sent to the controllers and may merit an action plan to resolve any resulting deficiencies. The same GRC tool is used to monitor these action plans.

- 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



CAPÍTULO 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 2018 and 2019 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 2019, the Group has issued Tier 2 Capital instruments of BFA Group amounting to 1000 million of euros.

3.2 Qualifying own funds

The main elements and deductions determining the Group's qualifying own funds at 31 December 2019 and 2018 are described below:

Tabla 10. Common Equity Tier 1 capital (CET1)

Million €

	TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE	2019	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
	of which: Instrument type 3		0
2	Retained earnings	104	250
3	Accumulated other comprehensive income (and other reserves)	7,036	6,792
3a	Funds for general banking risk	0	0
5	Minority interests (amount allowed in consolidated CET1)	3,414	3,183
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		0
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**12,891**	**12,561**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	38	22
8	Intangible assets (net of related tax liability) (negative amount)	529	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)	2,105	2,009
11	Fair value reserves related to gains or losses on cash flow hedges	-5	-1
12	Negative amounts resulting from the calculation of expected loss amounts	116	1
20a	Exposure amount of the following items which quality for a RW of 1250%, where the institution opts for the deduction alternative	5	6
20c	of which: securitisation positions (negative amounts)	5	6
26	Regulatory adjustments applied to Common Equity Tier 1 as to amounts subject to pre-CRR treatment	-1,010	-1,161
26a	Regulatory adjustments as to unrealised gains and losses under Articles 467 and 468	0	0
	Of which: ... unrealised gains filter 1	0	0
	Of which: ... unrealised gains filter 2	0	0
26b	Amount to be deducted or added to Common Equity Tier 1 in respect of other filters and deductions required pre-CRR	-1,010	-1,161
	Of which: ... Intangible assets	0	0
	Of which: ... Deferred tax assets that rely on future profitability	-1,015	-1,162
	Of which: ... Expected loss	0	0
	Of which: ... Cash flow hedges	5	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)**	**1,778**	**1,377**
29	**Common Equity Tier 1 (CET1) capital**	**11,113**	**11,184**

Tabla 11. Additional Tier 1 Capital (AT1) and Tier 1 Capital (TIER I)

Million €

OWN FUNDS DISCLOSURE TEMPLATE		2019	2018
	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	440	470
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**440**	**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	0	0
	Of which: Intangible assets and goodwill	0	0
	Of which: Expected loss	0	0
	Of which: Excess AT 1 deductions	0	0
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	**0**
44	**Additional Tier 1 (AT1) capital**	**440**	**470**
45	**Tier 1 capital (T1=CET1 + AT1)**	**11,553**	**11,654**

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

Million €

TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE		2019	2018
	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	1,925	1,837
50	Credit risk adjustments	0	191
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,925**	**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	0	0
	Of which: Expected loss	0	0
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	**0**
58	**Tier 2 (T2) capital**	**1,925**	**2,028**
59	**Total capital (TC= T1 + T2)**	**13,478**	**13,681**
60	**Total risk weighted assets**	**78,315**	**83,246**

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

EUR million and %

TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE		2019	2018
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.2	13.4
62	Tier 1 (as a percentage of total risk exposure amount)	14.8	14.0
63	Total capital (as a percentage of total risk exposure amount)	17.2	16.4
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.7	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)	0	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)	371	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)	414	565
	Applicable caps on the inclusion of provisions in Tier 2		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	273	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	255	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

04.
DISCLOSURES ON OWN FUNDS REQUIREMENTS

CAPÍTULO 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 2019 and risk-weighted assets at 31 December 2019 and 2018 are summarised below on the basis of the measurement approach used for the items referred to above:

Tabla 14. Overview of RWA (OV1)

million €

Risk type	RWAs (*) dec.-18	RWAs (*) dec.-19	Annual RWA variation	Capital requirements (**) dec-19
Credit risk (excluding counterparty credit risk)	**70,529**	**67,289**	**-3,240**	**5,383**
Of which: Standardised Approach (SA)	30,788	25,870	-4,918	2,070
Of which: FIRB (Foundation Internal Rating Based)	3,419	3,613	194	289
Of which: AIRB (Advanced Internal Rating Based)	36,079	36,956	877	2,957
Of which: equity IRB under the simple risk-weighted approach or the IMA	242	849	607	68
Counterparty credit risk	**2,312**	**2,119**	**-193**	**170**
Of which: Standardised Approach for counterparty credit risk (SA)	51	49	-2	4
Of which: Internal Rating-Based (IRB) Approach	2,031	1,892	-139	151
Of which: Credit Value Adjustment risk (CVA)	230	178	-52	14
Settlement risk	**0**	**0**	**0**	**0**
Securitisation exposures in banking book	**416**	**269**	**-147**	**22**
Of which: IRB ratings-based approach (RBA)	47	38	-9	3
Of which: Standardised Approach (SA)	369	231	-138	18
Market risk	**1,579**	**1,080**	**-499**	**86**
Of which: Standardised Approach (SA)	0	0	0	0
Of which: Internal Model Approach (IMA) (***)	1,579	1,080	-499	86
Large Exposures	**0**	0	**0**	**0**
Operational risk	**6,028**	**5,594**	**-434**	**448**
Of which: Basic Indicator Approach	147	30	-117	2
Of which: Standardised Approach	5,881	5,564	-317	445
Amounts below the thresholds for deduction (subject to 250% risk weight)	**2,383**	**1,963**	**-420**	**157**
Floor adjustment	**0**	0	**0**	**0**
Total	**83,246**	**78,315**	**-4,931**	**6,265**

(*) 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 €506 million at December 2019 and of €626 million at December 2018.

The main differences between both periods clearly relate to credit risk, mainly in the form of an improvement in the risk profile of the portfolio, a reduction in the balance sheet largely due to the sale of portfolios, and the roll-out of the wholesale portfolio from BMN with an IRB approach.

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

Impacts 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. This treatment has not changed following the entry into force, on 27 June 2019, of the legislative reform package on Regulation (EU) No 575/2013, although the favourable treatment of monetisable tax assets arising from temporary differences has been limited to those generated prior to 23 November 2016.

The impact as at 31 December 2019 came to 728.3 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, involves capital requirements at 31 December 2019 of 74.2 million euros and, in 2018, of 77.7 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.

On 7 June 2019, the European Parliament and the Council published a legislative package which contains amendments to (i) CRD IV, (ii) CRR, (iii) Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms (the “BRRD”) and (iv) Regulation (EU) 806/2014 of the European Parliament and of the Council (the “SRM Regulation”) (collectively the “EU Banking Reform Package”) to reinforce the capital and liquidity positions of banks and strengthen the framework for the recovery and resolution of banks in difficulty. The EU Banking Reform Package entered into force on 27 June 2019, with a two-year phase-in for implementing certain amendments.

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 that were 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 included 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 2019. 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 ended in 2019, from which all such buffer requirements became binding, making the requirement the full 2.75%.

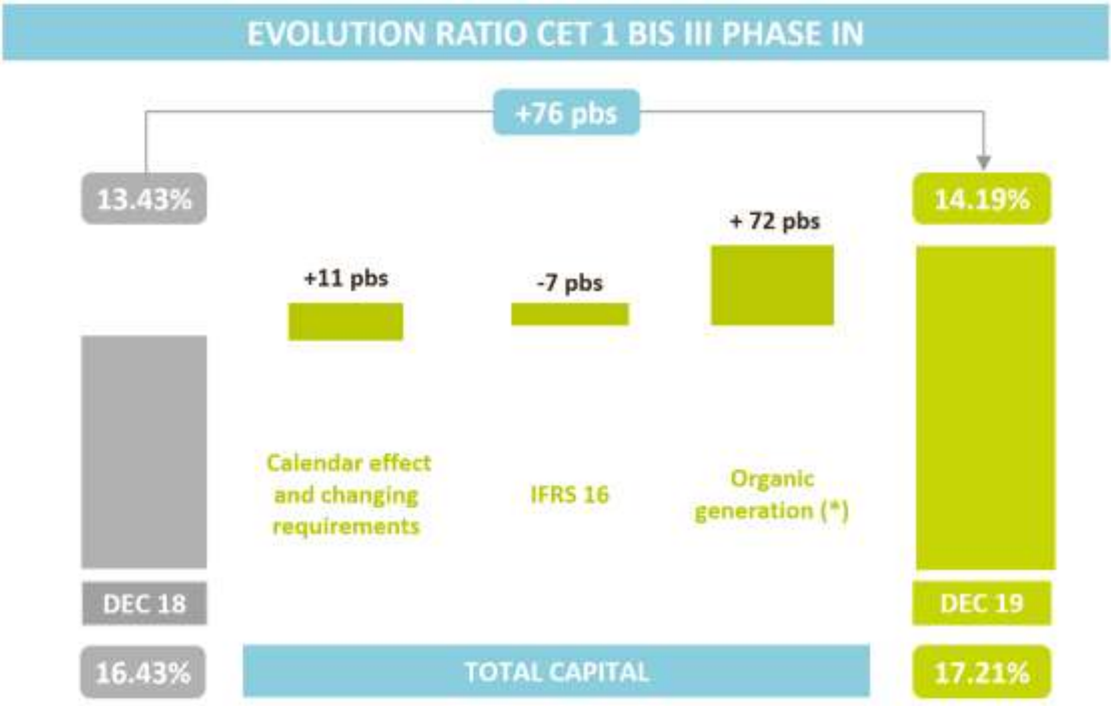
In February 2019, the European Central Bank notified the BFA Group of the capital requirements applicable to it in 2020: a minimum Common Equity Tier 1 ratio of 9.25% and a minimum Total Capital ratio of 12.75%, both measured in relation to its transitional (phase-in) regulatory capital. These thresholds 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%).

At 31 December 2019, the BFA Group had reached a CET 1 ratio of 14.19% and a total capital ratio of 17.21%, both on a phased-in basis. These capital ratios imply surpluses above the 9.25% minimum Common Equity Tier 1 capital ratio requirement for 2019 of 3,869 million euros and above the 12.75% minimum Total Capital ratio requirement of 3,492 million euros. In fully-loaded terms, the BFA Group has attained a Common Equity Tier 1 ratio of 13.38% and a Total Capital ratio of 16.55%.

In 2019, the phase-in Common Equity Tier 1 ratio increased by 76 basis points. For a further year, the BFA Group has relied on an organic model for generating CET1 (+72 bp), allowing it to offset the negative impact of regulatory changes on capital adequacy, while continuing to meet the target levels set out in the Corporate Risk Appetite and Tolerance Framework. The performance of phase-in CET1 capital in 2019 was as follows:

- Timing effect of both capital deductions and minimum regulatory requirements for capital buffers, generating an impact of +11 basis points.
- Entry into force of IFRS 16, generating an impact of -7 basis points.
- Organic generation of capital during the year of +72 basis points, mainly including the net profit attributable to the Group generated in the year (EUR +105 million), the increase in eligible unrealised capital gains associated with the fair value portfolio and the reduction in risk-weighted assets.

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



(*) Includes the net result for the year, other effects on the numerator and the variation of risk-weighted assets

Meanwhile, the BFA Group managed to increase its phase-in total capital ratio by 78 basis points in 2019 to 17.21%, mainly due to the performance of CET1 capital as just mentioned, coupled with the phase-in implementation related to the adjustment for surplus minority interests to Tier 2 capital and the reduction of the allowance for non-performing loans eligible for calculation as Tier 2 capital. In February, the Bank issued EUR 1,000 million in subordinated debt eligible for calculation as Tier 2 capital to replace the issuance of EUR 1,000 million of subordinated debt redeemed early in May.

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 compensation 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. On 10 October 2014, Commission Delegated Regulation (EU) No. 2015/62 was approved. It became effective from 1 January 2015 and replace the CRR with respect to calculating the leverage ratio.

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. Following the entry into force of the Banking Reform Package, and more precisely the CRR, a minimum binding requirement for the leverage ratio of 3% of Tier 1 capital was established on 27 June 2019, effective as of June 2020, in line with the reference value established by the Basel Committee on Banking Supervision in 2014.

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 2019, the BFA Group had a Phase-In leverage ratio of 5.44%. The level attained is down 12 bps on the same period of the previous year, mainly due to the increase in exposure on the assets side of the balance sheet. In Fully-Loaded terms, the ratio was 5.16% at 31 December 2019.

We set out below an itemised disclosure of the BFA Group's leverage ratio at 31 December 2019 and 31 December 2018, respectively, 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.

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

Millions of €		dec.-19	dec.-18
		Applicable amounts	
1	**Total assets as per published financial statements**	**210,781**	**207,667**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	4	-330
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	-8,374	-7,929
5	Adjustments for securities financing transactions	3,518	3,966
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	8,298	7,574
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	-1,773	-1,372
8	**Total leverage ratio exposure**	**212,454**	**209,576**

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

Millions of €		dec.-19	dec.-18
		CRR leverage ratio exposures	
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**196,471**	**195,273**
EU-2	**Trading book exposures**	0	0
EU-3	**Banking book exposures, of which:**	196,471	195,273
EU-4	Covered bonds	0	0
EU-5	Exposures treated as sovereigns	53,062	66,953
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1.737	5,070
EU-7	Institutions	21,464	6,424
EU-8	Secured by mortgages of immovable properties	64,918	58,130
EU-9	Retail exposures	12,047	14,503
EU-10	Corporate	32,668	30,957
EU-11	Exposures in default	6,096	7,608
EU-12	Other exposures (ex. equity, securitisations, and other non-credit obligation assets)	4,479	5,628

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:

Tabla 17. Leverage ratio common disclosure (LRCom)

Millions of €		dec.-19	dec.-18
		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)	198,243	196,644
2	(Asset amounts deducted in determining Tier 1 capital)	-1,773	-1,372
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	196,471	195,273
	Derivative exposures		
4	Replacement cost associated with derivatives transactions	1,971	1,907
5	Add-on amounts for PFE associated with derivatives transactions	635	610
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)	-1,962	-1,796
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	644	721
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	3,525	2,043
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
14	Counterparty credit risk exposure for SFT assets	3,518	3,966
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	7,042	6,009
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	33,711	30,912
18	(Adjustments for conversion to credit equivalent amounts)	-25,414	-23,338
19	Other off-balance sheet exposures	8,298	7,574
	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	11,553	11,654
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	212,454	209,576
	Leverage Ratio		
22	Leverage Ratio	5.44%	5.56%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	SI	SI
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

CAPÍTULO 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.

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 considering the provisions of the Bank of Spain Circular 4/2017 on the rules on public and confidential financial reporting and on model financial statements and subsequent amendments thereto, which implements and adapts IFRS-EU for Spanish credit institutions.

Impairment of financial assets

The 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.

Impairment losses for the period are recognised as an expense in the consolidated income statement, with a balancing entry in the carrying amount of the asset. Subsequent reversals are recognised as income in the consolidated income statement. For debt instruments measured at fair value through other comprehensive income, the instrument is adjusted to fair value, with a balancing entry in “Accumulated other comprehensive income” in consolidated equity.

Classification of transactions for credit risk attributable to insolvency

Financial instruments – including off-balance sheet exposures – are classified into the following categories considering whether there has been a significant increase in credit risk since initial recognition of the transaction or a default event has occurred:

- 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

For financial instruments classified in Stage 1 – Standard exposure, the Group assesses whether to continue recognising 12 month expected credit losses. The Group assesses whether there has been a significant increase in credit risk since initial recognition. If so, it transfers the financial instrument to Stage 2 – Standard exposure under special monitoring and recognises lifetime expected credit losses. This assessment is performed from a dual perspective –qualitative and quantitative- and its symmetrical, such that the financial instrument may return to Stage 1 – Standard exposure

To perform this assessment from a quantitative perspective, the Group has developed a specific approach for comparing probability of default (PD), whereby current PD is compared to the original PD associated with the rating level at inception. If the assessment shows an increase above absolute and relative thresholds, the Group considers that there has been a significant increase in the risk of the instrument. These thresholds were calibrated in accordance with the criteria set out in the Group's Risk approval policy and consider the individual characteristics of the loan portfolios. The election of the thresholds for classification of transactions into Stage 2 – Standard risk under special monitoring was made based on analysis of the Group's historical experience, in which transactions with similar PD levels were classified in Stage 2 – Standard risk under special monitoring using other quantitative and qualitative criteria.

For purposes of the quantitative comparison, the Group availed of the simplification allowed in the standard, which entails changes in the risk of a default occurring over the next 12 months as a reasonable approximation to changes in lifetime risk of default of the instrument. This approach is aligned with the Group's credit risk management practices and provides a reasonable approximation of the changes in the lifetime risk of a default occurring. In this respect, no situations have been identified where the financial instrument only has significant payment obligations beyond the next 12 months, of changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months, or of changes in credit-related factors that only have an impact on the credit risk of the financial instrument beyond 12 months indicating that a lifetime assessment is necessary.

Moreover, for comparison and considering the ageing of current transactions, for those in which no PD was available on origination, the Group has used the first PD available.

The Group’s credit risk management systems also include other quantitative and qualitative components which, combined or separately, could give rise to consideration that the credit risk of the financial instrument has increased significantly, such as adverse changes in the borrower’s financial position, downgrades in credit rating, unfavourable changes in the sector in which they operate, their regulatory or technological environment, among others, that do not provide evidence of impairment. These factors and weightings vary by type of product, type of borrower, and characteristics of the financial instrument, so it is not possible to detail a single set of criteria for determining the occurrence of a significant increase in credit risk.

Irrespective of the assessment based on probability of default and indications of deterioration in the credit risk of the exposure, 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.
- Agreements with issuers or holders involved in a creditors’ agreement that do not present evidence of impairment .

- Repeat default or increase in the scale of default that does not present evidence of impairment of mortgage loans granted to natural persons.

However, for assets with a counterparty of low credit risk, the Group applies the possibility included in the standard of considering that their credit risk has not increased significantly. Such counterparties are primarily Central banks, public administrations, deposit guarantee and resolution funds, credit institutions, reciprocal guarantee companies, and non-financial public sector entities.

Default and credit-impaired financial assets

To determine the risk of default, the Group applies a definition that is consistent with the one used for internal credit risk management of financial instruments and considers quantitative and qualitative indicators.

In this respect, 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 instrument 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.

- 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.

It may be possible to identify a single discrete event or, instead, the combined effect of several events may have caused the credit impairment.

Anyway, the Group's definitions of default and credit-impaired asset are aligned.

No reasonable expectations of recovery

The Group classifies as write-off when, after an individualised assessment, it has no reasonable expectations of recovering the contractual cash flows due to the notorious and unrecoverable deterioration of the solvency of the transaction or borrower.

In this respect, the Group deems the recovery of the following transactions to be remote (automated classification factors):

- Transactions classified as Stage 3 – Doubtful risk due to arrears that have been in this category for more than four years or that, before reaching this age, have 100% impaired for over two years, unless there is effective collateral covering at least 10% of the gross amount of the transaction.

- Transactions of borrowers declared to be in creditor's agreement for which there is evidence that the liquidation phase has been or is due to be declared, except those with effective collateral covering at least 10% of the gross carrying amount of the transaction.

Classification in this category for the above reasons does not preclude the Group to cease negotiations and legal action to recover the amount.

The Group also assesses the individual facts and circumstances that could indicate that recovery of the contractual cash flows of the transaction is remote. This could include situations where recovery has been exhausted although the age of default is less than four years; exposures in bankruptcy proceedings for which the expectation of recovery is low; or situations where high costs must be incurred that do not warrant the estimation of recovery.

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 of 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. For portfolios with insufficient depth of available information, approaches are used that include experience and information on the Spanish banking sector and forecasts for future conditions. Allowances for exposures with low credit risk not classified in Stage 3 – Doubtful risk are calculated using this approach, since there are not enough observations to develop internal models.

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 (retail, self-employed, business, etc.), the classification of the borrower or issuer, the type of transaction (mortgage, consumer, card, etc.), the type of guarantee (personal, collateral, etc.). For certain portfolios, specific factors are applied, such as LTV ratios, the borrower's or issuer's turnover and sector for non-retail portfolios and the amount of time classified in 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 macroeconomic variables used in the baseline scenario and additional scenarios are generated by Bankia Research.

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.

The following table shows the forecasts for the main macroeconomic variables used to estimate expected losses for the Bankia Group over the next three years:

Tabla 18. Macroeconomic Forecast

	Average 2020-2022		
	Adverse	**Baseline**	**Positive**
Probability of occurrence	***20.0%***	***60.0%***	***20.0%***
GDP	0.3%	1.6%	2.3%
No. of Social Security registrations	0.1%	1.6%	2.4%
House prices	**-0.9%**	**3.9%**	**6.2%**

Bankia has carried out a sensitivity analysis of expected loss to changes in the model's assumptions. In this respect, an upward or downward movement in GDP of ±0.5% over the next 12 months as a key macroeconomic variable with influence on the rest of the dependent variables would produce a variation in expected loss due to credit risk of less than ±1.5%, approximately.

Credit risk attributable to country-risk

Country-risk is understood as the risk associated with counterparties resident in a specific country due to circumstances other than normal commercial risk (sovereign risk, transfer risk or risks arising from international financial activity) or risk attributable to insolvency. The Group classifies third-party transactions into groups based on their economic performance, political situation, regulatory and institutional framework, and payment capacity and record, allocating to each the percentages of allowances stipulated in prevailing regulations.

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 are not significant relative to total impairment allowances set aside by the Group.

Refinancing and restructuring

The Group accounts for loan restructuring and refinancing operations in accordance with Bank of Spain Circular 4/2017, which in general is compatible aligned with the ECB and the EBA principles. These criteria set out certain rules for classification at source, as well as general criteria for a restructured or refinanced exposure to be considered cured, and therefore, reclassified to a lower risk level.

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

- A modified transaction was classified as Stage 3- doubtful exposure before the modification or would be classified as Stage 3 - doubtful exposure without the modification.

- The modification implies the partial derecognition of the balance of the debt for reasons such as forbearance or amounts written off.
- When simultaneously or nearly simultaneously with the granting of additional financing, the borrower has made payments of the principal or interest on another transaction with the Entity classified as Stage 3 - doubtful or would be classified as Stage 3 - doubtful if the additional financing were not granted.
- The Entity approves the use of implicit restructuring or refinancing clauses in relation to transactions classified as doubtful exposure or that would be classified as Stage 3 - doubtful exposure if such clauses were not exercised.
- Some or all of the payments of the modified transaction have been due for more than 30 days (without being classified as Stage 3 - 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.

