Audit Report on Financial Statements
issued by an Independent Auditor

BANKIA, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2017

Building a better
working world

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Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails. (See Note 44).

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of Bankia, S.A.:

Audit report on the financial statements

Opinion

We have audited the financial statements of Bankia, S.A. (the Bank), which comprise the balance sheet at December 31, 2017, the income statement, the statement of recognised income and expense , the statement of changes in equity, the cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and the financial position of the Bank at December 31, 2017 and of its financial performance and its cash flows, for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 1.3 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Merger by absorption of Banco Mare Nostrum, S.A. by Bankia, S.A.

Description

As disclosed in note 1.16 to the accompanying financial statements, on September 14, 2017, the General Shareholders' Meeting of Bankia, S.A. (absorbing bank) approved the merger by absorption of Banco Mare Nostrum, S.A. (absorbed bank). On December 28, 2017, once all the administrative authorisations to which execution of the merger was subject as condition precedent, Bankia, S.A. ("Bankia") and Banco Mare Nostrum, S.A. ("BMN") executed the deed of the merger by absorption of the latter by the former.

The ratio for the exchange of shares based on the real value of the two entities' assets and liabilities was established at 1 ordinary share of Bankia, S.A. for every 7.82987 ordinary shares of BMN, resulting in an implicit valuation of BMN at EUR 825 million. As a result of the merger, the shares of BMN have been cancelled. The acquisition