The criteria for the classification of refinanced or restructured operations are as follows:

- Insignificant exposures (retail, micro companies and companies not subject to individual assessment) are classified in accordance with the following variables:

Financial effort	Grace period			Second refinancing (2)
	<=24 months		>24 months	
	Forgiveness (1) No	Forgiveness (1) Yes		
<= 50%	Standard under special monitoring	Doubtful	Doubtful	Doubtful
> 50%	Doubtful	Doubtful	Doubtful	Doubtful

(1) Forgiveness above % of the allowances and provisions established in article 140 of Annex IX of Bank of Spain Circular 4/2017.

(2) It will be classified as doubtful if the refinance operation was doubtful at the moment of the refinancing or if the financed transaction was classified as doubtful on initial classification. Otherwise, the classification is based on the result of the general analysis applicable to all refinancing transactions.

For customers assessed individually, classification is based on the result of the analysis, focusing mostly on the ability to pay and also considering forbearance or forgiveness agreements and sustainable debt.

Curing criteria have also been established so that refinancing transactions can change their risk classification, in accordance with the following scheme.

- Refinance operation classified as Stage 3 - doubtful will remain in that category until the criteria that, in general, determine the reclassification of transactions out of the Stage 3 - doubtful exposure category and the specific criteria set out below are verified:

1) It is concluded, after an exhaustive review of the borrower's assets and financial position, that the borrower is unlikely to have any financial difficulties. To ensure there are no indications of financial difficulties, the transactions must meet the following requirements:

- There have not been payments in arrears by more than 30 days in the past year
- The borrower is current on its payments
- The customer has no other transactions classified as doubtful or in arrears by more than 90 days
- The borrower is not in litigation or bankruptcy

2) That at least one year has elapsed from the date of the refinancing or restructuring. In particular, that at least one year has elapsed since the last of the following date:

- The refinancing date.
- The end of the grace period.
- The date of the last entry into Stage 3 – Doubtful exposure

During the probation period described, a new refinancing or restructuring of refinancing, refinanced or restructured transactions or the existence of amounts more than 30 days past due shall entail the reclassification of these transactions to the category of Stage 3 - doubtful for reasons other than arrears, provided they were classified in the Stage 3 - doubtful exposure category before the start of the probation period. The minimum one-year period established in the preceding point begins from the date of reclassification of the transaction to Stage 3 - doubtful.

The transaction will be classified as Stage 3 - doubtful if the refinanced transaction is doubtful at the date of refinancing or if the refinanced transaction was classified as Stage 3 - doubtful initially. Otherwise, it is classified based on the result of the general analysis applicable to all refinancing transactions

3) That the borrower has paid the accrued instalments of principal and interest, reducing the principal renegotiated, since the later of the date of entry into the restructuring or refinancing transaction or the date of reclassification from the category of doubtful. Accordingly, the transaction may not present past-due amounts. Also required:

- that the borrower has settled, by means of regular payments, an amount equal to all the amounts (principal and interest) that were past due or written down at the time of the restructuring or refinancing, or
- when it is more appropriate based on the characteristics of the transactions, that other objective criteria evidencing the borrower's payment capacity have been verified.

4) That the borrower does not have another transaction with amounts more than 90 days past due at the date of the reclassification to Stage 2 - standard under special monitoring of the refinancing, refinanced or restructured transaction.

- Refinanced transactions classified as Stage 2 - standard under special monitoring will remain in this category until:

1) It is concluded, after an exhaustive review of the borrower's assets and financial position, that the borrower is unlikely to have any financial difficulties.

To ensure there are no indications of financial difficulties, the transactions must meet the following requirements:

- Not be included in Stage 1 or 2 (excluding collectively assessed).
- Not be classified as repeat default or high (six months or more in the ladder of default in the past year with past-due amounts of seven days or more, unless there have never been any amounts past-due by more than 30 days, in which case they are not considered repeat), in the mortgage portfolio.
- There have been no payments in arrears by more than 90 days in the last three months.
- Not be rated A01 or A02 in the behavioural model.
- Not have an updated LTV greater than 100% when the repayment scheme entails increasing instalments or the percentage repaid is less than 5% (mortgage portfolio).

2) A minimum of two years has elapsed since the later of the date of entry into the restructuring or refinancing transaction or the date of reclassification from the category of doubtful exposure. Therefore, the dates are as follows:

- Date of entry.
- The end of the grace period.
- The date of the last entry into arrears.

3) That the borrower has paid the accrued instalments of principal and interest since the later of the date of entry into the restructuring or refinancing transaction or the date of reclassification from the category of Stage 3 - doubtful. Also required:

- that the borrower has settled, by means of regular payments, an amount equal to all the amounts (principal and interest) that were past due or written down at the time of the restructuring or refinancing. This information will be considered where available, but it may be replaced with expert criteria based on objective facts, or
- when it is more appropriate based on the characteristics of the transactions, that other objective criteria evidencing the borrower's payment capacity have been verified.

Therefore, the existence of contractual clauses that delay repayment, such as grace periods for principal, imply that the transaction remains identified as Stage 2 - standard under special monitoring until the criteria described are met. Natural persons' payment capacity is demonstrated through continued payment of the transaction being cured, similar to transactions of legal persons for amounts of up EUR 300,000. Expert analysis is carried out by the manager for transactions with legal persons over EUR 300,000 to determine the sustained future payment capacity.

4) That the borrower does not have any other transaction with amounts more than 90 days past due at the end of the probation period.

Once the foregoing requirements are met, the transactions are classified as Stage 1 - standard exposure and removed from the scope of classification, curing and presentation included in the appendix, irrespective of their monitoring for credit risk management purposes.

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 2019 exposures (including counterparty risk exposures) under both the standardised and the advanced approaches for each category of exposure:

Tabla 19. 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	1,004	1,135
Institutions	29,537	29,665
Corporates	59,315	57,165
Of which: Specialized lending	5,107	4,916
Of which: SME	19,524	18,557
Retail	53,199	53,371
Residential Mortgage	40,914	41,322
SME	1,523	1,547
Non-SME	39,391	39,774
Retail - Qualifying Revolving	4,777	4,731
Other Retail	7,508	7,318
SME	2,487	2,499
Non-SME	5,021	4,819
Equity	313	285
Total - IRB approach	**143,368**	**141,621**
Central governments or central banks	47,958	46,130
Regional governments or local authorities	4,085	4,193
Public sector entities	2,588	2,167
Multilateral development banks	8	3
International organisations	0	0
Institutions	2,207	2,272
Corporates	128	655
Of which: SME	128	520
Retail exposures	5,153	5,590
Of which: SME	1,033	1,103
Exposures secured by mortgages on immovable property	22,882	23,368
Of which: SME	942	1,061
Exposures in default	1,231	1,598
Exposures associated with particularly high risks	3	20
Covered bonds	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0
Collective investments undertakings	0	7
Equity exposures	371	377
Other assets	10,934	10,754
Total - SA approach	**97,549**	**97,134**
Total	**240,916**	**238,755**

"Institutions" 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 20,305 million euros with no positions under the standard approach at 31 December 2019.

5.1.3.1.2 Geographical breakdown of exposures

Most of the Original Exposure portfolio comprises customers within the European Union, specifically, 99.4% at 31 December 2019, with 92.3% being accounted for by business in Spain.

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

Tabla 20. Geographical breakdown of exposures (CRB-C)

	EUROPE							NORTH AMERICA					
Million €	TOTAL EUROPE	*Spain*	*France*	*United Kingdom*	*Italy*	*Germany*	*Other countries of Europe*	TOTAL NA	*USA*	*Mexico*	*Other countries of NA*	OTHER AREAS	*Total*
Central governments or central banks	**1,004**	1,004	0	0	0	0	0	**0**	0	0	0	**0**	**1,004**
Institutions	**29,092**	22,529	2,639	3,266	0	548	109	**164**	162	0	2	**281**	**29,537**
Corporates	**58,687**	55,600	299	179	145	321	2,143	**403**	156	192	55	**225**	**59,315**
Retail	**53,012**	52,568	41	176	15	63	149	**67**	45	14	9	**120**	**53,199**
Equity	**278**	278	0	0	0	0	0	**35**	35	0	0	**0**	**313**
Total IRB Approach	142,072	131,978	2,978	3,622	160	932	2,401	669	397	206	67	626	143,368
Central governments or central banks	**47,874**	43,303	290	0	4,258	0	23	**1**	1	0	0	**83**	**47,958**
Regional governments or local authorities	**4,085**	4,085	0	0	0	0	0	**0**	0	0	0	**0**	**4,085**
Public sector entities	**2,588**	2,588	0	0	0	0	0	**0**	0	0	0	**0**	**2,588**
Multilateral development banks	**8**	0	0	8	0	0	0	**0**	0	0	0	**0**	**8**
International organisations	**0**	0	0	0	0	0	0	**0**	0	0	0	**0**	**0**
Institutions	**2,207**	451	711	452	0	506	88	**0**	0	0	0	**0**	**2,207**
Corporates	**128**	127	0	0	1	0	0	**0**	0	0	0	**0**	**128**
Retail exposures	**5,134**	5,083	2	25	2	9	13	**3**	2	0	0	**16**	**5,153**
Exposures secured by mortgages on immovable property	**22,750**	22,166	21	365	5	45	148	**18**	12	3	4	**114**	**22,882**
Exposures in default	**1,216**	1,182	1	22	0	0	10	**1**	0	0	1	**14**	**1,231**
Exposures associated with particularly high risks	**3**	3	0	0	0	0	0	**0**	0	0	0	**0**	**3**
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	**0**	0	0	0	0	0	0	**0**	0	0	0	**0**	**0**
Equity exposures	**371**	371	0	0	0	0	0	**0**	0	0	0	**0**	**371**
Other assets	**10,934**	10,934	0	0	0	0	0	**0**	0	0	0	**0**	**10,934**
Total Standardised approach	97,298	90,293	1,024	873	4,267	560	282	23	15	3	5	227	97,549
Total	239,371	222,271	4,003	4,494	4,427	1,492	2,683	692	412	209	71	853	240,916

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 35.6% of the total, followed by “Public Administration” sector (22.4%).

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 2019 are shown below

Tabla 21. Concentration of exposures by industry or counterparty types (CRB-D)

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 central banks	0	0	0	0	0	0	0	0	0	0	0	0	1	0	998	0	0	0	5	0	0	0	1,004
Institutions	0	0	1	0	91	161	1	132	0	0	25,453	20	7	1	87	0	0	3	15	0	0	3.564	29,537
Corporates	854	982	12,178	6,330	834	7,199	9,783	4,415	1,956	2,305	2,764	1,938	2,762	1,792	0	398	817	751	1,033	0	0	225	59,315
Retail	419	17	825	198	20	1,011	2,400	764	777	268	216	711	1,306	409	0	151	478	195	500	2	0	42,534	53,199
Equity	1	0	0	0	0	0	0	0	20	0	111	0	17	30	0	0	0	0	0	0	0	135	313
Total IRB approach	1,273	998	13,004	6,528	945	8,371	12,183	5,310	2,753	2,574	28,544	2,669	4,092	2,233	1,085	549	1,295	949	1,552	2	0	46,459	143,368
Central governments or central banks	0	0	24	0	0	0	0	0	0	0	3	0	0	0	47,930	0	0	0	0	0	1	0	47,958
Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4,033	0	0	0	0	0	0	52	4,085
Public sector entities	2	1	170	0	16	119	0	690	2	0	49	0	497	10	893	22	11	51	54	0	0	0	2,588
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	8	0	0	0	0	0	0	0	0	0	0	0	8
Institutions	0	0	0	0	0	0	0	0	0	0	1,783	0	0	0	0	0	0	0	0	0	0	425	2,207
Corporates	1	0	3	3	0	1	6	1	0	1	0	5	2	0	0	1	10	0	1	0	0	93	128
Retail exposures	152	6	113	22	6	131	272	73	123	20	5	132	99	93	0	18	45	22	127	0	0	3.693	5,153
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	22,882	22,882
Exposures in default	21	1	29	1	0	46	54	14	28	5	1	29	20	23	0	3	2	5	21	0	0	928	1,231
Exposures associated with particularly high risks	0	0	0	0	0	1	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	3
Equity exposures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	371	371
Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,934	10,934
Total Standardised approach	**176**	**8**	**339**	**26**	**22**	**299**	**333**	**778**	**153**	**26**	**1,849**	**168**	**618**	**127**	**52,856**	**43**	**69**	**78**	**203**	**0**	**1**	**39,378**	**97,549**
Total	**1,449**	**1,006**	**13,343**	**6,554**	**967**	**8,669**	**12,516**	**6,088**	**2,906**	**2,600**	**30,393**	**2,836**	**4,710**	**2,360**	**53,941**	**591**	**1,364**	**1,027**	**1,755**	**2**	**1**	**85,837**	**240,916**

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:

Tabla 22. 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	141	163	693	7	1,004
Institutions	0	22,029	5,156	2,026	326	29,537
Corporates	0	26,420	12,399	12,713	7,783 [3]	59,315
Retail	23	1,650	9,149	42,035	340	53,199
Equity	0	313	0	0	0	313
Total IRB approach	**24**	**50,554**	**26,868**	**57,467**	**8,456**	**143,368**
Central governments or central banks	0	2,304	8,539	14,292	22,823	47,958
Regional governments or local authorities	0	744	1,493	1,843	5	4,085
Public sector entities	0	893	824	761	110	2,588
Institutions	0	1,851	59	297	0	2,207
Corporates	0	92	11	24	1	128
Regulatory retail exposures	6	296	754	3,861	236	5,153
Exposures secured by mortgages on immovable property	0	31	759	22,029	64	22,882
Exposures in default	1	107	74	1,014	36	1,231
Exposures associated with particularly high risks	0	0	0	3	0	3
Multilateral development banks	0	0	8	0	0	8
Equity exposures	0	371	0	0	0	371
Other assets	0	0	0	0	10,934	10,934
Total SA approach	**7**	**6,689**	**12,520**	**44,123**	**34,209**	**97,549**
Total	**30**	**57,243**	**39,388**	**101,590**	**42,665**	**240,916**

Corporate exposure in the column headed “no stated maturity” for the differing categories of corporates 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.

[3] Includes mainly the balance of surety and factoring type products.

5.1.3.2 Credit qualities 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).

Tabla 23. Credit quality of exposures by exposure classes and instruments (CR1-A)

Million €	Gross carrying values of		Credit risk adjust-ment	Accumu lated write-offs	Credit risk adjustment charges of the period (*)	Net Values
	Defaulted exposures	Non-defaulted exposures				
Central governments or central banks	7	998	0	0	0	1,004
Institutions	152	29,474	89	0	-16	29,537
Corporates	3,953	57,089	1,727	0	-597	59,315
Of which: Specialised lending	717	4,645	255	0	-159	5,107
Of which: SMEs	1,816	18,506	799	0	-143	19,524
Retail	2,056	52,112	969	0	-407	53,199
Secured by real estate property	1,681	39,819	586	0	-468	40,914
SMEs	143	1,430	50	0	-64	1,523
Non-SMEs	1,538	38,389	536	0	-404	39,391
Qualifying revolving	34	4,806	63	0	16	4,777
Other retail	341	7,487	320	0	45	7,508
SMEs	200	2,427	141	0	-10	2,487
Non-SMEs	140	5,060	180	0	56	5,021
Equity	0	313	0	0	0	313
Total IRB approach	**6,168**	**139,985**	**2,786**	**0**	**-1,019**	**143,368**
Central governments or central banks	0	47,959	1	0	1	47,958
Regional governments or local authorities	0	4,085	0	0	0	4,085
Public sector entities	0	2,588	0	0	0	2,588
Multilateral development bank	0	8	0	0	0	8
International organisations	0	0	0	0	0	0
Institutions	0	2,229	21	0	-1	2,207
Corporates	0	201	73	0	-44	128
Of which: SMEs	0	201	73	0	-40	128
Retail	0	5,236	83	0	-27	5,153
Of which: SMEs	0	1,045	12	0	-5	1,033
Secured by mortgages on immovable property	0	22,921	39	0	10	22,882
Of which: SMEs	0	944	2	0	-2	942
Exposures in default	1,809	0	578	0	-619	1,231
Items associated with particularly high risk	0	3	0	0	0	3
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	0	0	0	0	0
Equity exposures	0	371	0	0	0	371
Other exposures	0	11,603	669	0	-1,029	10,934
Total standardised approach	**1,809**	**97,204**	**1,464**	**0**	**-1,710**	**97,549**
Total	**7,976**	**237,189**	**4,249**	**0**	**-2,729**	**240,916**
Of which: Loans	6,399	135,097	3,851	0	-2,582	137,645
Of which: Debt securities	7	47,271	1	0	0	47,277
Of which: Off-balance-sheet exposures	1,413	38,067	247	0	-94	39,233

(*) Credit risk adjustment charges have been calculated as the change in provisions between December 2019 and December 2018.

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.

Tabla 24. Credit quality of exposures by industry or counterparty types (CR1-B)

Million €	Gross carrying values of		Credit risk adjust-ment	Accumulated write-offs	Credit risk adjustment charges of the period (*)	Net Values
	Defaulted exposures	Non-defaulted exposures				
Agriculture, forestry and fishing	110	1,393	54	0	-19	1,449
Mining and quarrying	20	994	8	0	-3	1,006
Manufacturing	827	12,872	356	0	-100	13,343
Electricity, gas, steam and air conditioning supply	274	6,361	81	0	-57	6,554
Water supply	39	941	12	0	-10	967
Construction	1,179	7,943	452	0	-274	8,669
Wholesale and retail trade	846	12,086	416	0	-55	12,516
Transport and storage	536	5,792	240	0	-114	6,088
Accommodation and food service activities	182	2,805	81	0	-58	2,906
Information and communication	64	2,564	28	0	-16	2,600
Financial and insurance activities	29	30,386	22	0	-5	30,393
Real estate activities	195	2,734	92	0	-65	2,836
Professional, scientific and technical activities	545	4,478	313	0	-139	4,710
Administrative and support service activities	135	2,281	56	0	-22	2,360
Public administration and defence, compulsory social security	2	53,941	2	0	-1	53,941
Education	36	568	13	0	-7	591
Human health services and social work activities	52	1,334	23	0	-17	1,364
Arts, entertainment and recreation	48	1,004	25	0	-144	1,027
Other services	112	1,689	46	0	-33	1,755
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	1	0	0	0	1
No code informed	2,745	85,022	1,929	0	-1,592	85,837
Total	**7,976**	**237,189**	**4,249**	**0**	**-2,729**	**240,916**

(*) Credit risk adjustment charges have been calculated as the change in provisions between December 2019 and December 2018.

5.1.3.2.3 Itemisation of exposures by geographic area

The following table discloses exposure quality by geographical area.

Tabla 25. Credit quality of exposures by geography (CR1-C)

Million €	Gross carrying values of: Defaulted exposures	Gross carrying values of: Non-defaulted exposures	Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period (*)	Net Values Defaulted exposures
TOTAL EUROPE	**7,903**	**235,669**	**4,201**	**0**	**-2,600**	**239,371**
Italy	1	4,426	1	0	0	4,427
United Kingdom	42	4,473	20	0	-14	4,494
France	7	4,002	7	0	0	4,003
Spain	7,598	218,730	4,056	0	-2,578	222,271
Germany	113	1,431	52	0	6	1,492
Other countries of Europe	142	2,606	65	0	-14	2,683
TOTAL NORTH AMERICA	**26**	**682**	**16**	**0**	**4**	**692**
USA	2	412	2	0	-1	412
Mexico	23	199	14	0	6	209
Other countries of NA	1	71	1	0	0	71
OTHER AREAS	**47**	**838**	**32**	**0**	**-134**	**853**
TOTAL	**7,976**	**237,189**	**4,249**	**0**	**-2,729**	**240,916**

(*) Credit risk adjustment charges have been calculated as the change in provisions between December 2019 and December 2018.

The total default percentage stands at around 3.3%, 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 Information on non-performing exposures, forborne exposures and/or foreclosed assets

5.1.3.3.1 Credit quality of forborne exposures

The following table sets out the gross carrying amounts of forborne (restructured or refinanced) exposures and the related accumulated impairment losses, allowances, accumulated changes in fair value due to credit risk, and collateral and financing received using the prudential scope of consolidation in accordance with Part 1, Title II, Chapter 2, of the CRR.

Tabla 26. Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
Million €	Performing forborne		*Of which defaulted*	*Of which impaired*	On performing forborne exposures	On non-performing forborne exposures		*Of which collateral and financial guarantees received on non-performing exposures with forbearance measures*
Loans and advances	3,257	3,477	3,464	3,287	-118	-1,226	3,648	1,525
Central banks	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
General governments	*22*	*26*	*26*	*26*	*0*	*-10*	*26*	*15*
Credit institutions	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial corporations	*4*	*7*	*7*	*7*	*0*	*-7*	*0*	*0*
Non-financial corporations	*1,285*	*1,757*	*1,755*	*1,567*	*-56*	*-776*	*1,054*	*453*
Households	*1,947*	*1,687*	*1,675*	*1,687*	*-62*	*-433*	*2,567*	*1,057*
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	0	0	0	0	0	0	0	0
Total	3,257	3,477	3,464	3,287	-118	-1,226	3,648	1,525

Data from FINREP statements

5.1.3.3.2 Credit quality of performing and non-performing exposures by past due days

The following table shows the breakdown of the carrying amounts of performing and non-performing exposures by maturity.

Tabla 27. Credit quality of performing and non-performing exposures by past due days

	Gross value / Nominal value											
	Performing exposures			Non-performing exposures								
Million €		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 year	Past due > 2 year ≤ 5 year	Past due > 5 year ≤ 7 year	Past due > 7 year	Of which defaulted
Loans and advances	132,164	131,315	849	6,219	2,478	426	561	649	1.028	478	600	6,152
Central banks	*11,673*	*11,673*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
General governments	*4,842*	*4,842*	*0*	*90*	*11*	*2*	*0*	*5*	*5*	*3*	*63*	*90*
Credit institutions	*6,066*	*6,066*	*0*	*4*	*4*	*0*	*0*	*0*	*0*	*0*	*0*	*4*
Other financial corporations	*1,955*	*1,954*	*1*	*16*	*14*	*0*	*0*	*0*	*2*	*0*	*0*	*11*
Non-financial corporations	*34,056*	*33,929*	*127*	*3,043*	*1,362*	*127*	*197*	*317*	*544*	*193*	*304*	*3,036*
Of which SMEs	*15,915*	*15,796*	*119*	*1,721*	*630*	*107*	*163*	*208*	*297*	*145*	*172*	*1,714*
Households	*73,572*	*72,851*	*721*	*3,066*	*1,087*	*296*	*364*	*327*	*477*	*282*	*233*	*3,011*
Debt securities	**46,634**	**46,634**	**0**	**17**	**11**	**0**	**0**	**5**	**0**	**0**	**0**	**17**
Central banks	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
General governments	*25,716*	*25,716*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Credit institutions	*43*	*43*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial corporations	*20,519*	*20,519*	*0*	*10*	*4*	*0*	*0*	*5*	*0*	*0*	*0*	*10*
Non-financial corporations	*356*	*356*	*0*	*7*	*7*	*0*	*0*	*0*	*0*	*0*	*0*	*7*
Off-balance sheet exposure	**35,483**			**1,201**								**1,141**
Central banks	*0*			*0*								*0*
General governments	*912*			*1*								*1*
Credit institutions	*363*			*0*								*0*
Other financial corporations	*3,172*			*0*								*0*
Non-financial corporations	*25,548*			*1,147*								*1,115*
Households	*5,488*			*53*								*25*
Total	**214,281**	**177,948**	**850**	**7,437**	**2,489**	**426**	**562**	**654**	**1.028**	**478**	**600**	**7,310**

Data from FINREP statements

5.1.3.3.3 Performing and non-performing exposures and related provisions

The following table presents the gross carrying amount of performing and non-performing exposures and the related accumulated impairment, allowances, accumulated changes in fair value due to credit risk, accumulated partial write-offs and collateral and financial guarantees received

Tabla 28. Performing and non-performing exposures and related provisions

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	**132,16**	**124,2**	**7,878**	**6,21**	**350**	**5,869**	**-**	**-209**	**-420**	**-2,563**	**-17**	**-2,545**	**0**	**69,478**	**2,543**
Central banks	*11,673*	*11,673*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Central governments	*4,842*	*4,771*	*71*	*90*	*0*	*90*	*-1*	*0*	*-1*	*-47*	*0*	*-47*	*0*	*226*	*36*
Credit institutions	*6,066*	*6,066*	*1*	*4*	*0*	*4*	*0*	*0*	*0*	*-1*	*0*	*-1*	*0*	*0*	*0*
Other financial corporations	*1,955*	*1,952*	*3*	*16*	*1*	*15*	*-2*	*-1*	*-1*	*-9*	*0*	*-9*	*0*	*71*	*1*
Non-financial corporations	*34,056*	*31,039*	*3,017*	*3,043*	*349*	*2,693*	*-237*	*-89*	*-148*	*-1,533*	*-17*	*-1,516*	*0*	*7,183*	*703*
Of which: SMEs	*15,915*	*14,455*	*1,460*	*1,721*	*107*	*1,614*	*-162*	*-83*	*-79*	*-913*	*-10*	*-903*	*0*	*5,079*	*548*
Households	*73,572*	*68,787*	*4,786*	*3,066*	*0*	*3,066*	*-389*	*-119*	*-270*	*-973*	*0*	*-973*	*0*	*61,999*	*1,804*
Debt securities	**46,634**	**46,61**	**19**	**17**	**8**	**9**	**-3**	**0**	**-3**	**-7**	**-1**	**-6**	**0**	**0**	**0**
Central banks	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Central governments	*25,716*	*25,716*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Credit institutions	*43*	*43*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial corporations	*20,519*	*20,504*	*15*	*10*	*1*	*9*	*-3*	*0*	*-3*	*-7*	*0*	*-6*	*0*	*0*	*0*
Non-financial corporations	*356*	*352*	*4*	*7*	*7*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Off-balance sheet exposure	**35,483**	**34,58**	**900**	**1,20**	**236**	**963**	**70**	**49**	**21**	**232**	**7**	**226**	*0*	**0**	**38**
Central banks	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		*0*	*0*
Central governments	*912*	*911*	*1*	*1*	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*0*		*0*	*0*
Credit institutions	*363*	*363*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		*0*	*0*
Other financial corporations	*3,172*	*3,169*	*3*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		*0*	*0*
Non-financial corporations	*25,548*	*24,703*	*845*	*1,147*	*230*	*915*	*39*	*23*	*16*	*229*	*7*	*222*		*0*	*35*
Households	*5,488*	*5,436*	*51*	*53*	*6*	*47*	*30*	*26*	*5*	*4*	*0*	*4*		*0*	*3*
Total	**214,28**	**205,4**	**8,797**	**7,43**	**594**	**6,840**	**-**	**-160**	**-402**	**-2,337**	**-11**	**-2,326**	**0**	**69,478**	**2,581**

Data from FINREP statements

5.1.3.3.4 Collateral obtained by taking possession and execution processes

The following table gives an overview of foreclosed assets obtained from non-performing exposures.

Tabla 29. Collateral obtained by taking possession and execution processes

Millions €	Collateral obtained by taking possession – Value at initial recognition	Collateral obtained by taking possession – Accumulated negative changes
Tangible assets	**0**	**0**
Other than PP&E	**2,704**	**-853**
Residential immovable property	*1,890*	*-596*
Commercial Immovable property	*763*	*-205*
Movable property (auto, shipping, etc.)	*0*	*0*
Equity and debt instruments	*51*	*-51*
Other	*0*	*0*
Total	**2,704**	**-853**

5.1.3.4 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:

Tabla 30. Changes in stock of general and specific credit risk adjustments (CR2-A)

Million €	Accumulated credit risk adjustment
Opening balance (12/31/2018)	**-4,245**
Increases due to amounts set aside for estimated loan losses during the period	-1,124
Decreases due to amounts reversed for estimated loan losses during the period	622
Decreases due to amounts taken against accumulated credit risk adjustments	1,339
Transfers between credit risk adjustments	0
Impact of exchange rate differences	-1
Business combinations, including acquisitions and disposals of subsidiaries	0
Other adjustments	208
Closing balance (12/31/2019)	**-3,201**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	40
Specific credit risk adjustments directly recorded to the statement of profit or loss	0

5.1.3.5 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.

Tabla 31. Changes in stock of defaulted and impaired loans and debt securities (CR2-B)

Million €	Gross carrying amount of defaulted exposures
Opening balance (12/31/2018)	**7,742**
Loans and debt securities that have defaulted or impaired since the last reporting period	1,985
Returned to non-defaulted status	-1,853
Amounts written off	-628
Other changes	-1,381
Closing balance (12/31/2019)	**5,865**

"Other changes" reflects a decrease in doubtful items through repossessions, acquisitions.

5.1.3.6 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 2019. This information does not differ significantly from the data on credit institutions within the Group's scope of consolidation for prudential purposes.

5.1.3.7 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.

5.1.3.7.1 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.

5.1.3.7.2 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".

5.1.3.7.3 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:

5.1.3.7.3.1 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.

5.1.3.7.3.2 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).

5.1.3.7.3.3 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.

5.1.3.7.3.4 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.

5.1.3.7.3.5 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.

5.1.3.7.4 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.)

5.1.3.7.5 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.

Tabla 32. 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	107,295	64,093	119	0	63,973	0
Total debt securities	47,277	0	0	0	0	0
Total exposures	**154,572**	**64,093**	**119**	**0**	**63,973**	**0**
Of which defaulted	2,868	1,664	3	0	1,661	0

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).

Tabla 33. Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Millions € and %	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	47,929	28	70,202	48	9,184	13.1%
Regional government or local authorities	3,881	194	3,881	68	11	0.3%
Public sector entities	1,643	838	645	153	146	18.2%
Multilateral development banks	0	8	181	3	0	0.0%
International organisations	0	0	0	0	0	0.0%
Institutions	534	0	568	0	159	28.0%
Corporates	125	3	124	1	122	98.0%
Retail	4,012	1,140	3,971	478	3,224	72.5%
Secured by mortgages on immovable property	22,843	40	22,843	20	8,005	35.0%
Exposures in default	1,150	80	1,150	28	1,228	104.3%
Higher-risk categories	1	2	1	1	3	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	0	0	0	0	0	0.0%
Equity	371	0	371	0	927	250.0%
Other items	5,102	5,833	5,102	0	4,825	94.6%
Total	**87,592**	**8,166**	**109,039**	**799**	**27,833**	**25.3%**

The above table shows that the average total conversion factor is 9.78%. 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 (20,305 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:

Tabla 34. Exposures and risk weightings under standardised approach (CR5)

	Risk weight																TOTAL	Of which unrated
Millions €	**0%**	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**70%**	**75%**	**100%**	**150%**	**250%**	**370%**	**1250%**	**Others**	**Deducted**		
Central governments or central banks	61,687	0	0	0	0	0	0	0	0	8.148	0	414	0	0	0	0	70,249	8,496
Regional government or local authorities	3,894	0	0	0	55	0	0	0	0	0	0	0	0	0	0	0	3,949	55
Public sector entities	488	0	0	0	32	0	279	0	0	0	0	0	0	0	0	0	798	310
Multilateral development banks	185	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	185	0
Institutions	0	0	0	0	374	0	56	0	0	0	0	0	0	0	139	0	568	568
Corporates	0	0	0	0	0	0	0	0	0	125	0	0	0	0	0	0	125	125
Retail	0	0	0	0	0	0	0	0	4,449	0	0	0	0	0	0	0	4,449	4,449
Secured by mortgages on immovable property	0	0	0	0	0	22,321	541	0	0	0	0	0	0	0	0	0	22,862	22,862
Exposures in default	0	0	0	0	0	0	0	0	0	1,078	100	0	0	0	0	0	1,178	1,178
Higher-risk categories	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	2	2
Equity	0	0	0	0	0	0	0	0	0	0	0	371	0	0	0	0	371	371
Other items	0	0	0	0	346	0	0	0	0	4,756	0	0	0	0	0	0	5,102	5,102
Total	**66,253**	**0**	**0**	**0**	**806**	**22,321**	**876**	**0**	**4,449**	**14,106**	**102**	**785**	**0**	**0**	**139**	**0**	**109,838**	**43,518**

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 credit rating systems based on customer segmentation and/or transaction (rating and scoring) that provide, through internal models, a rating for each borrower and their transactions. There are six groups of rating models and five scoring models depending on the portfolios to which they are applied.

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.

- Enterprises: 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:

	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 2019 are set out below:

Tabla 35. EAD by calculation method

Approach	EAD Million€	EAD %
Advanced IRB	98,781	45.7%
Foundation IRB	5,767	2.7%
Standardised	111,683	51.6%
TOTAL	**216,231**	**100.0%**

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:

Tabla 36. 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	336	0	0.0%	0	0.0%	7	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	458	98	76.0%	0	0.0%	430	0.0%	-	0	0.0%	0	
0.50 to <0.75	49	11	76.1%	0	0.0%	52	0.0%	-	0	0.0%	0	
0.75 to <2.50	43	3	91.9%	0	0.0%	94	0.0%	-	0	0.0%	0	
2.50 to <10.00	0	0	100.0%	0	0.0%	1	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)	6	0	75.0%	6	100.0%	11	45.0%	1.9	0	0.0%	3	
Total	**892**	**112**	**76.4%**	**6**	**100.0%**	**595**	**45.0%**	**1.9**	**0**	**0.0%**	**3**	**0**
Institutions – FIRB												
0.00 to <0.15	97	0	100.0%	143	0.1%	7	40.8%	9.6	30	21.0%	0	
0.15 to <0.25	0	0	0.0%	0	0.2%	0	24.2%	-	0	14.5%	0	
0.25 to <0.50	217	52	83.0%	183	0.4%	105	44.9%	8.3	124	67.8%	0	
0.50 to <0.75	1	0	98.6%	1	0.5%	5	45.0%	5.2	1	76.1%	0	
0.75 to <2.50	54	1	84.0%	51	1.4%	38	45.0%	11.8	55	109.3%	0	
2.50 to <10.00	22	0	78.3%	22	4.1%	11	45.0%	12.5	33	148.7%	0	
10.00 to <100.00	0	0	75.0%	0	16.5%	3	45.0%	20.0	0	241.1%	0	
100.00 (Default)	139	3	98.8%	141	100.0%	39	45.0%	8.4	0	0.0%	64	
Total	**530**	**57**	**83.9%**	**542**	**26.6%**	**208**	**43.8%**	**9.2**	**243**	**44.9%**	**65**	**-82**

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	201	504	100.0%	627	0.1%	20	34.8%	0.7	117	18.7%	0	
0.15 to <0.25	3,551	2,335	99.9%	3,149	0.2%	54	34.8%	2.0	981	31.1%	2	
0.25 to <0.50	21,364	86	85.5%	725	0.3%	48	33.6%	3.2	365	50.3%	1	
0.50 to <0.75	559	106	97.3%	240	0.6%	43	34.1%	8.1	121	50.4%	1	
0.75 to <2.50	136	44	92.9%	141	1.4%	23	34.8%	3.4	105	74.4%	1	
2.50 to <10.00	81	68	66.4%	103	3.9%	71	35.6%	1.5	118	115.3%	1	
10.00 to <100.00	1	0	100.0%	1	23.1%	4	34.8%	6.0	2	189.5%	0	
100.00 (Default)	4	0	100.0%	5	100.0%	6	34.8%	1.9	2	40.2%	2	
Total	**25,897**	**3,143**	**98.6%**	**4,990**	**0,4%**	**269**	**34.6%**	**2.3**	**1,810**	**36.3%**	**7**	**-7**
Corporates SME – AIRB												
0.00 to <0.15	1,206	2,009	52.9%	2,619	0.1%	7,643	40.2%	4.5	457	17.5%	1	
0.15 to <0.25	0	0	0.0%	0	0.2%	1	47.8%	20.0	0	16.6%	0	
0.25 to <0.50	2,033	1,598	50.2%	3,070	0.3%	3,950	41.7%	3.3	976	31.8%	4	
0.50 to <0.75	900	558	50.2%	1,171	0.5%	5,684	41.2%	4.4	451	38.5%	2	
0.75 to <2.50	4,041	1,609	51.5%	4,690	1.2%	8,876	40.9%	4.5	2,870	61.2%	23	
2.50 to <10.00	2,466	1,013	57.0%	2,693	4.2%	6,043	38.5%	6.0	2,217	82.3%	43	
10.00 to <100.00	825	304	62.6%	772	18.8%	3,270	35.8%	8.9	1,014	131.5%	52	
100.00 (Default)	1,208	553	64.9%	1,438	100.0%	6,140	52.8%	9.8	576	40.1%	715	
Total	**12,678**	**7,645**	**53.6%**	**16,452**	**10.8%**	**41,607**	**41.4%**	**5.2**	**8,561**	**52.0%**	**840**	**-799**
Corporates Others - AIRB												
0.00 to <0.15	6,716	7,835	36.9%	11,068	0.1%	1,268	35.2%	4.9	2,380	21.5%	3	
0.15 to <0.25	0	0	0.0%	0	0.0%	0	0.0%	-	0	0.0%	0	
0.25 to <0.50	3,257	3,338	42.2%	4,637	0.3%	1,233	39.8%	3.3	2,336	50.4%	5	
0.50 to <0.75	50	29	61.1%	49	0.5%	135	35.3%	7.0	28	56.6%	0	
0.75 to <2.50	4,997	4,451	32.2%	5,294	1.2%	1,370	36.7%	3.2	4,118	77.8%	24	
2.50 to <10.00	1,611	1,093	40.3%	1,384	4.4%	735	37.7%	4.4	1,602	115.8%	23	
10.00 to <100.00	291	274	36.2%	256	17.2%	255	32.0%	6.3	416	162.8%	15	
100.00 (Default)	855	561	47.4%	1,075	100.0%	375	39.1%	4.7	483	44.9%	382	
Total	**17,777**	**17,581**	**37,3%**	**23,762**	**5,3%**	**5,371**	**36,7%**	**4.2**	**11,363**	**47.8%**	**452**	**-673**
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	100.0%	0	0.2%	1	21.0%	20.0	0	5.6%	0	
0.25 to <0.50	80	1	92.8%	79	0.4%	752	19.1%	10.2	8	10.1%	0	
0.50 to <0.75	72	0	75.0%	70	0.7%	550	25.0%	10.3	13	19.0%	0	
0.75 to <2.50	360	4	83.4%	346	1.9%	2,633	19.9%	10.1	104	30.0%	1	
2.50 to <10.00	875	6	74.3%	843	5.0%	5,312	20.7%	12.7	466	55.2%	9	
10.00 to <100.00	34	0	74.9%	30	14.4%	189	21.1%	15.5	26	88.8%	1	
100.00 (Default)	141	0	75.0%	141	100.0%	678	43.3%	12.3	5	3.5%	61	
Total	**1,562**	**11**	**79.9%**	**1,508**	**12.9%**	**10,115**	**22.8%**	**11.9**	**622**	**41.2%**	**72**	**-50**

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	8,655	7	75.0%	8,660	0.1%	111,591	11.9%	15.5	193	2.2%	1	
0.15 to <0.25	5,410	3	75.0%	5,412	0.2%	52,338	16.0%	15.7	370	6.8%	2	
0.25 to <0.50	5,891	29	74.1%	5,913	0.4%	85,889	14.2%	15.2	546	9.2%	3	
0.50 to <0.75	2,783	10	74.7%	2,791	0.6%	31,394	16.7%	16.4	449	16.1%	3	
0.75 to <2.50	8,575	24	74.7%	8,593	1.3%	69,822	19.0%	16.5	2,502	29.1%	21	
2.50 to <10.00	6,890	8	74.4%	6,896	4.6%	46,422	26.4%	19.2	6,321	91.7%	95	
10.00 to <100.00	132	0	0.0%	132	11.3%	1,066	41.7%	19.4	278	209.8%	6	
100.00 (Default)	1,508	0	93.4%	1,508	100%	9,921	40.0%	18.3	155	10.3%	591	
Total	**39,845**	**82**	**74.5%**	**39,905**	**5.0%**	**408,443**	**18.3%**	**16.5**	**10,815**	**27.1%**	**721**	**-536**
Retail - Qualifying revolving - 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	173	1,210	100.0%	1,383	0.2%	385,545	49.8%	3.1	90	6.5%	2	
0.25 to <0.50	9	75	100.0%	84	0.4%	27,255	49.8%	3.2	8	9.2%	0	
0.50 to <0.75	102	463	100.0%	565	0.7%	212,684	49.8%	3.0	88	15.6%	2	
0.75 to <2.50	327	1,821	100.0%	2,148	1.7%	1,138,587	49.8%	3.0	658	30.6%	19	
2.50 to <10.00	182	337	100.0%	519	4.4%	326,679	49.8%	2.9	300	57.7%	11	
10.00 to <100.00	66	43	100.0%	109	15.2%	104,869	49.8%	2.7	130	119.2%	8	
100.00 (Default)	30	2	100.0%	30	100.0%	31,190	67.4%	2.3	2	8.2%	20	
Total	**888**	**3,951**	**100.0%**	**4,838**	**2.4%**	**2,226,809**	**49.9%**	**3.0**	**1,276**	**26.4%**	**62**	**-63**
Retail – Others -AIRB												
0.00 to <0.15	22	32	24.3%	45	0.1%	1,489	41.6%	2,7	5	11.4%	0	
0.15 to <0.25	42	7	96.5%	48	0.2%	2,620	41.4%	6.5	8	15.8%	0	
0.25 to <0.50	855	44	59.5%	889	0.4%	75,649	44.1%	7.3	248	27.9%	1	
0.50 to <0.75	87	4	22.1%	88	0.6%	2,335	45.0%	7.8	29	32.6%	0	
0.75 to <2.50	2,674	157	75.9%	2,757	1.4%	213,971	46.5%	3.9	1,458	52.9%	18	
2.50 to <10.00	2,758	520	62.2%	2,900	4.6%	279,551	46.4%	4.0	1,891	65.2%	62	
10.00 to <100.00	298	6	74.3%	290	12.6%	151,638	48.6%	5.5	260	89.7%	18	
100.00 (Default)	292	30	73.6%	309	100.0%	147,323	62.4%	7.5	79	25.6%	186	
Total	**7,028**	**800**	**63.8%**	**7,326**	**7.1%**	**874,576**	**46.9%**	**4.6**	**3,977**	**54.3%**	**285**	**-320**

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.

Tabla 37. Exposures assigned to each risk weighting in 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	34	112	**50%**	134	67	0
	Equal to or more than 2.5 years	1,067	267	**70%**	1,292	904	5
Category 2	Less than 2.5 years	176	107	**70%**	253	177	1
	Equal to or more than 2.5 years	2,370	193	**90%**	2,516	2,264	20
Category 3	Less than 2.5 years	1	1	**115%**	3	3	0
	Equal to or more than 2.5 years	275	26	**115%**	300	345	8
Category 4	Less than 2.5 years	4	0	**250%**	4	11	0
	Equal to or more than 2.5 years	7	3	**250%**	9	23	1
Category 5	Less than 2.5 years	129	2	**-**	131	0	65
	Equal to or more than 2.5 years	483	103	**-**	577	0	289
Total	**Less than 2.5 years**	**260**	**170**		**404**	**173**	**66**
	Equal to or more than 2.5 years	**4,312**	**620**		**4,815**	**3,622**	**324**

Equities under the simple risk-weighted approach

Categories	On-balance-sheet-amount	Off-balance-sheet-amount	Risk weight	Exposure amount	RWAs	Capital require-ments
Private equity exposures	136	0	**190%**	136	258	21
Exchange-traded equity exposures	0	0	**290%**	0	0	0
Other equity exposures	148	0	**370%**	148	546	44
Total	**283**	**0**		**283**	**804**	**64**

The 52% of the specialised financing portfolio, is in category 2, having a maturity of more than 2.5 years. On the other hand, equities evaluated under the simple approach are not listed.

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):

Tabla 38. RWA flow statements of credit risk exposures under IRB (CR8)

	RWA amounts	Capital requirements
RWAs as at the beginning of the previous reporting period (12/31/2018)	**39,499**	**3,160**
Asset size	1,747	140
Asset quality	-1,744	-140
Model updates	1,216	97
Methodology and policy		
Acquisitions and disposals		
Foreign exchange movements		
Other	-148	-12
RWAs as at the end of the reporting period (12/31/2019)	**40,570**	**3,246**

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 under IRB in 2019 resulted in an increase of EUR 1,071 million in 2019, due mainly to the roll out of the portfolio from BMN in the year's third quarter, which previously accounted for EUR 1,500 million of RWA amounts under the standardised approach. Excluding this impact, RWAs would have decreased by EUR 429 million, mostly because of the portfolio's improved credit quality.

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.

The PDs of all portfolios (not low default) were recalibrated in 2019 with updated figures as at December 2018. A new recalibration is currently being performed with updated figure as at December 2019, but this was not available at the date of this report.

In October 2018, the proposed new individual mortgage behavioural model was submitted to the regulator, settling all PD estimation obligations reported in the TRIM, which in 2019 underwent an internal model investigation (IMI).

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

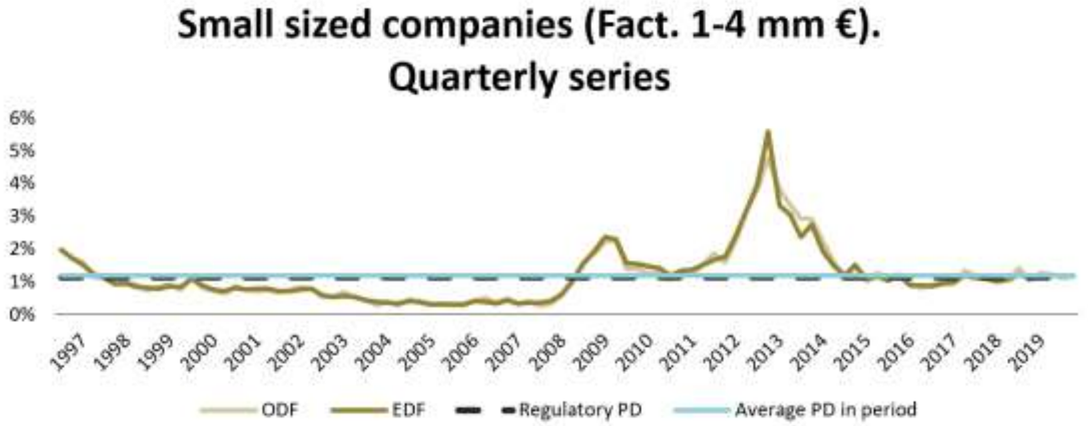
The diagram reveals that expected frequencies closely match observed frequencies (EDF vs. ODF). Meanwhile, long-run regulatory PD matches the average value observed over the estimation period. The slight difference is down to the adjustment made to reflect the full economic cycle.

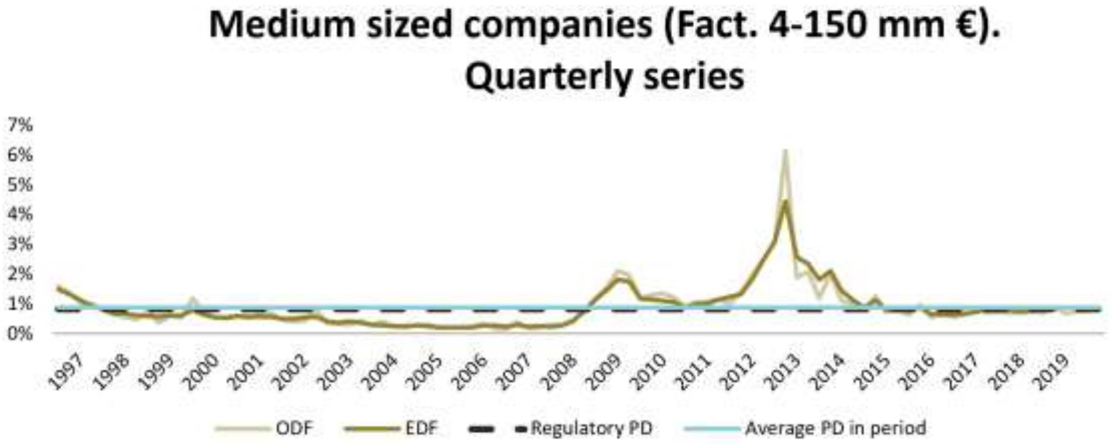
Note the spike in the series of defaults over the early years of the Great Recession, caused by the onset of the crisis and the second rule underlying the framework set out in DV3, whereby a process is followed to properly flag the default in those cases where it may be concealed under different restructuring processes.

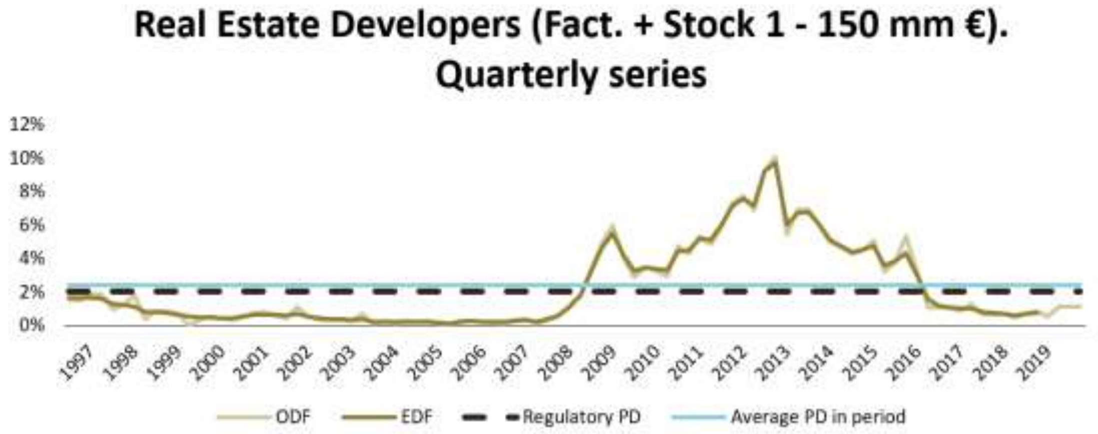
Portfolio of companies and real estate developers

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.





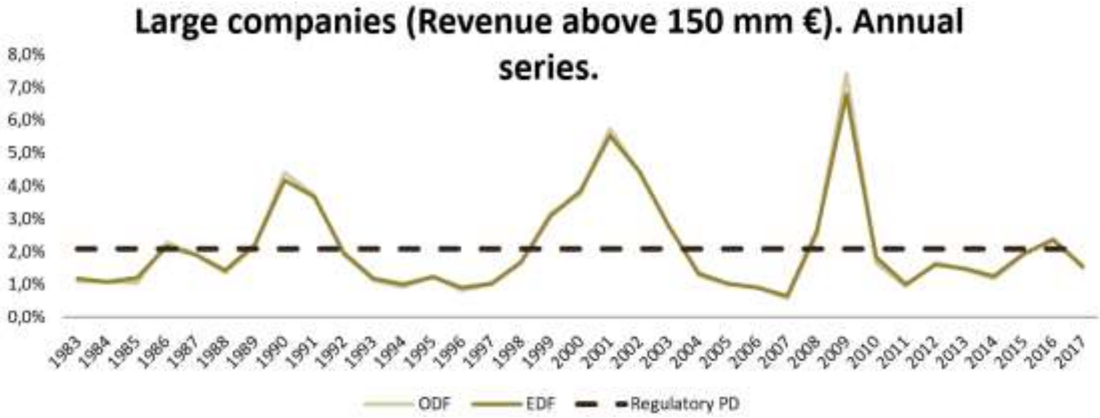


Although the defaults to have arisen following the various restructuring processes are adequately reflected when building the series of observed defaults, in all three segments we can observe a clear spike in 2012 (especially in the case of companies) as a product of the write-downs made in response 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[4].



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.

[4] The data in the chart are from the latest recalibration. Here, a PD recalibration is being carried out with data as at December 2019, but this is was not available at the date of this report.

Tabla 39. ODFs-EDFs 2013-2019 comparative

In %

Date	ODF Moody's	ODF Internal 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%	-
2019	-	0.88%	-

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 and 2019 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 six years:

Tabla 40. EDF and ODF 2014-2019 period

	In %	EDF *	ODF *
Housing	2014	1.64%	1.67%
	2015	1.67%	1.67%
	2016	0.89%	0.82%
	2017	0.55%	0.44%
	2018	0.35%	0.22%
	2019 **	-	0.26%
Real estate developers	2014	17.46%	17.19%
	2015	15.44%	16.24%
	2016	6.60%	6.23%
	2017	3.49%	3.39%
	2018	2.66%	2.65%
	2019 **	-	3.86%
Medium size companies	2014	4.50%	4.12%
	2015	3.29%	3.10%
	2016	2.61%	2.43%
	2017	3.20%	2.86%
	2018	3.19%	3.02%
	2019 **	-	3.07%
Small size companies	2014	5.92%	6.22%
	2015	4.37%	4.49%
	2016	3.50%	3.56%
	2017	4.27%	4.52%
	2018	4.26%	4.39%
	2019 **	-	4.63%

(*) Some of the data shown in this table presents variations from the information provided in the 2018 Pillar 3 Disclosure Report. These variations are due to an error in the incorporation of the data into the 2018 report.
(**) As at the date of publication of this report, the data for 2019 is not available because the calibration process of the new PDs and, therefore, of the EDFs is being carried out at this time.

5.1.5.10 Retrospective testing of PD by exposure category

The following table shows average PD[5] weighted by EAD, excluding exposures at default, as well as the classification by rating range, for IRB segments:

Tabla 41. 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-	0.07%	0.03%	5	7	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-	0.83%	0.40%	347	430	3	1	1.30%
	0.50 to <0.75	BBB- a BB+	0.54%	0.62%	51	52	1	1	1.13%
	0.75 to <2.50	BB+ a BB-	1.92%	1.92%	92	94	4	2	2.96%
	2.50 to <10.00	BB- a B-	6.80%	6.80%	3	1	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	11	10	2	0.00%
Institutions	0.00 to <0.15	AAA a A-	0.07%	0.06%	9	7	0	0	0.18%
	0.15 to <0.25	A- a BBB+	0.25%	0.25%	5	0	0	0	0.00%
	0.25 to <0.50	BBB+ a BBB-	0.40%	0.40%	77	105	5	2	0.36%
	0.50 to <0.75	BBB- a BB+	0.54%	0.54%	12	5	0	0	0.50%
	0.75 to <2.50	BB+ a BB-	1.62%	1.39%	27	38	4	0	1.26%
	2.50 to <10.00	BB- a B-	3.90%	5.81%	8	11	1	1	3.84%
	10.00 to <100.00	B- a C	14.42%	31.66%	6	3	1	0	16.59%
	100.00 (Default)	D	100.00%	100.00%	39	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-	0.08%	0.06%	26	20	0	0	0.21%
	0.15 to <0.25	A- a BBB+	0.18%	0.20%	54	54	1	0	0.10%
	0.25 to <0.50	BBB+ a BBB-	0.31%	0.31%	40	48	0	0	0.33%
	0.50 to <0.75	BBB- a BB+	0.62%	0.62%	43	43	3	2	0.10%
	0.75 to <2.50	BB+ a BB-	1.48%	1.23%	24	23	2	0	1.18%
	2.50 to <10.00	BB- a B-	3.83%	4.08%	89	71	5	0	4.18%
	10.00 to <100.00	B- a C	18.62%	18.74%	8	4	0	0	12.88%
	100.00 (Default)	D	100.00%	100.00%	4	6	6	2	0.00%

[5] 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.

Corporates - SME	0.00 to <0.15	AAA a A-	0.08%	0.15%	6,058	7,643	30	0	0.32%
	0.15 to <0.25	A- a BBB+	0.25%	0.49%	3,374	1	0	0	0.00%
	0.25 to <0.50	BBB+ a BBB-	0.36%	0.74%	4,832	3,950	11	0	0.26%
	0.50 to <0.75	BBB- a BB+	0.72%	1.27%	3,781	5,684	46	1	0.72%
	0.75 to <2.50	BB+ a BB-	1.22%	2.83%	4,417	8,876	89	46	1.18%
	2.50 to <10.00	BB- a B-	3.80%	11.46%	6,569	6,043	177	0	4.62%
	10.00 to <100.00	B- a C	17.68%	54.37%	3,009	3,270	1,076	0	29.77%
	100.00 (Default)	D	100.00%	100.00%	5,540	6,140	5,861	486	0.00%
Corporates - Other	0.00 to <0.15	AAA a A-	0.09%	0.07%	1,059	1,268	2	0	0.31%
	0.15 to <0.25	A- a BBB+	0.25%	0.25%	907	0	0	0	0.00%
	0.25 to <0.50	BBB+ a BBB-	0.34%	0.34%	253	1,233	2	2	0.25%
	0.50 to <0.75	BBB- a BB+	0.64%	0.63%	99	135	0	0	0.72%
	0.75 to <2.50	BB+ a BB-	1.13%	1.46%	1,128	1,370	6	0	1.10%
	2.50 to <10.00	BB- a B-	4.08%	5.72%	779	735	17	1	5.03%
	10.00 to <100.00	B- a C	19.30%	27.73%	188	255	39	0	26.03%
	100.00 (Default)	D	100.00%	100.00%	381	375	370	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	1	0	0	0.00%
	0.25 to <0.50	BBB+ a BBB-	0.43%	0.89%	140	752	0	0	0.66%
	0.50 to <0.75	BBB- a BB+	0.64%	1.26%	936	550	0	0	1.21%
	0.75 to <2.50	BB+ a BB-	2.01%	3.61%	2,922	2,633	6	0	1.94%
	2.50 to <10.00	BB- a B-	5.21%	10.38%	4,484	5,312	15	0	4.94%
	10.00 to <100.00	B- a C	11.60%	28.38%	1,193	189	1	0	15.67%
	100.00 (Default)	D	100.00%	100.00%	1,014	678	862	0	0.00%
Retail non secured SME	0.00 to <0.15	AAA a A-	0.06%	0.07%	69,148	111,591	35	18	0.10%
	0.15 to <0.25	A- a BBB+	0.20%	0.20%	60,676	52,338	22	0	0.25%
	0.25 to <0.50	BBB+ a BBB-	0.37%	0.38%	39,631	85,889	73	68	0.36%
	0.50 to <0.75	BBB- a BB+	0.61%	0.63%	33,288	31,394	14	0	0.63%
	0.75 to <2.50	BB+ a BB-	1.30%	1.47%	112,472	69,822	76	0	1.41%
	2.50 to <10.00	BB- a B-	4.77%	5.43%	64,224	46,422	112	0	3.40%
	10.00 to <100.00	B- a C	11.68%	12.83%	3,308	1,066	3	0	13.96%
	100.00 (Default)	D	100.00%	100.00%	12,674	9,921	12,493	0	0.00%
Retail - Qualifying revolving	0.00 to <0.15	AAA a A-	0.13%	0.10%	22,366	0	0	0	0.00%
	0.15 to <0.25	A- a BBB+	0.19%	0.18%	362,153	385,545	33	2	0.12%
	0.25 to <0.50	BBB+ a BBB-	0.35%	0.38%	31,436	27,255	3	1	0.23%
	0.50 to <0.75	BBB- a BB+	0.60%	0.59%	204,190	212,684	54	4	0.53%
	0.75 to <2.50	BB+ a BB-	1.68%	1.52%	1,061,790	1,138,587	618	0	1.55%
	2.50 to <10.00	BB- a B-	4.22%	5.35%	346,603	326,679	452	0	4.92%
	10.00 to <100.00	B- a C	18.07%	15.68%	57,403	104,869	866	262	15.01%
	100.00 (Default)	D	100.00%	100.00%	17,983	31,190	16,315	6,162	0.00%
Retail - Other	0.00 to <0.15	AAA a A-	0.11%	0.07%	1,362	1,489	1	1	0.00%
	0.15 to <0.25	A- a BBB+	0.16%	0.26%	1,823	2,620	0	0	0.22%
	0.25 to <0.50	BBB+ a BBB-	0.39%	0.60%	49,673	75,649	28	15	0.54%
	0.50 to <0.75	BBB- a BB+	0.62%	0.95%	22,261	2,335	4	0	0.79%
	0.75 to <2.50	BB+ a BB-	1.34%	2.49%	179,831	213,971	574	99	1.91%
	2.50 to <10.00	BB- a B-	4.63%	8.04%	242,961	279,551	2,201	904	4.83%
	10.00 to <100.00	B- a C	12.69%	22.29%	158,183	151,638	4,182	152	14.65%
	100.00 (Default)	D	100.00%	100.00%	173,659	147,323	159,442	2,914	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).

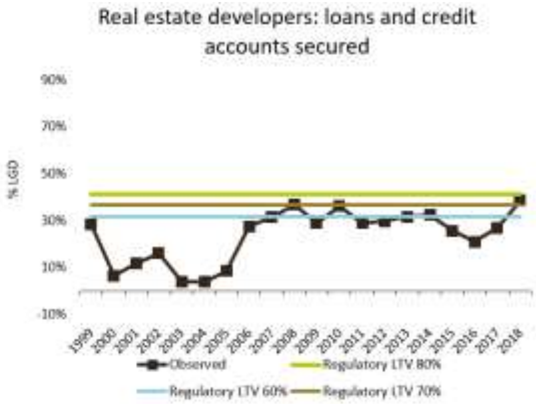
The following sections address the most significant groups, showing LGD value by year of date of default and the value used for regulatory purposes. The LGD data shown below present a timeline through to December 2018, coinciding with the most recent data available to the Entity for estimating severity as at the date of this report. The calibration with this information is currently being performed. Until it is concluded, the calibration from the previous year is maintained.

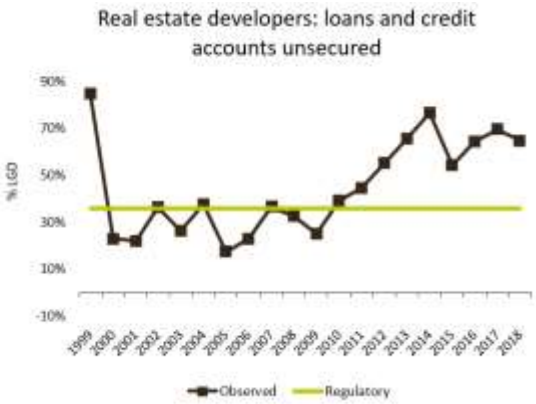
Once the ongoing calibration has been completed, the data window will be expanded with figures to December 2019 and the calibration process to be carried out in 2020 will start.

Naturally, only a small percentage of default cycles begun in recent years have ended. Therefore, the recovery shown is an estimate and not adjusted to the economic cycle.

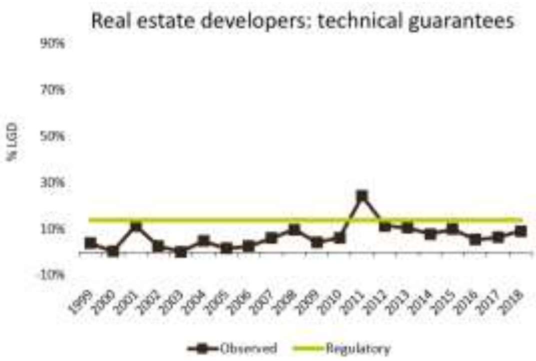
Real estate developer portfolio

For this segment, the chart below shows LGD on loans and credit accounts secured with mortgage collateral and without mortgage collateral. Here we can observe discrimination using this axis.



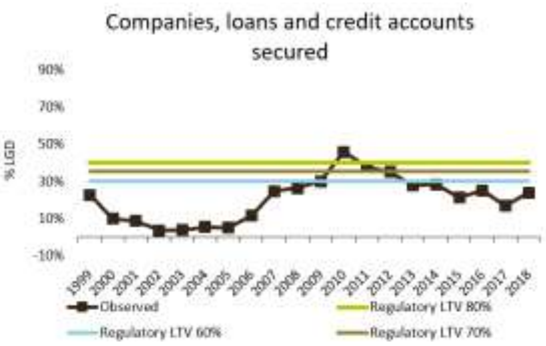


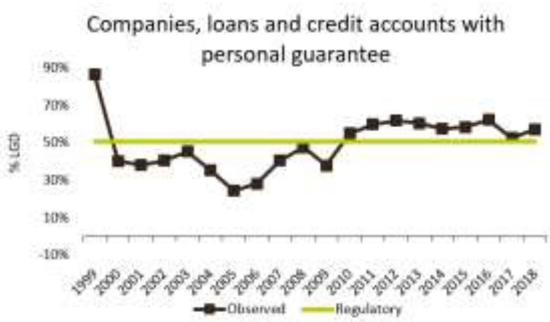
In the case of guarantees, both technical and economic, LGD is substantially lower.

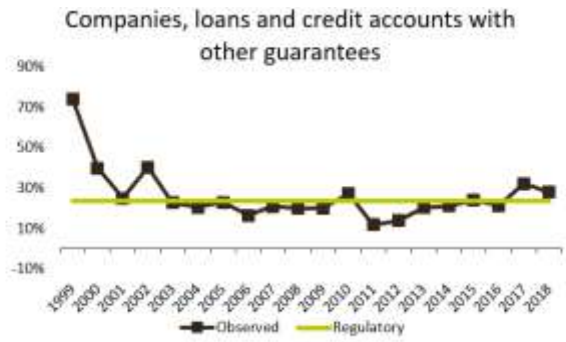


Companies portfolio

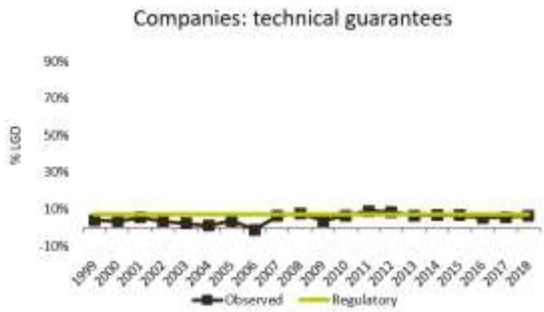
The various LGDs for loans and credit accounts according to guarantee or collateral are also presented. Here, too, there is discrimination using this axis.



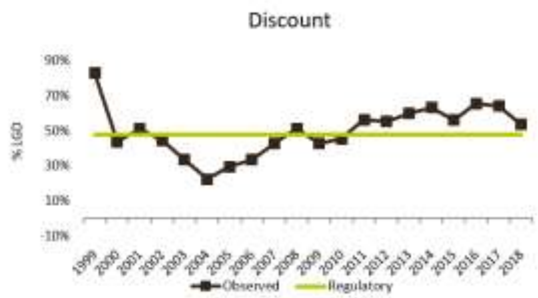




As with real estate developers, guarantees present a lower LGD than the other portfolios, especially the technical ones.

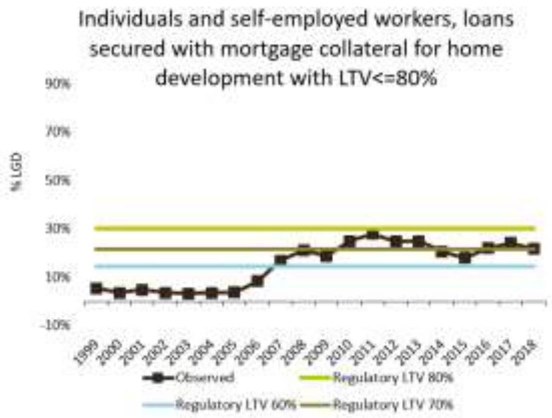


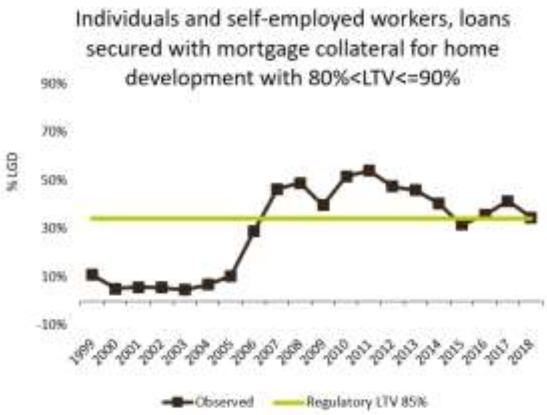
Lastly, two groups of particular interest within this portfolios segment are discount and foreign trade facilities. Commercial Discounts presents LGD values roughly on par with loans and credit accounts with personal guarantee. These values are lower for the second group.

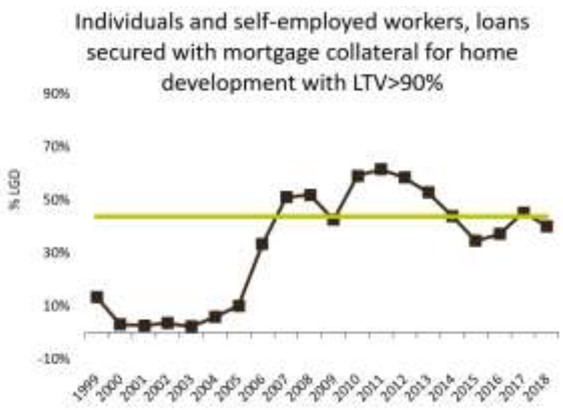


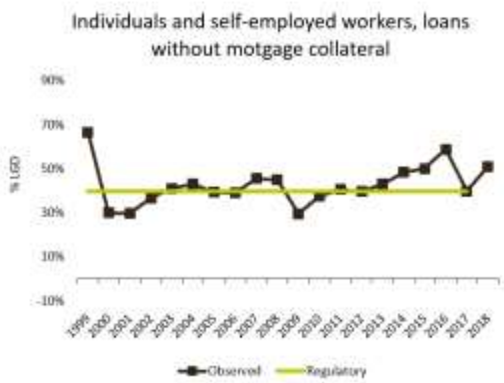
Individuals, and self-employed workers and sole traders portfolio

Loans secured with mortgage collateral by LTV are presented below. As shown, this is an important axis for discriminating LGD.









These amounts are compared with those of loans with personal guarantee, which are currently higher than those with LTVs over 90%.

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.

A new estimate of CCF with updated data as at December 2019 is being prepared. It includes methodological improvements and considers the recommendations arising from various supervisory initiatives.

The EAD and CCF figures presented in this report are those currently implemented in the Entity, calculated as at 31/12/2018. They will be updated in accordance with the calibration at year-end 2020.

The following sections include the Entity's existing CCFs by product category.

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.

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 Data & 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 Data & 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.

Backtesting exercises are also carried out on the LGD and CCF parameters to study the differences between the regulatory LGDs and CCFs estimated and implemented and the observed data and determine whether the estimates are accurate or there has been a deterioration in the model. A t-test is conducted for this analysis.

Also, annual follow-up tests were carried out in October 2019 on the credit risk parameters implemented in accordance with the new internal validation reporting requirement (*"validation reporting on internal models for credit risk").* The templates include tests of scope, stability, backtesting and discriminatory power through the tests defined in that document.

5.1.5.14 Factors to have impacted the loss experience during the previous year

Efforts to accelerate the reduction of non-productive assets through portfolio sales led to higher losses than in 2018. As for the cost of risk, IFRS 9, which became effective in January 2018, continued to be applied in 2019. This standard requires institutions to set aside allowances under the expected loss approach.

The parameters supporting these estimates were calibrated at the start and end of 2019 as part of the regular recalibration process, in accordance with applicable standards. Aside from this impact, a large portion of BMN's portfolio was included in the calculation of allowances using internal expected loss models, determined availing of the alternative solutions provided in Bank of Spain Circular 4/2017.

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 Non-Financial 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.

Moreover, as set out in the Regulations of the Audit and Compliance Committee, when it comes to risk management systems, the Committee shall coordinate and maintain appropriate relations with the Risk Advisory Committee and the Board Risk Committee. Joint meetings of this Committee and the Risk Advisory Committee are held at least twice year to address shared matters and other issues that, according to their scope and remit, could require analysis and oversight by both committees.

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:

Tabla 42. 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		3,462	279			1,195	724
Original exposure							
Standardised approach							
IMM (for derivatives and SFTs)							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for STFs)						3,667	1,183
VaR for SFTs							
Total							**1,907**

5.2.2 Total value of exposures to CCPs

The following table presents exposure following risk mitigation techniques to central counterparties (CCPs).

Tabla 43. Exposures to central counterparties (CCR8)

Million €	**EAD post CRM**	**RWAs**
Exposures to QCCPs (Total)		60
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	410	9
(i) OTC derivatives	359	8
(ii) Exchange-traded derivatives	0	0
(iii) SFTs	51	1
(iv) Netting sets where cross-product netting has been approved	0	0
Segregated initial margin	1,263	
Non-segregated initial margin	51	0
Prefunded default fund contributions	69	52
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.

Tabla 44. 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	55	0	0	0	0	0	0	0	0	0	0	55	0
Regional government or local authorities	9	0	0	0	0	0	0	0	0	0	0	9	0
Public sector entities	79	0	0	0	0	28	0	0	0	0	0	107	14
Institutions	0	1,647	26	0	0	0	0	0	0	0	0	1,673	29
Total	**143**	**1,647**	**26**	**0**	**0**	**28**	**0**	**0**	**0**	**0**	**0**	**1,844**	**43**

It reveals that 91% 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.

Tabla 45. 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	6	0.1%	2	45.0%	11.0	2	24.4%
0.15 to <0.25	0	0.0%	0	0.0%	0.0	0	0.0%
0.25 to <0.50	0	0.3%	5	45.0%	8.4	0	61.3%
0.50 to <0.75	0	0.0%	0	0.0%	0.0	0	0.0%
0.75 to <2.50	0	0.0%	3	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	**6**	**0.3%**	**18**	**45.0%**	**11.0**	**2**	**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	83	0.1%	161	36.0%	7.5	26	30.9%
0.15 to <0.25	0	0.0%	0	0.0%	0.0	0	0.0%
0.25 to <0.50	10	0.3%	103	42.0%	3.0	5	52.1%
0.50 to <0.75	0	0.5%	1	45.0%	4.0	0	96.3%
0.75 to <2.50	61	1.7%	142	41.3%	6.1	75	123.3%
2.50 to <10.00	24	3.7%	77	41.5%	2.1	32	137.4%
10.00 to <100.00	0	15.2%	12	45.0%	1.8	1	224.3%
100.00 (default)	12	100.0%	21	35.9%	0.1	5	39.2%
Total	**190**	**7.5%**	**517**	**38.7%**	**5.6**	**144**	**75.7%**
Corporates SME							
0.00 to <0.15	1	0.1%	1,014	45.0%	3.7	0	21.9%
0.15 to <0.25	0	0.0%	0	0.0%	0.0	0	0.0%
0.25 to <0.50	2	0.3%	169	45.0%	1.8	1	34.2%
0.50 to <0.75	0	0.5%	21	45.0%	1.5	0	30.0%
0.75 to <2.50	6	1.2%	270	45.0%	5.0	5	89.1%
2.50 to <10.00	8	6.8%	188	45.0%	9.9	13	150.1%
10.00 to <100.00	7	24.1%	44	45.0%	9.3	16	218.9%
100.00 (default)	0	100.0%	82	45.0%	3.4	0	0.0%
Total	**23**	**10.3%**	**1,788**	**45.0%**	**7.8**	**34**	**144.9%**

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	618	0.1%	32	34.8%	0.5	116	18.8%
0.15 to <0.25	2,826	0.2%	252	34.8%	0.8	897	31.7%
0.25 to <0.50	399	0.3%	130	34.8%	3.6	256	64.3%
0.50 to <0.75	21	0.6%	37	34.8%	7.0	15	71.5%
0.75 to <2.50	1	1.6%	27	34.8%	5.9	1	85.5%
2.50 to <10.00	2	6.5%	38	34.8%	4.0	3	182.1%
10.00 to <100.00	0	0.0%	0	0.0%	0.0	0	0.0%
100.00 (default)	0	0.0%	0	0.0%	0.0	0	0.0%
Total	**3,867**	**0.2%**	**516**	**34.8%**	**1.1**	**1,289**	**33.3%**
Retail - Other							
0.00 to <0.15	0	0.0%	1,825	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	2.1%	30	45.0%	7.9	0	47.3%
2.50 to <10.00	1	4.0%	2,986	45.0%	6.1	1	56.0%
10.00 to <100.00	0	0.0%	1	0.0%	0.0	0	0.0%
100.00 (default)	1	100.0%	44	45.0%	6.9	0	0.0%
Total	**3**	**35.1%**	**4,886**	**45.0%**	**6.8**	**1**	**35.5%**

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:

Tabla 46. 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	15,874	71%	4,584	3,561	1,023
SFTs	4,052	11.11%	3,602	75	3,527
Total	**19,926**	**59%**	**8,186**	**3,636**	**4,550**

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:

Tabla 47. 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	40	1,505	0	1,307	75	1
Non-Financial Entities	213	699	0	523	0	0
CCP	0	1,120	0	171	9	7
Total	**253**	**3,324**	**0**	**2,001**	**84**	**8**

5.2.7 Amount of CVA requirements

At 31 December 2019, 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 14 million euros, with an exposure value of 231 million euros.

The following table shows RWAs by CVA and the associated capital requirements:

Tabla 48. 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	231	178	14
Based on the original exposure method			
Total subject to the CVA capital charge	**231**	**178**	**14**

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 2019 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 2019 the portfolio featured just one resecuritisation bond, issued by IM PRESTAMOS FONDOS CEDULAS FTA, with an exposure amount of 133 thousand euros)

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:

Tabla 49. Securitisation positions by approach

		million €
Approach	**Drawn on balance sheet**	**Off balance sheet**
Standardised	296.5	0
IRB	168.4	0
TOTAL	**464.9**	**0**

Of the total securitised positions, 1.250% risk-weighted securitisation positions amounted to 4.7 million euros at 31 December 2019. Additionally, those exposures assigned that specific weighting because they qualify as first-loss tranches and which are deducted from the own funds numerator totalled 5.4 million euros, as shown below

Tabla 50. Securitisation positions deducted from own funds and weighted at 1,250%

		million €
Approach	**Deduction from own funds**	**1.250% risk weight**
Standardised	3.9	4.7
IRB	1.5	0.0
TOTAL	**5.4**	**4.7**

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:

Tabla 51. Securitisation positions by type and tranche

million €

Approach	Type	Tranche	Original exposure	Exposure value	Own funds requirements	RWA
Standardised	Securitisation	0%-50%	89.4	82.0	1.3	15.7
		50%-200%	218.5	208.4	15.0	187.7
		200%-500%	2.0	2.0	0.6	7.2
		500%-750%	9.0	4.0	1.6	20.5
		750%-1250%	0.0	0.0	0.0	0.0
		Total Securitisation	**319.0**	**296.5**	**18.5**	**231.1**
	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			**319.0**	**296.5**	**18.5**	**231.1**
IRB	Securitisation	0%-50%	162.4	162.4	1.8	22.5
		50%-200%	5.8	5.8	1.2	15.4
		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 Securitisation	**168.2**	**168.2**	**3.0**	**38.0**
	Resecuritisation	0%-50%	0.1	0.1	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	**0.1**	**0.1**	**0.0**	**0.0**
Total IRB			**168.4**	**168.4**	**3.0**	**38.0**
TOTAL			**487.4**	**464.9**	**21.5**	**269.1**

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 and/or financing 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.

5.3.2 Associated risks

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, opening costs for creating a new securitisation fund, acquiring the amount of any accrued interest, any timing mismatch between

interest accrued on securitisation bonds and the interest collected on securitised loans (or other assets) at 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, to a large extent, have to be outsourced to third parties that possess a higher credit rating. These functions include:

- Paying agent services.

- Cash account.
- Derivative contracts.

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.

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 2019, the risk associated with outstanding originated securitisations came to 9,030 million euros, with an initial originated balance of 33,609 million euros.

Tabla 52. List of outstanding originated securitisation

million €

Securitisation	Type	Total amount originated	Total amount outstanding
MADRID RMBS I, FTA	Traditional	2,000	622
MADRID RMBS II, FTA	Traditional	1,800	544
MADRID RMBS III, FTA	Traditional	3,000	1,095
MADRID RMBS IV, FTA	Traditional	2,400	815
MADRID RESIDENCIAL I, FTA	Traditional	805	376
MADRID RESIDENCIAL II, FTA	Traditional	600	347
BANCAJA 7 FTA	Traditional	1,900	225
BANCAJA 8 FTA	Traditional	1,680	271
MBS BANCAJA 2 FTA	Traditional	809	85
BANCAJA 9 FTA	Traditional	2,023	416
MBS BANCAJA 3 FTA	Traditional	810	136
BANCAJA 10 FTA	Traditional	2,631	837
MBS BANCAJA 4 FTA	Traditional	1,873	385
BANCAJA 11 FTA	Traditional	2,023	736
BANCAJA 13 FTA	Traditional	2,895	1,396
MBS BANCAJA 6 FTA	Traditional	1,000	331
BCJA BVA BCVPO	Traditional	335	96
AYT CAJA GRANADA HIPOTECARIO I, FTA	Traditional	400	88
AYT HIPOTECARIO MIXTO V, F.T.A.	Traditional	300	52
AYT CAJAMURCIA HIPOTECARIO II, FTA	Traditional	315	46
AYT CAJAMURCIA HIPOTECARIO I, FTA	Traditional	350	42
AYT HIPOTECARIO MIXTO I, F.T.A.	Traditional	110	10
CAIXA PENEDÈS 1 TDA, Fondo de Titulización de Activos	Traditional	1,000	2
CAIXA PENEDÈS FTGENCAT 1 TDA, Fondo de Titulización	Traditional	570	3
TDA 20 MITXTO, FTA	Traditional	150	20
CAIXA PENEDÈS 2 TDA, Fondo de Titulización de Activos	Traditional	750	1
CAIXA PENEDES PYMES 1 TDA, Fondo de Titulización	Traditional	790	4
TDA 27, FTA	Traditional	290	50
TOTAL		**33,609**	**9,030**

5.3.9 Amount of impaired or non-performing securitised assets

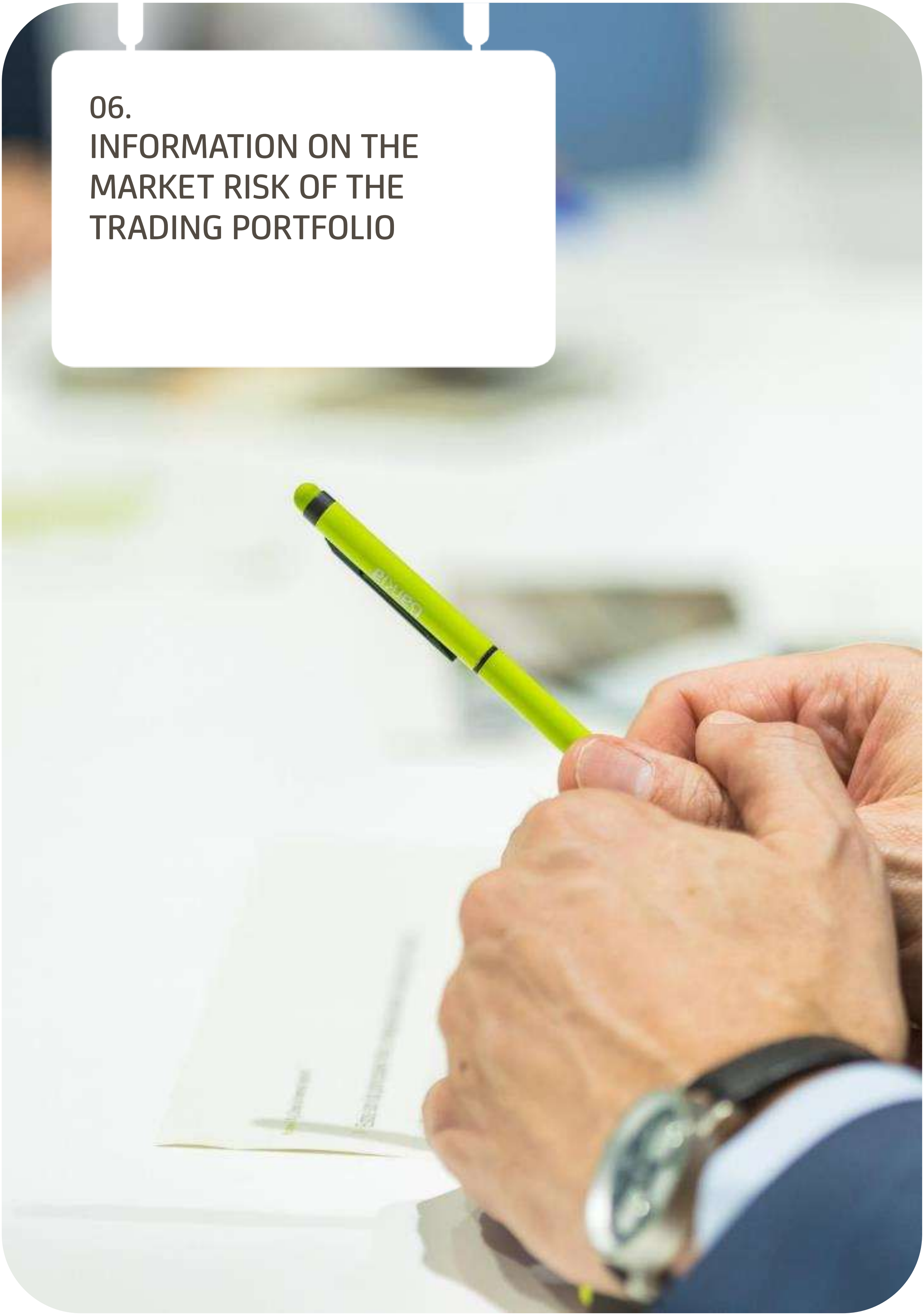
The following table shows the value of non-performing securitised assets (with or without impairment) and the losses recognised by the Group during the current period, in both cases broken down by exposure type:

Tabla 53. 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
VERDE IBERIA LOANS FONDO TITULIZACIÓN	YES	1,210	1,190	7
SLF. FONDO DE TITULIZACION	YES	262	253	3
TOTAL DERECOGNISED FROM BALANCE SHEET	**YES**	**1,472**	**1,443**	**10**
RMBS I	NO	662	19	0
RMBS II	NO	577	20	0
RMBS III	NO	1,181	44	1
RMBS IV	NO	877	26	0
RESIDENCIAL I	NO	392	9	0
RESIDENCIAL II	NO	356	6	0
BANCAJA 7	NO	229	8	0
BANCAJA 8	NO	280	12	0
MBS BANCAJA 2	NO	88	4	1
BANCAJA 9	NO	436	26	2
MBS BANCAJA 3	NO	142	10	0
BANCAJA 10	NO	883	54	2
MBS BANCAJA 4	NO	408	35	2
BANCAJA 11	NO	777	46	1
BANCAJA 13	NO	1,469	88	0
MBS BANCAJA 6	NO	351	24	1
BANCAJA-BVA VPO 1	NO	96	0	0
AyT HIPOTECARIO MIXTO II	NO	19	1	0
AyT CAJA MURCIA HIP I	NO	43	2	0
AyT CAJA MURCIA HIP II	NO	46	1	0
AyT ICO-FTVPO I	NO	0	0	0
AyT HIPOTECARIO MIXTO V	NO	54	5	0
AyT CAJA GRANADA HIPOTECARIO I	NO	95	16	0
AyT HIPOTECARIO MIXTO	NO	10	0	0
AyT HIPOTECARIO MIXTO III	NO	0	0	0
TDA 20 MIXTO	NO	20	0	0
TDA SA NOSTRA EMPRESAS 1	NO	0	0	0
TDA SA NOSTRA EMPRESAS 2	NO	0	0	0
CAIXA PENEDES 1 TDA	NO	2	0	0
CAIXA PENEDES 2 TDA	NO	1	0	0
CAIXA PENEDES FTGENCAT 1 TDA	NO	3	1	0
CAIXA PENEDES PYMES 1 TDA	NO	5	3	1
TDA 22 MIXTO	NO	10	1	0
TDA 27	NO	53	6	0
TOTAL IN BALANCE SHEET	**NO**	**9,567**	**468**	**13**
TOTAL	**.**	**11,039**	**1,911**	**22**

06.
INFORMATION ON THE MARKET RISK OF THE TRADING PORTFOLIO



CAPÍTULO 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

Minimum own funds requirements for position risk, liquidation risk and delivery of the trading:

Tabla 54. Requirements for position risk, liquidation risk and delivery of the trading portfolio

	dec-19	
Millions €	RWAs	Capital requirements
Standardised approach	0	0
Internal models	574	46
Additional requirement associated with the model	506	40
Total	**1,080**	**86**

In 2019, the Entity was authorised to use a new VaR and sVaR engine, with certain limitations applicable until at least the end of 2020. Therefore, during this period there was still an additional requirement related to the calculation model and not to 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 2019, 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 Corporate Risks 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 2019 runs from 12/02/2008 through to 12/01/2009.

  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 the Corporate Risks Department 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 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 2019.

Tabla 55. Market risk under the IMA (MR2-A)

Million €		RWAs	Capital requirements
1	**VaR (higher of values a and b)**	**127**	**10**
(a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))	41	3
(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	127	10
2	**SVaR (higher of values a or b)**	**402**	**32**
(a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))	126	10
(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)	402	32
3	**IRC (higher of values a and b)**	**46**	**4**
(a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)	35	3
(b)	Average of the IRC number over the preceding 12 weeks	46	4
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**	**506**	**41**
6	**Total**	**1,080**	**86**

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.

Tabla 56. 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 2018	**189**	**700**	**64**	**0**	**626**	**1,579**	**126**
Movement in risk levels	109	49	-18	0	0	141	11
Model updates/changes	-171	-348	0	0	-204	-723	-58
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	84	84	7
RWAs December 2019	**127**	**402**	**46**	**0**	**506**	**1,080**	**86**

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 2019 reporting period) resulting from the internal models approved for use for calculating the regulatory capital charge.

Tabla 57. IMA values for trading portfolios (MR3)

		Millions €
	VaR (10 day 99%)	
1	Maximum value	13.9
2	Average value	6.3
3	Minimum value	2.9
4	Period end	3.3
	SVaR (10 day 99%)	
5	Maximum value	40.8
6	Average value	18.0
7	Minimum value	9.8
8	Period end	10.1
	IRC (99.9%)	
9	Maximum value	19.3
10	Average value	3.2
11	Minimum value	0.1
12	Period end	3.6
	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 2019 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

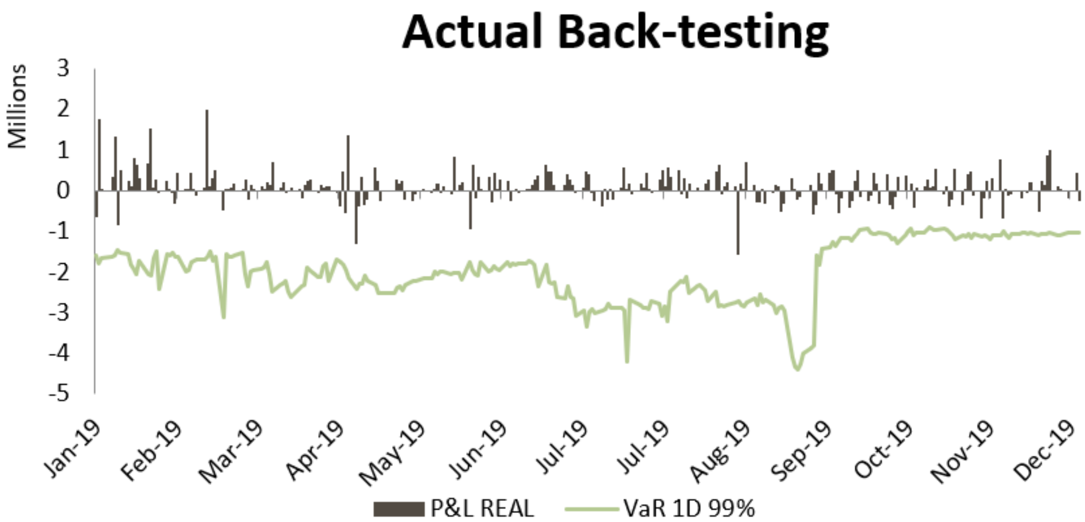
To validate the reliability of the model used to calculate VaR, backtesting processes are conducted daily to verify the validity of the model and VaR predictions. These tests involve:

- Hypothetical backtesting: compares the estimates provided by VaR with the hypothetical daily results without factoring in changes in portfolio positions.

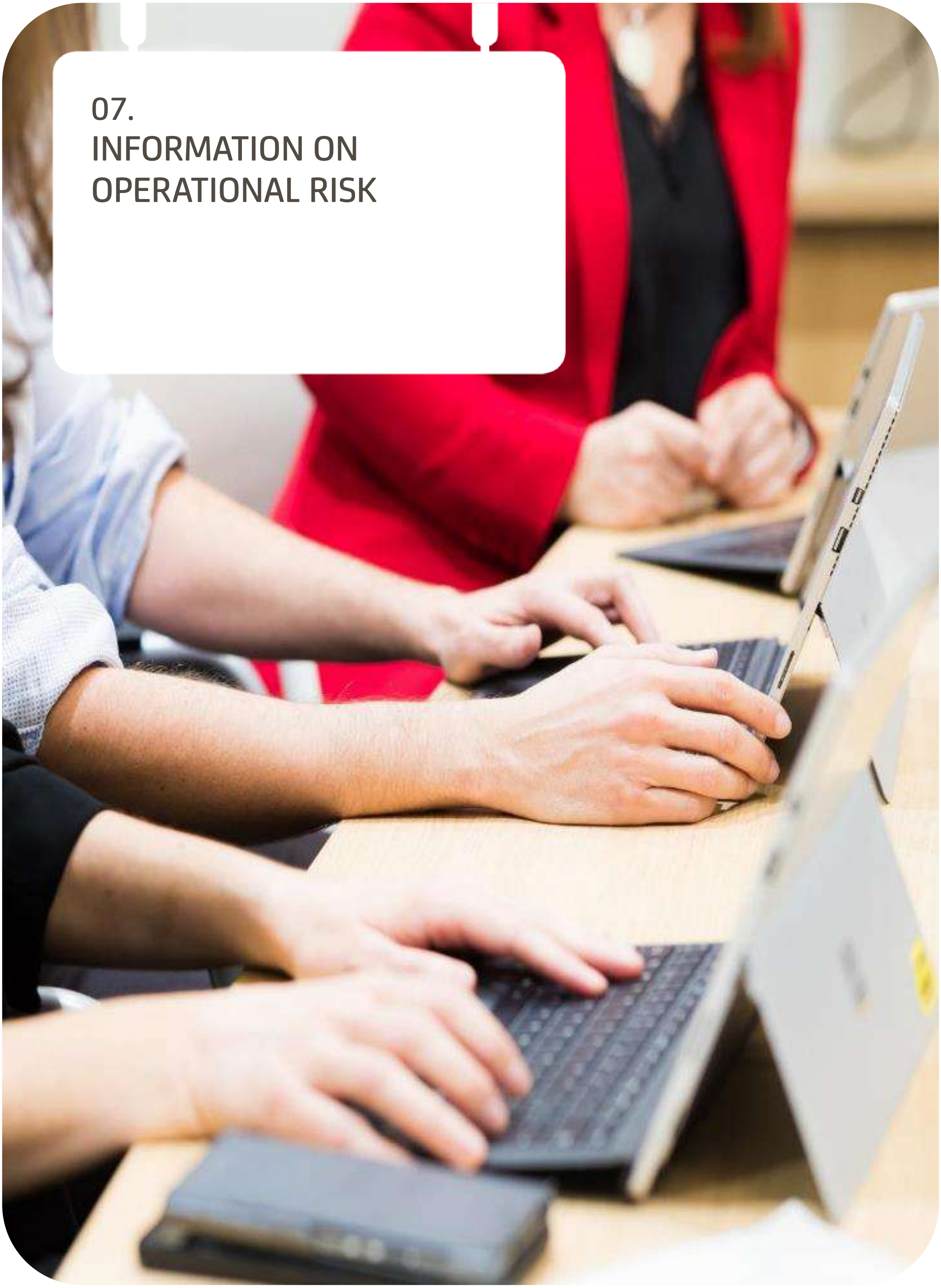
- Actual backtesting: compares the estimates provided by VaR with the daily results. Data on daily gains and losses are "purged", eliminating those results that are not the product of price changes, such as fees.

Tabla 58. Comparison of VaR estimates with gain/losses (MR4)

The backtesting carried out in 2019 confirms the effective operation of the model used by the Bankia Group to measure VaR in accordance with the assumptions made, with no excess charge (backtesting exceptions as per Article 366 of the CRR) observed in the year.



07.
INFORMATION ON OPERATIONAL RISK



CAPÍTULO 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 2019, 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 5,594 million euros of RWAs (448 million euros of capital) and 5,564 million euros of RWAs (445 million euros of capital), respectively.

The following diagram shows the distribution of actual operational risk losses in 2019.

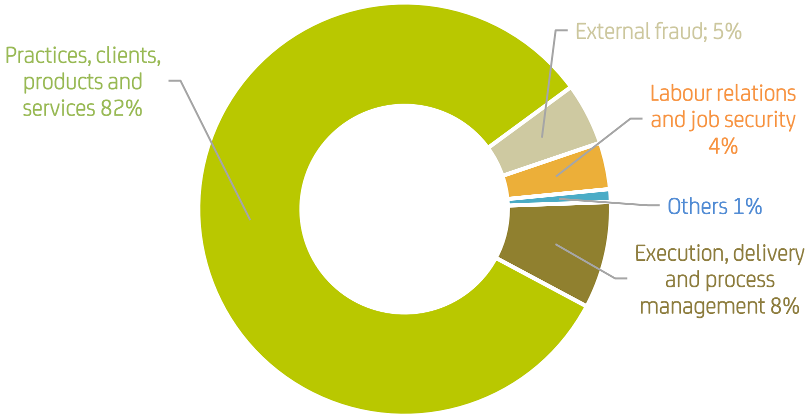


Tabla 59. Real losses by operational risk. Percentage distribution by risk type

Type of event with operational risk	% of losses
Execution, delivery and process management	8%
Clients, products and business practices	82%
External fraud	5%
Labour relations and job security	4%
Others	1%
TOTAL	**100%**

At 31 December 2019, 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 2019, there were a total of 248 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 45 million euros.

Lawsuits relating to preference shares

There are currently 559 lawsuits under way in relation to preference shares, with an associated financial risk of 65 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 6,063 legal proceedings in progress at 31 December 2019, posing a total financial risk of 46 million euros.

Mortgage arrangement costs

There are currently 15,826 lawsuits in progress in this regard, with an associated economic risk of 15 million euros.

Derivatives

There are currently 144 lawsuits in progress under this procedure, with an associated economic risk of 87 million euros.

Law 57/68, of 27 July, on the delivery of amounts paid in advance of the construction and sale of housing units.

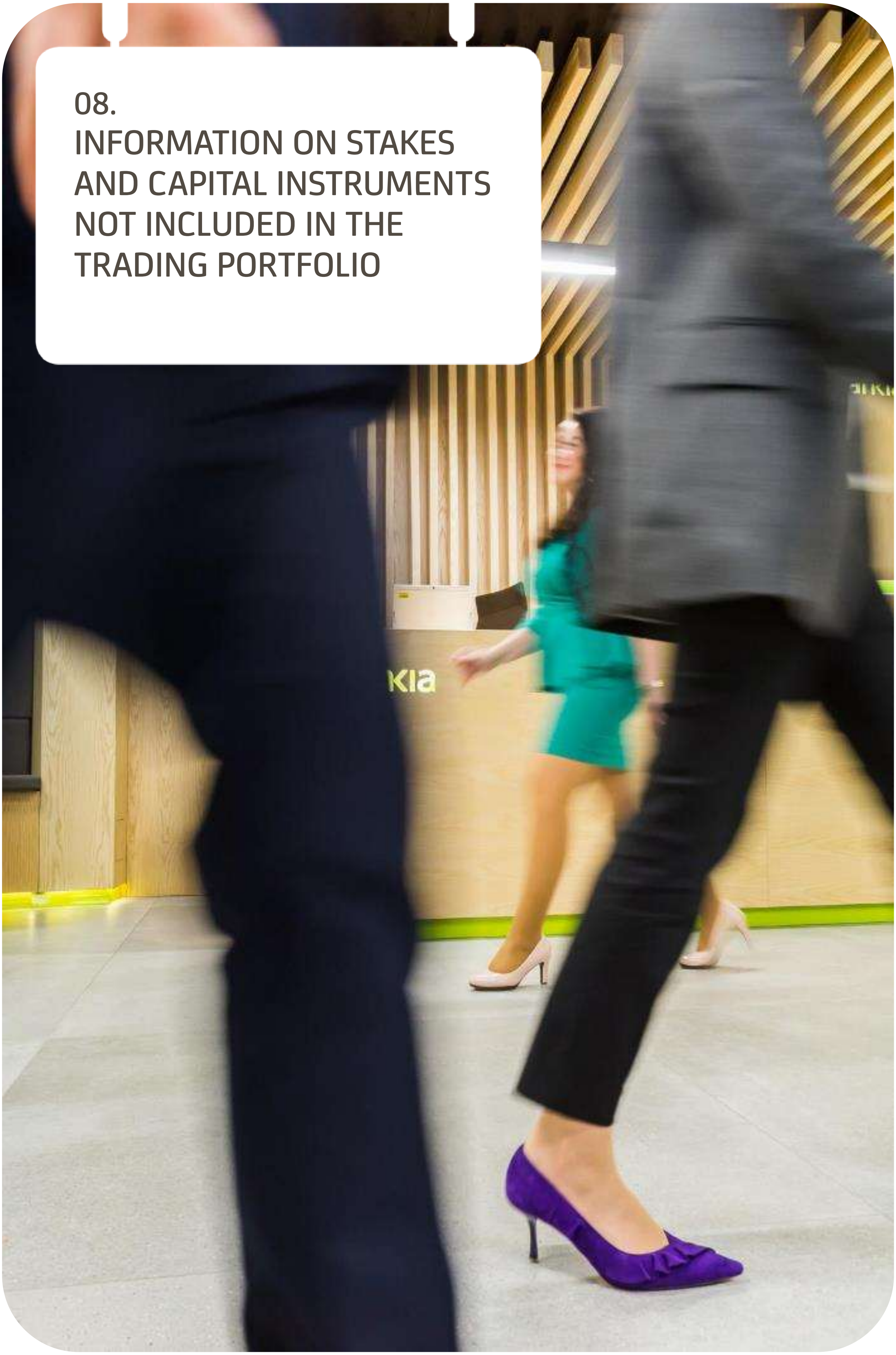
There are currently 747 lawsuits in progress in this regard, with an associated economic risk of 41 million euros.

Other general conditions

This section also includes other types of claims and disputes regarding general terms of contract, with an economic risk of 28 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



CAPÍTULO 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 2019 ("IFRS-EU") and Bank of Spain Circular 4/2017 of the Bank of Spain.

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. 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 most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market ("quoted price" or "market price").

The Group measures daily all the positions that must be recognised at fair value based either on available market prices for the same instrument, or on valuation techniques supported by observable market inputs or, if appropriate, on the best available information, using assumptions that market agents would apply to measure the asset or liability assuming they are acting in its best interest.

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.
- 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 2019 and 2018:

Tabla 60. Stakes and capital instruments

	2019		2018	
Million €	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through other comprehensive income	**195.3**	**195.3**	**169.7**	**169.7**
Capital instruments	195.3	195.3	169.7	169.7
Stakes	**463.9**	**463.9**	**549.6**	**549.6**
Associates	445.9	445.9	302.1	302.1
Jointly controlled entities	0.0	0.0	0.0	0.0
Group entities	18.0	18.0	247.5	247.5
TOTAL	**659.2**	**659.2**	**719.3**	**719.3**

Information included in the FINREP statements for 2019 and 2018

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 2019, the simple risk-weight and PD/LGD approaches were applied to all the portfolios, since during the year Bankia migrated from the standardised approach to advanced models for the 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 2019, the exposure amount came to 371 million euros, with capital requirements of 74.2 million euros, while at 31 December 2018 the exposure amount totalled 388 million euros, with capital requirements of 77.7 million euros.

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

Gains or losses registered during 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.

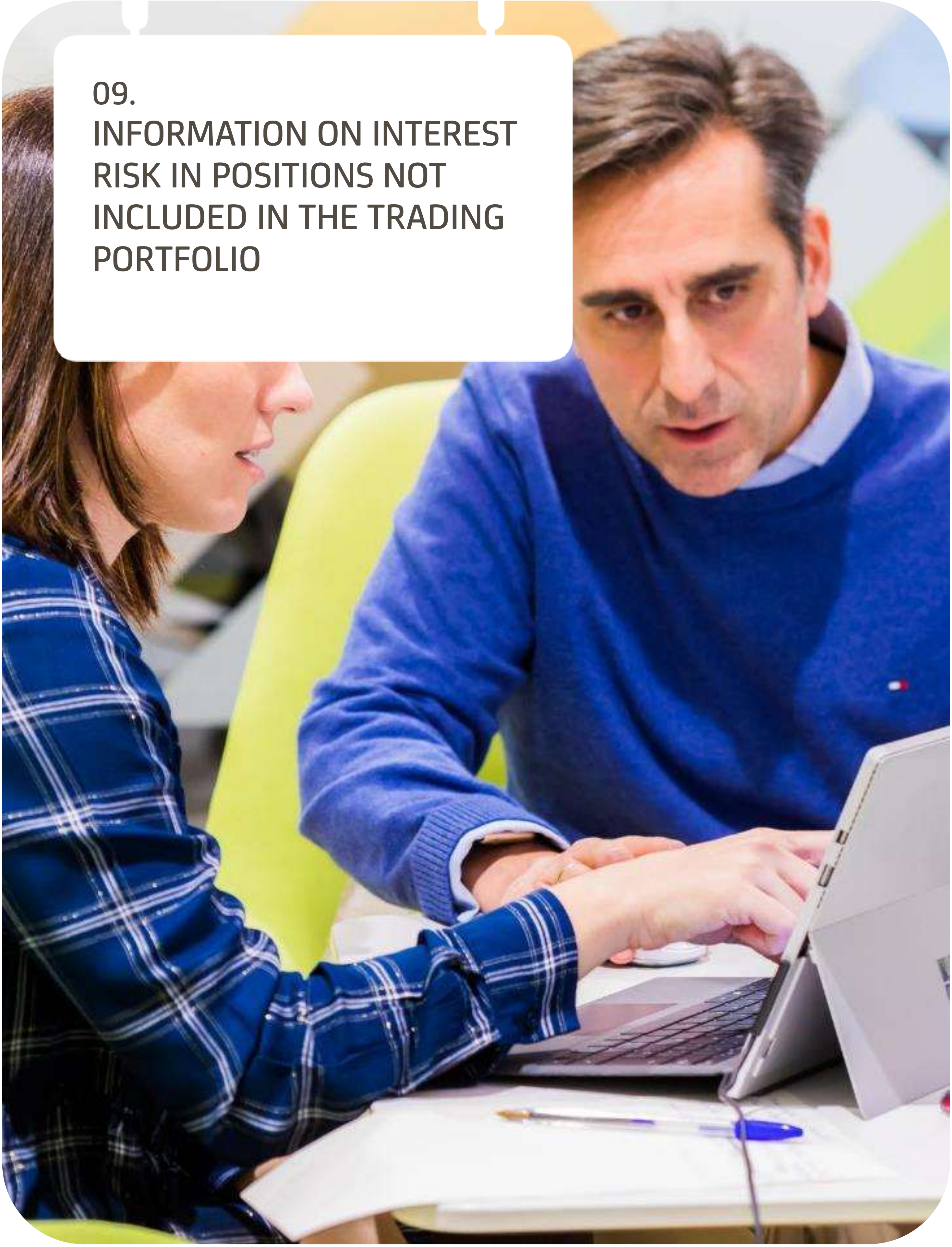
8.6 Gains or losses recognised in equity

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 20,2 million euros in 2019 (15.3 million euros in 2018) 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 2019.

09.
INFORMATION ON INTEREST RISK IN POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO



CAPÍTULO 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 41.32% of the retail transactional demand deposits considered unstable with a duration of 4.89 years. For retail non-transactional demand deposits, the percentage of instability is 45.93% with a duration of 3.04 years, and for wholesale, instability stands at 70.99% and duration at 0.44 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 both retail and wholesale 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

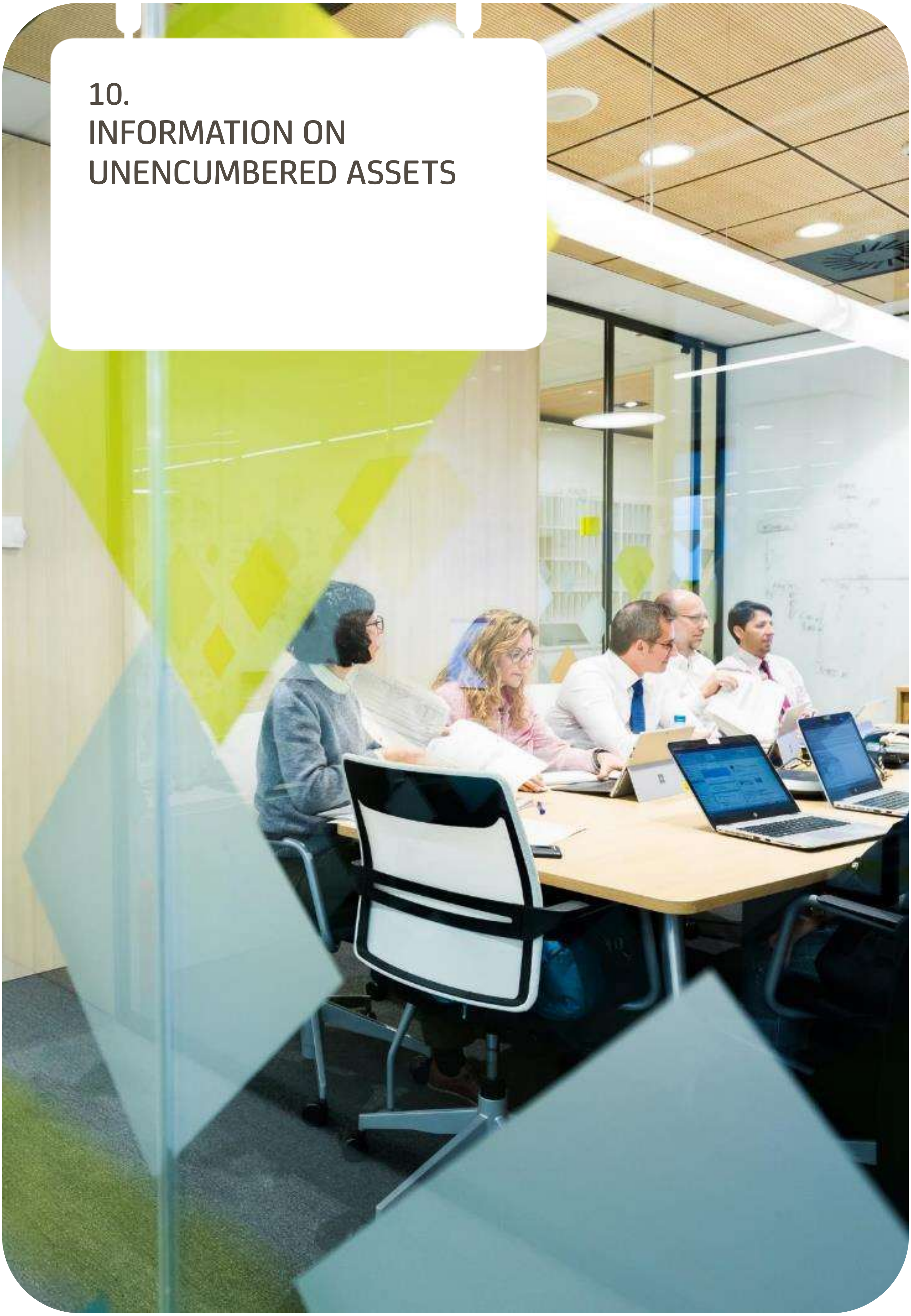
Sensitivity analysis information under the scenario analysis approach is provided for interest rate risk from both the following standpoints:

- Impact on results: at 31 December 2019, 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 -9.03% (the worst-case scenario at 31 December 2018 was also the downward shift, revealing a margin sensitivity of -1.97%).

- 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 2019, 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 basis points in the yield curve was -3.83% of the Group’s equity and -2.95% of its economic value (-10.27% and -4.92%, respectively, at 31 December 2018 in the 200 basis points 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 2019 coincide with the information provided in the consolidated financial statements of the BFA Group.

10. INFORMATION ON UNENCUMBERED ASSETS



CAPÍTULO 10. INFORMATION ON UNENCUMBERED ASSETS

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 2019. Since May 2019, this indicator has been included in the Entity's Risk Appetite Framework as a secondary indicator.

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.

Tabla 61. Carrying amount and fair value of encumbered and unencumbered assets

Million €

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets of the reporting entity	70,820		140,718	
Equity instruments	-	-	81	-
Debt securities	28,792	29,009	20,744	25,726
of which: secured bonds	-	-	21	18
of which: asset securitisation bonds	67	71	254	254
of which: issued by government institutions	16,697	16,929	11,926	16,826
of which: issued by financial institutions	12,106	12,164	8,739	8,880
of which: issued by non-financial institutions	246	116	110	42
Other assets	41,825	-	120,809	-

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.

Tabla 62. 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	1,464	5,568
Demand loans	0	0
Equity instruments	0	0
Debt securities	1,464	2,066
of which: secured bonds	0	0
of which: asset securitisation bonds	0	0
of which: issued by government institutions	1,246	385
of which: issued by financial institutions	0	0
of which: issued by non-financial institutions	238	1,537
Loans and advances other than demand loans	0	0
Other collateral received	0	3,405
Own debt securities other than secured bonds or own asset securitisation bonds	0	0
Own secured bonds and asset securitisation bonds not yet pledged	-	6,530
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES	72,238	-

Financial liabilities issued

The following indicates the carrying amount of financial liabilities issued and their corresponding assets and collateral received and committed.

Tabla 63. 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	61,963	69,339
Equity instruments	0	0

At the end of the year, the use of committed assets and collateral in securing financing represents 33% 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 21% (mortgage covered bonds) and 2% (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 overcollateralization percentage above and beyond the percentage required by law (125%), 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 37.09% 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.

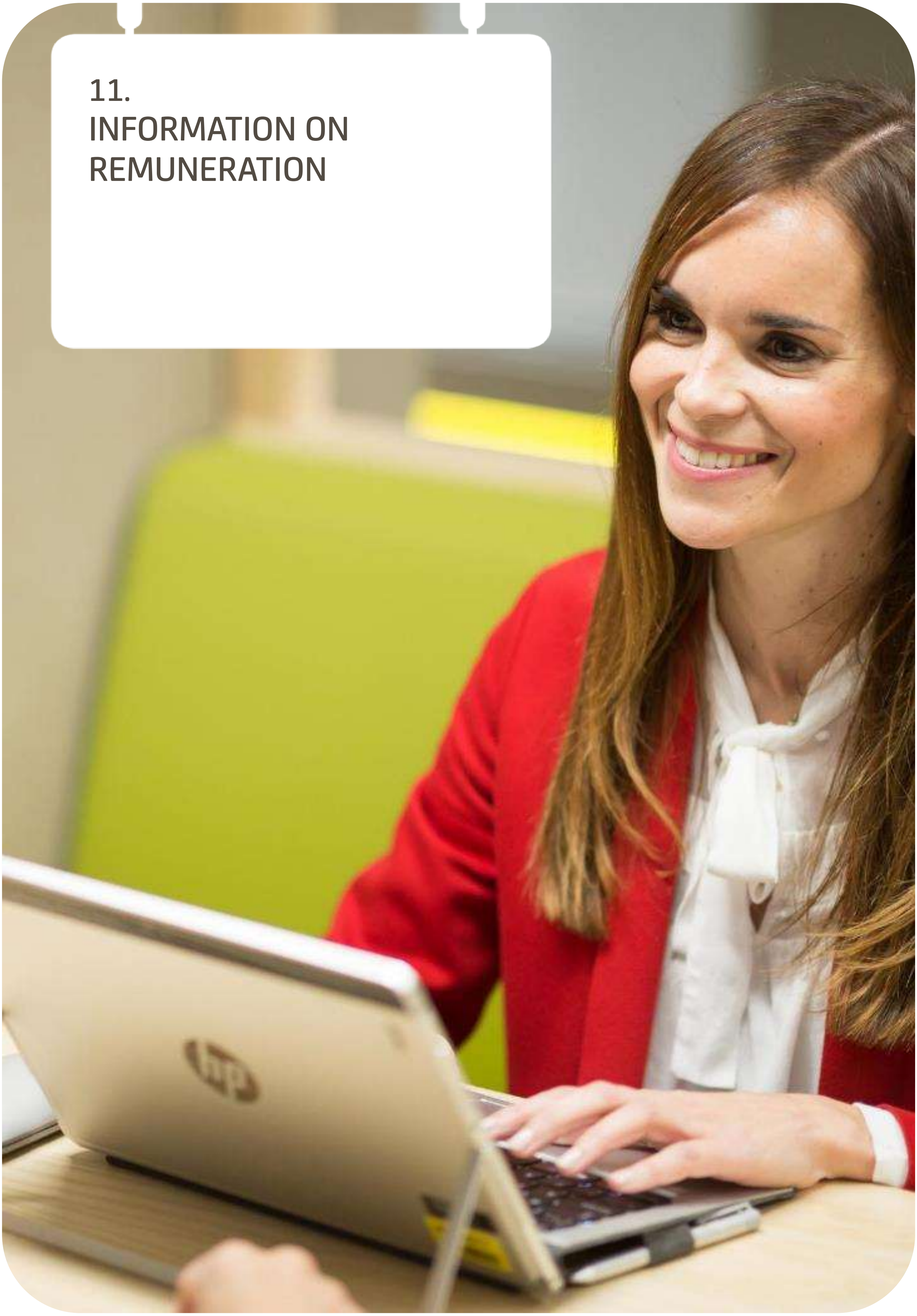
The collateral received is generated primarily from transactions involving derivatives with counterparties that have CSA agreements in effect, mainly in the form of guarantees received in cash (Table "Fair value of collateral received available for encumbrance").

Other assets within the wider category of unencumbered assets accounts for approximately 59% of total assets (Table "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 2019 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



CAPÍTULO 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 document 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. ("BFA"), even though it is at Bankia, S.A. and in the group of entities in which Bankia, S.A. is the parent company, 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 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.
Francisco Javier Campo García (chairman).
Joaquín Ayuso García (member).
Jorge Cosmen Menéndez-Castañedo (member).
Laura González Molero (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 9 occasions in 2019.

The main items of business discussed in 2019 by the Remuneration Committee were as follows:

Main decisions adopted by the Remuneration Committee
Hearing and taking note of the Bankia's "Transformation incentive" proposal.
Favourable report on the Annual Report of the Remuneration Committee for 2018, for subsequent board approval.
Favourable report of the annual report on directors' remuneration and of the annual corporate governance report for 2018, for subsequent board approval.
Favourable report on the Bankia Group's 2018 Consolidated Non-Financial Statement for submission to the Board of Directors.
Favourable report on the amendment and update of the Director Remuneration Policy, for subsequent approval by the Board of Directors.
Favourable report on the motion of the General Meeting to pay part of the annual variable remuneration ("AVR") of executive directors for 2018 and 2019 in Bankia shares, for subsequent submission to the Board of Directors

Report of the internal, central and independent assessment of the 2018 remuneration policy, for subsequent board approval.
Hearing and taking note of the changes in Identified Staff in 2019.
Resolution seeking authorisation by the Supervisor for payment of the 2015 AVR to three members of the Management Committee.
Favourable report on the proposed 2018 AVR, for subsequent submission to the Board of Directors.
Favourable report on the determination of the remuneration mix of new Management Committee members, for subsequent submission to the Board of Directors.
Favourable report on the proposed 2019 objectives of the Management Committee, for subsequent submission to the Board of Directors.
Favourable report on the amendment and update of the Remuneration Policy, for subsequent approval by the Board of Directors.
Hearing and taking note of the notification from the European Central Bank on authorisation for payment of the 2017 AVR to executive directors and senior managers.
Favourable report on the application for authorisation by the European Central Bank regarding accrual of the 2018 AVR for executive directors and senior managers.
Hearing and taking note of the report on the analysis of public information on remuneration by the leading financial institutions.
Hearing and taking note of the report on the identification of the Identified Staff for 2019.
Favourable report on the proposed multi-year variable remuneration ("MYVR") for 2019 of Identified Staff.
Hearing and taking note of the report on the alignment of 2019 targets with Bankia's Risk Appetite Framework.
Hearing and taking note of the notification from the European Central Bank on authorisation for payment of the 2015 AVR to three members of the Management Committee.
Hearing and taking note of the executive summary of the "Autonomous Report on Corporate Governance at Spanish Banks".
Hearing and taking note of the report on the main developments in remuneration (CRD V).
Hearing and taking note of information on remuneration of members of the Board of Directors and senior management to be disclosed in the half-yearly financial statements.
Favourable report on the proposals for the Regulations of the Remuneration Committee and the Regulations of the Appointments and Responsible Management Committee, and the proposed amendments to the Regulations of the Board of Directors.
Hearing and taking note of the report on the findings of the audits of Bankia Fondos and Bankia Pensiones.
Hearing and taking note of receipt of the CNMV request for additional information in certain sections of the Annual Corporate Governance Report and the Annual Report on Director Remuneration for 2018.

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, Bankia 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 Deputy Department of People and Culture 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 87 professionals at 31 December 2019, 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	3	Board members who perform executive functions.
Senior officers and similar to General Manager	11	Members of the Management Committee who are not board members and similar to General Manager.
Risk takers and those responsible for control functions	59	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.	3	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 ("Remuneration Policy") 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 25 April 2019.

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 ("AVR")

Bankia employees took part in an annual variable remuneration scheme in 2019 linked to global, unit and individual objective.

a) Objectives to which AVR for 2019 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 types of target included in Bankia's annual variable remuneration system, depending on their scope:

- Dividend Factor. The start of the AVR system is contingent on the dividend payment proposed by Bankia's Board of Directors which, in turn, acts as a correction factor applied to the AVR receivable.

  The following table sets out the application of the adjustment factor in 2019 in accordance with the distribution of dividends under the budget:

Payment of dividends (percentage of the amount of dividends resulting from the guidance approved by the Board of Directors)	Coefficient
Less than 50%	0.0
≥ 50% but less than 60%	0.5
≥ 60% but less than 70%	0.6
≥ 70% but less than 80%	0.7
≥ 80% but less than 90%	0.8
≥ 90% but less than 100%	0.9
100% or more	1.0

- 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 2019:

  - Fully-loaded CET 1 capital ratio.
  - Recurring RoE.
  - Efficiency (ex-trading income).
  - Non-performing asset ratio.
  - Quality.

  Bankia's Remuneration Policy requires minimum achievement of 55% in the assessment of V1 targets for entitlement to the portion of variable remuneration tied to this objective. However, for 2019, the Entity raised this threshold to 60%.

- 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.

  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 Deputy Department of People and Culture.

  At least 55% attainment of V3 objectives must be reached in order to be eligible for this part of the variable remuneration.

Objectives of staff with control duties are related to their job, irrespective of the results of the business area they control.

The following weights are assigned to each objective:

Function	V1	V2	V3
Executive directors	70%	-	30%
Management Committee	50%	40%	10%
Corporate executives	30%	60%	10%
Top 300 and Top 600 executives	20%	70%	10%

b) Determining the AVR 2019

The AVR for 2019 is determined by applying the following formula:

AVR =
(AVR Target) x (%of Overall Achievement) x (Dividend Factor)

Where:

- *AVR target:* amount of reference variable remuneration payable if 100% of the assigned objectives are met.
- % 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 based on job performed and provided a minimum objective attainment threshold is reached.
- *Dividend Factor:* applicable correction factor based on the distribution of dividends as a percentage of the budget.

Under no circumstances may AVR exceed 140% of the target AVR, with the exception of executive directors, for whom the percentage is limited to 100.

c) Measurement 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
Deputy General Director of People and Culture (Chairman)
Deputy General Director of Finance
Head of Remuneration and Management Systems (Secretary, non-member)

d) Adjustment of the AVR

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 AVR, 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.

e) Procedure for paying annual variable remuneration

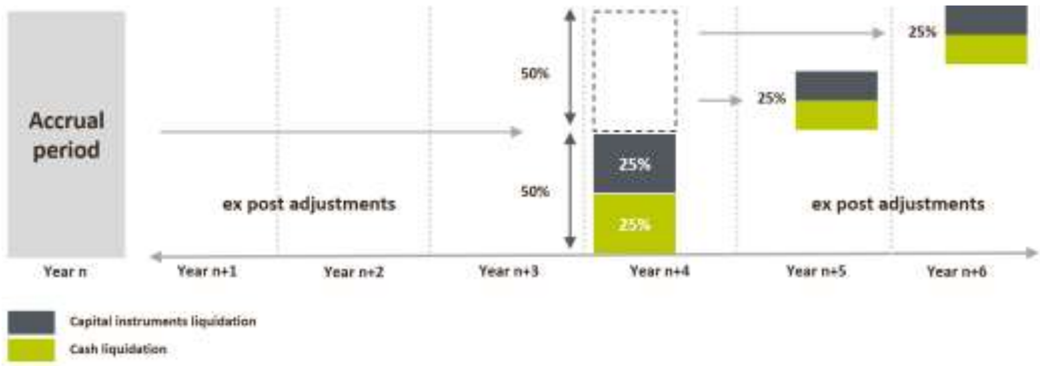
Annual variable remuneration is calculated and paid through a specific system intended for members of the Identified Staff:

- 50% of the AVR 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 AVR, 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 2019).
- Bankia shares delivered to the Identified Staff as part of their AVR 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 AVR – 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. The remaining 40% of the AVR is deferred. The deferred amount is then paid in three equal parts over the three following years, except for executive directors, senior officers and similar to General Manager, who have a different deferral calendar, as discussed in due course

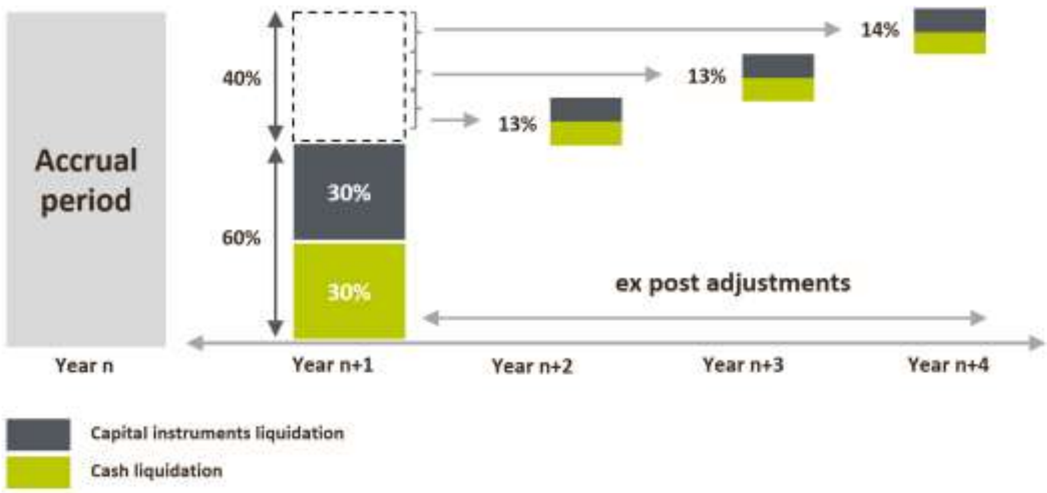
This notwithstanding, the Remuneration Committee may weigh up the merits of applying the proportionality principle in certain cases, though always in line with the criteria prescribed by the competent supervisory authority.

- For executive directors and senior officers, the deferral system is different, 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 deferral periods of at least five years for variable remuneration and the deferral of a significantly higher proportion of remuneration paid in instruments.

The following chart illustrates the settlement system for variable remuneration of executive directors, senior managers and managers similar to General Manager:



The settlement system for variable remuneration of the rest of Identified Staff is as follows:



f) "*Malus*" and "*clawback*" clauses

The AVR 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.

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, AVR 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.

These clauses will apply to both current and former employees.

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 (MYVR)

The Bank implemented a multi-year variable remuneration plan 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 AVR 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 of the MYVR.

Under no circumstances may the sum of the MYVR plus the AVR 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, executive directors and similar to General Manager 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).

a) Objectives to which the MYVR 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 plus (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 the MYVR 2019-2022 cycle are as follows:

- Total Capital Phase In.
- Liquidity (LCR).
- Net new defaults.
- Recurring RoCET Fully Loaded.

b) Determining the MYVR

Based on achievement of objectives for the first year of the MYVR (year "n") cycle, the multi-year variable remuneration granted conditional ("MYVR Granted Conditional") is determined in accordance with the following formula:

$$\textbf{MYVR}_{\text{granted conditional}} = \textbf{MYVR}_{\text{target}} \times \textbf{DIF}_{(\text{year "n"})} \times \textbf{Dividend factor}$$

Where:

- *MYVR* $_{granted\ conditional}$: 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 Conditional MYVR while the value of the shares will make up the remaining 50%.

- *MYVR* $_{target}$: Benchmark amount assigned individually in determining the MYVR.

- *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 objectives is applied to the Target MYVR.

  - The percentage of achievement of V2 and V3 objectives of the person is then applied to the amount obtained from step one above.

- *Dividend Factor*: as defined above in the case of the AVR.

The amount of the Granted Conditional 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 Conditional MYVR Calculation Date").

The amount of the Granted Conditional Multi-Year Variable Remuneration may be reduced upon the occurrence of any of the circumstances described in section above.

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 Conditional 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.

Applying the level of achievement to the multi-year objectives yields the final multi-year variable remuneration ("MYVR Final") as follows:

$$\mathbf{MYVR_{final} = MYVR_{granted\ conditional} \times (MYDIF_{("n+2")} \times Weight_{("n+2")})}$$

Where:

- *MYVR* $_{final}$: Amount of final multi-year variable remuneration in cash and shares.

- *MYVR* $_{granted\ conditional}$: Amount in cash and shares of the MYVR granted conditional.

- *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".

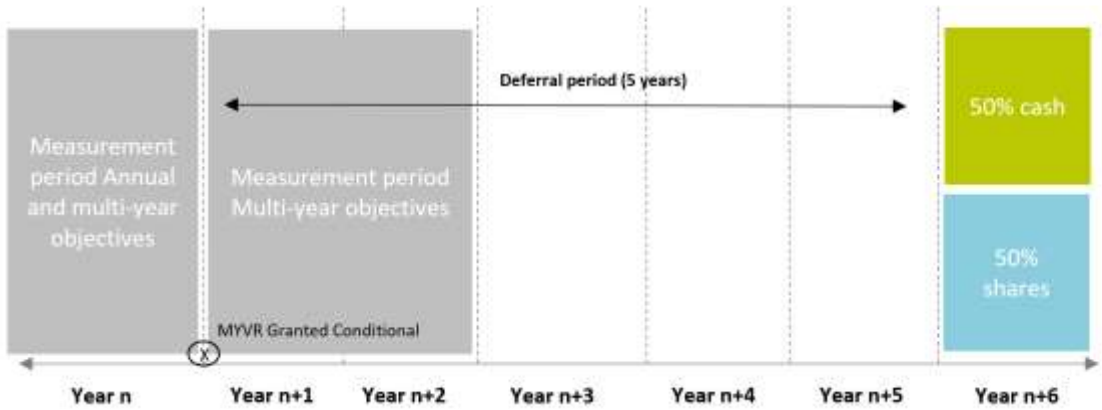
The amount of the final MYVR shall be determined on the second calculation date on which the multi-year objectives are measured during the first quarter of year "n+3".

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").

c) Procedure for paying multi-year variable remuneration:

- Members of the Identified Staff 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 Granted Conditional MYVR Calculation Date.

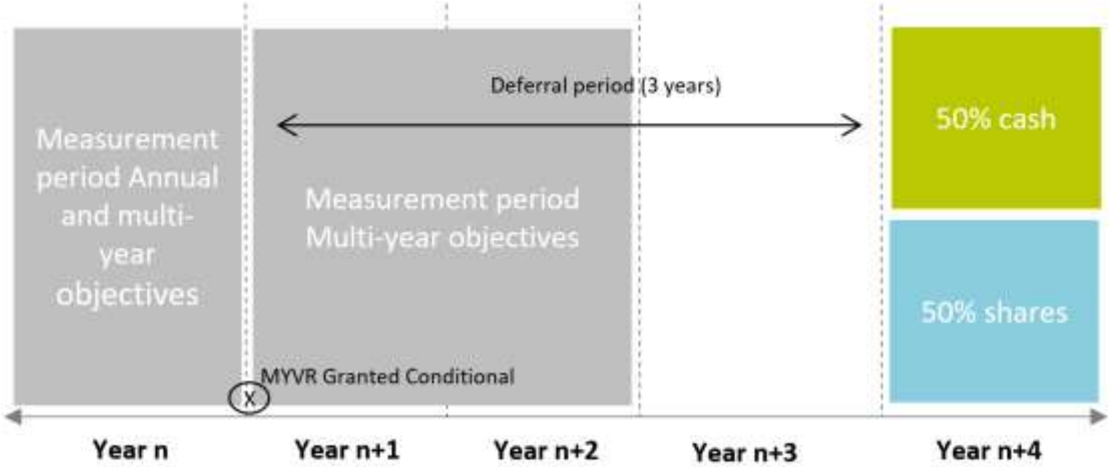
  To purposes of clarification, the following diagram provides a graphical depiction of the system for calculating and paying the MYVR for this group:



  Nevertheless, the AVR settlement system for executive directors is outlined in Bankia's director remuneration policy approved by the General Meeting of Shareholders held on 22 March 2019, whereby 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 rest of the members of the Identified Staff, 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 Conditional MYVR Calculation Date.

  To illustrate, the following diagram provides a graphical depiction of the system for calculating and paying the MYVR for this group:



All shares delivered to Members as part of their MYVR 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.

d) "*Malus*" and "*clawback*" clauses

The MYVR is subject to the "*malus*" and "*clawback*" arrangements explained in section ii.f) above for the AVR.

(iv) Transformation incentive

In 2019, Bankia added a new variable remuneration component to the remuneration policy, "Transformation Incentive", to encourage the implementation of transformation projects.

With this incentive, Bankia may put in place incentives linked to the execution of different transformation projects. An amount of EUR 100,000 is earmarked for these projects, which require prior approval by the Remuneration Committee, accrued as from the time the project is available for practical application.

An additional amount is allocated to projects with an impact greater than EUR 10 million on the income statement, of 1.5% of the amount above EUR 10 million. This amount is capped at EUR 150,000. Accrual is based on the actual impact on annual profit or loss.

The final incentive assigned to each project is distributed as follows: (i) 20% of the incentive to the Corporate Director overseeing the project; and (ii) the remaining 80% to be split among the team at the discretion of the Corporate Director.

Management Committee members are not eligible to receive this incentive.

In any event, the amount of the incentive and the settlement system for Identified Staff is subject to the limits and the settlement and payment procedure of variable remuneration included in the Remuneration Policy and prevailing legislation.

(v) 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. In October 2018 the BMN Group Pension Plan was integrated in The Bankia Group Pension Plan.

This is a defined contribution plan; employees no longer have defined benefit plans. Contributions to the Pension Plan are made for all employees based on the company from which they came. A percentage is applied on their remuneration or pensionable salary, irrespective of their position or job category.

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.

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 2019 policy are as follows:

- Both the AVR 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 AVR is linked and the MYVR 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 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 of the AVR and MYVR, 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 the variable 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 11.3.2 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 2019 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 50% 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 start of the AVR and MYVR systems is contingent on the dividend payment proposed by Bankia's Board of Directors (Dividend Factor), which acts as a correction factor that is applied to the AVR receivable.

The following table shows the level of achievement of the V1 objectives and the dividend factor; i.e. the variables most closely related to the Bank's results:

ANNUAL V1 OBJECTIVES	WEIGHT	LEVEL OF ACHIEVEMENT	% COMPLIANCE
Capital CET 1 FL	20%	128.19%	25.64%
Recurrent ROE	20%	0.00%	0.00%
Efficiency (ex-trading income)	20%	73.90%	14.78%
Non-performing asset ratio	20%	106.09%	21.22%
Quality	20%	109.79%	21.95%
			83.59%

DIVIDEND FACTOR	% COMPLIANCE	FACTOR
Proposed dividend payment	92.93%	**0.9%**

Moreover, and as discussed, 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 AVR, nor the MYVR 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.

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 (AVR and MYVRP) may not exceed 100% of the fixed components of each employee's total 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 2019 (AVR and MYVRP) relative to fixed components of remuneration:

- The maximum effective percentage of the Identified Staff was 73.07% in 2019.
- 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 2019 did not exceed 100% of the fixed components of their remuneration.

  The average percentage of variable remuneration accrued in 2019 to the fixed remuneration of executive directors and members of Bankia's Management Committee was 40.63%.

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 reports that in the severance payments for early termination of contract reported in the following section (rows 7.1 and 7.2), in two cases, the compensation 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:

Tabla 64. Identified Staff by business area

BUSINESS AREA	Investment banking	Commercial banking	Asset management	Other	Total
Number of employees included in the Identified Staff	6	27	8	46	87
Total remuneration	2,436	8,725	2,856	13,460	27,477
Of which: variable remuneration	737	2,436	859	3,579	7,611

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:

Tabla 65. 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	3	11	11	62	**87**
Of which: senior officers	0	0	11	0	**11**
Of which: exercising control functions	0	0	0	28	**28**
2. Amount of total fixed remuneration	1,500	1,098	4,232	11,752	**18,582**
3. Amount of total variable remuneration[6]	810	0	1,665	5,136	**7,611**
3.1 In cash	405	0	832,5	3,149	**4,386.5**
3.2 In number of Bankia shares [7]	227,274	0	467,244	1,114,629	**1,809,147**
4. Amount of deferred variable remuneration	810	0	1,665	2,702	**5,177**
4.1 In cash	405	0	832,5	1,351	**2,588.5**
4.2 In number of Bankia shares [8]	227,274	0	467,244	758,200	**1,452,718**
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					
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	2	4	**6**
7.2 Total amount of severance and termination pay awarded in the year [9]	0	0	1,391	1,796	**3,187**
8. Contributions to pension schemes	0	0	330	954	**1,284**
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.

The following table presents deferred variable remuneration of previous years payable.

[6] Includes the amount relating to the Multi-Year Variable Remuneration awarded and conditional on meeting the multi-year objectives informed in point 4 of this table. In no event may the final amount received exceed the above limits, although it may be reduced to zero.
[7] Estimated number of shares, subject to achievement of the multi-year objectives of the multi-year variable remuneration, representing 0.059% of Bankia, S.A.'s current share capital.
[8] Estimated number of shares, subject to achievement of the multi-year objectives of the multi-year variable remuneration, representing 0.047% of Bankia, S.A.'s current share capital.
[9] The hightest severance pay paid to a single member of the Identified Staff amounts to 554 thousand euros.

Tabla 66. Deferred variable remuneration

IDENTIFIED STAFF	Executive directors	Non-executive directors	Other senior officers and similar	Other employees	Total
1. Amount of total deferred variable remuneration [10]	2,550	0	5,348	9,444	**17,342**
1.1 In cash	1,275	0	2,674	4,722	**8,671**
1.3 In number of Bankia shares [11]	422,795	0	1,130,169	2,252,934	**3,805,898**

[10] Includes the amount of multi-year variable remuneration granted and contingent on achievement of the multi-year objectives. The final amount receivable shall in no case be higher than the amount shown. However, it may be reduced to zero.
[11] Estimated number of shares, subject to achievement of the multi-year objectives of the multi-year variable remuneration, representing 0.12% of Bankia, S.A.'s current share capital.

ANNEX I: OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION

Tabla 67. 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 COMMERCE, S.L.U.	Full consolidation	x				Product commercialization
BANKIA FINTECH VENTURE, S.A.U.	Full consolidation	x				Corporate management
BANKIA FONDOS, S.G.I.I.C., S.A.	Full consolidation	x				Manager of collective investment undertakings
BANKIA HABITAT, S.L.U.	Full consolidation	x				Real estate
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
CAJA MADRID FINANCE PREFERRED, S.A.U.	Full consolidation	x				Financial brokerage
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
GESTION Y REPRESENTACION GLOBAL, S.L.U.	Full consolidation	x				Business management consultancy
GESTION GLOBAL DE PARTICIPACIONES, 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
INVERSIONES Y DESARROLLOS 2069 MADRID, S.L.U., EN LIQUIDACIÓN	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
CARTERA PERSEIDAS, S.L.	Proportional consolidation		x			Company manager
CACF BANKIA CONSUMER FINANCE EFC, S.A.	Proportional consolidation		x			Consumer finance

ANNEX II: CAPITAL INSTRUMENTS MAIN FEATURES

Tabla 68. Capital instruments main features

		2019					
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)		XS1951220596	XS1645651909	XS1880365975	ES0213307046	ES0213056007
3	Law governing the instrument	Laws of Spain	English Law with option to change to Spanish Law	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	02/15/2019	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	02/15/2029	Undated	Undated	03/15/2027	11/16/2026
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	02/15/2024; tax y 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	n/a	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. 3,75% through to 02/15/2024; then 5-year mid-swap + 3.624%	Quarterly coupon. 6% through to 07/18/2022; then 5-year mid-swap + 5.819%	Quarterly coupon. 6.375% through to 09/19/2023; then 5-year mid-swap+ 6.224%	Annual coupon. 3.375% through to 03/15/2022; then 5-year mid-swap + 3.35%	9% through to 11/16/2021; then 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 (including non-preferred ordinary claims)	Senior to common shares	Senior to common shares	After unsecured creditors (including non-preferred ordinary claims)	After unsecured creditors (including non-preferred ordinary claims)
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

Contract for the sale of Bankia's shareholding in Caser

On 24 January 2020 Bankia disclosed to the market that on 23 January 2020 it has signed a contract of sale with Helvetia Schweizerische Versicherungsgesellschaft AG for its shareholding in the company Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser"), which represents approximately 15% of the share capital of this company.

The price of the sale of Bankia's stake in Caser is estimated to be around 166 million euros and will have an estimated positive impact on the capital of the Group (Total Capital) of 12 basis points.

The effectiveness of the aforementioned sale is subject to the fulfilment of certain suspensive conditions, such as obtaining the appropriate regulatory and competition authority authorisations.

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 amount in financial statements	2.1.4
LI3	Outline of the differences in the scopes of consolidation - entity by entity	ANNEX I
OV1	Overview of RWA	4.1
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
CR2-A	Changes in stock of general and specific credit risk adjustments	5.1.3.4
CR2-B	Changes in stock of defaulted and impaired loans and debt securities	5.1.3.5
CR3	Credit risk mitigation techniques – overview	5.1.3.7.5
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
CR10	Exposures assigned to each risk weight in special financing and equities	5.1.5.7
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	ANNEX 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)	
NIIF 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.
	GUIDELINES ON DISCLOSURES OF NON-PERFORMING AND FORBORNE EXPOSURES (EBA/GL/2018/10)	
Template 1	Credit quality of restructured or refinanced exposures	5.1.3.3.1
Template 3	Credit quality of performing and non-performing exposures by past due days	5.1.3.3.2
Template 4	Performing and non-performing exposures and related provisions	5.1.3.3.3
Template 9	Collateral obtained by taking possession and execution processes	5.1.3.3.4
Template 2	Quality of restructuring or refinancing measures	N/A [12]
Template 5	Quality of doubtful exposures by geographical area	
Template 6	Credit quality of loans and advances by sector	
Template 7	Valuation of collateral – loans and advances	
Template 8	Changes in the stock of non-performing loans and advances	
Template 10	Collateral obtained by taking possession and execution processes – vintage breakdown	

[12] Disclosure not applicable since the Entity presents a gross non-performing loan ratio below 5% calculated in accordance with paragraph 13 of EBA/GL/2018/10.

ANNEX V: CORRELATION BETWEEN PROVISIONS OF CRR - PILLAR 3 DISCLOSURES 2019

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.	1.1 / 1.2 / 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.	1.2 /2.1.12
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.	2.3.1 / 2.3.2
	b) Structure and organisation of the risk management function.	2.3.3
	c) Scope and nature of risk reporting and measurement systems.	2.3.
	d) Policies, strategies and processes for hedging and mitigating risk.	5.1.3.7
	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) The number of directorships held by members of the management body.	[13]
	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 / 2.2.4

[13] Information disclosed in the Annual Corporate Governance Report for 2019
https://www.bankia.com/recursos/doc/corporativo/20120924/gobierno-corporativo/informe-anual-gobierno-corporativo-2019.pdf

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
Art.436 - Scope of application	a) Name of institution.	2.1.1 / 2.1.2
	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
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.	APPENDIX II
	d) Separate disclosure of the nature and amounts of the following:	2.1.10
	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.	
	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

	REGULATION UE 575/2013 (CRR) – DISCLOSURE ARTICLES	PILLAR 3 SECTION
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
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.
	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.	5.1.3.4
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately.	5.1.3.4
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
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.	5.1.3.7
	b) The policies and processes for collateral valuation and management.	5.1.3.7
	c) A description of the main types of collateral taken by the institution.	5.1.3.7.3
	d) The main types of guarantor and credit derivative counterparty and their creditworthiness.	5.1.3.7.3
	e) Information about market or credit risk concentrations within the credit mitigation taken.	5.1.3.7.3.5
	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.	5.1.3.7.5
	g) The total exposure that is covered by guarantees or credit derivatives.	5.1.3.7.5
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 / 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 / 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

ANNEX VI: ADDITIONAL INFORMATION

On 11 March 2020, the World Health Organization declared the outbreak of the coronavirus disease (COVID-19) an international pandemic. The Spanish government has carried out the following actions to address the situation and prevent a temporary shock from having lasting negative effects on economic growth: (i) the declaration of state of emergency, via approval of Royal Decree 463/2020, of 14 March, adopting certain measures to protect the health and safety of people, contain the spread of the disease and strengthen the public health system; and (ii) the approval of Royal Decree Law 8/2020, of 17 March, on extraordinary emergency measures to address the economic and social impact of COVID-19, Royal Decree Law 10/2020, of 29 March, governing recoverable paid leave for employees who do not provide essential services, in a bid to limit the movement of people as part of the fight against COVID-19, and Royal Decree-Law 11/2020, of 31 March, adopting additional emergency social and economic measures to address the health crisis caused by COVID-19 ("RDL 11/2020").

Bankia is designing additional products to complement the government measures taken under RDL 11/2020. It will offer a payment holiday on mortgages and consumer loan payments to customers affected by the situation arising from COVID-19.

It has also taken other measures to help customers and suppliers affected by the coronavirus with their financial needs. These include advance payment of pensions and unemployment benefits, extensions of repayment terms for short-term loans, the grant of bridge financing until the new facilities endorsed by ICO are operational, flexibility in the collection of fees and commissions and maintenance of the remuneration of suppliers provided they maintain the working conditions of staff providing the service at Bankia.

Meanwhile, the ECB has announced several measures to combat the effects of the crisis on financial institutions. These include the temporary relaxation of capital requirements for financial institutions, a new round of QE (Quantitative Easing) of EUR 750,000 million, which will remain in place until the end of 2020, and flexibility in the treatment of allowances for non-performing loans to prevent banks from being harmed for accounting purposes by the moratoriums and guarantees put in place in certain countries, including Spain.

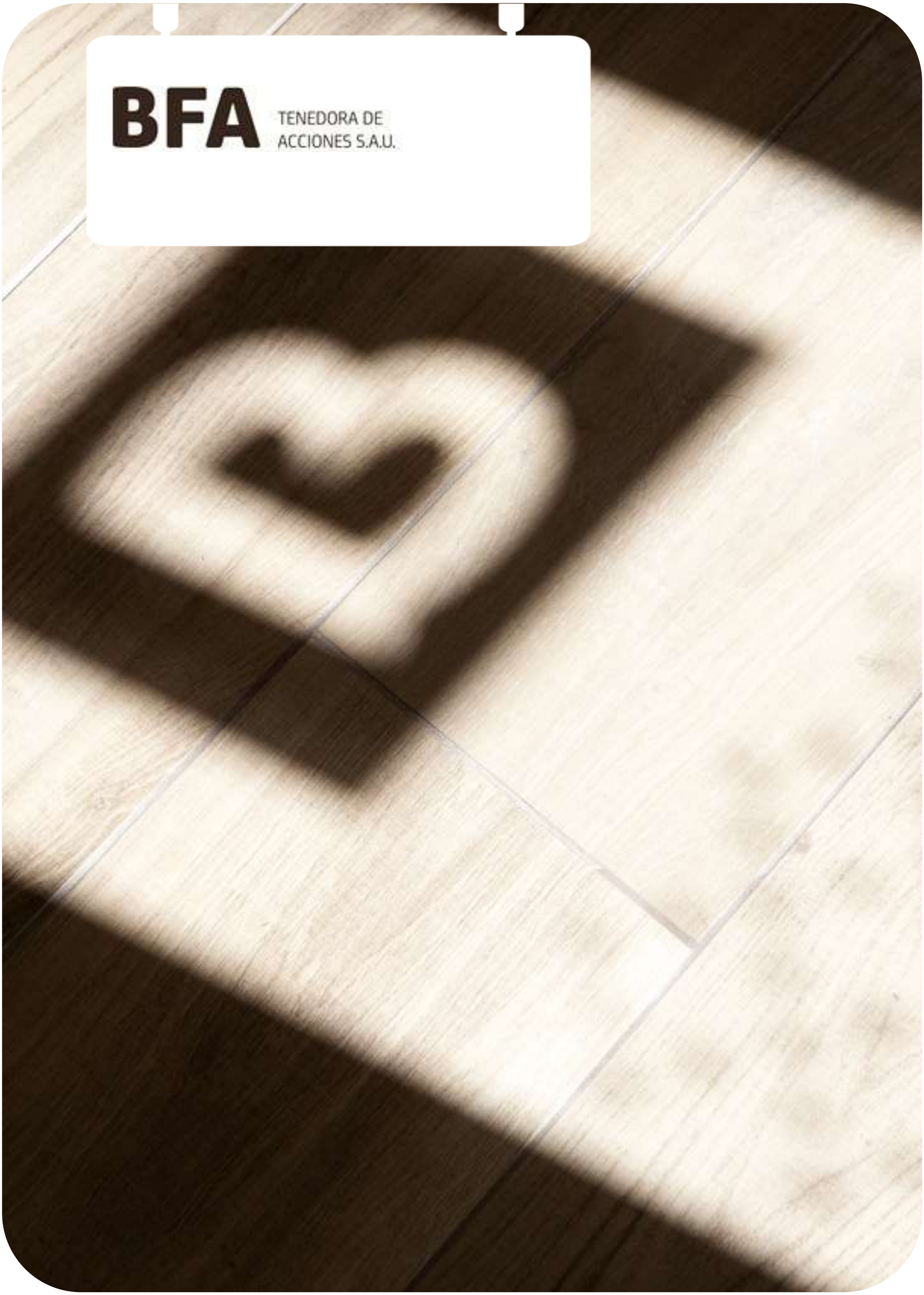
In addition, on Friday, 27 March, the Governing Council of the ECB issued a recommendation to financial institutions to refrain from making dividend distributions and performing share buy-backs during the period of the COVID-19-related economic shock. Regarding this point, Bankia's Board of Directors decided that, given the potential impact of the situation arising from COVID-19, the Bank must define its dividend policy for 2020 with utmost prudence. Accordingly, it revised the capital distribution target in the 2018-2020 Strategic Plan, saying there will be no extraordinary distribution this year, and announcing extreme prudence with respect to any dividend for 2020, as disclosed in price-sensitive information sent to the CNMV on 27 March.

Bankia has responded to the health crisis caused by COVID-19 by taking the necessary measures to ensure business continuity and the health of its employees and customers. The Bank is fully operational and is working in accordance with the contingency plans in place.

As at 31 March 2020, less than 5% of the branches were closed as a result of COVID-19. The majority of staff is teleworking (approximately 55% of branch employees and nearly all central services staff) without this affecting quality of service. Therefore, the impact rate is extremely low.

It is still too early to determine the potential economic impacts for Bankia of the COVID-19 crisis, since we are facing an unprecedented situation and it is difficult to assess the scale of the impact and its duration. Nevertheless, business activity in the first two months of 2020 was broadly in line with expectations. As a result, we estimate that the impact on the first quarter will not be material. For subsequent quarters, the impact of the COVID-19 crisis will depend on how it unfolds and the success of the measures to contain it and the economic policy measures taken by national and European authorities. In any event, the economic shock could affect both Bankia's earnings and solvency.

The Entity enjoyed a strong capital position at 31 December 2019, with a CET1 Phase-In ratio for BFA of 14.19% and for the Bankia Group of 14.32% (the latter implying a surplus of over 500 basis points to the SREP requirement for minimum capital notified by the supervisor for 2019). At year-end 2019, BFA had an LCR of 214% and over EUR 33,000 of liquid assets. These strengths provide BFA Group with a considerable buffer to respond to the potential consequences arising from the most adverse scenarios.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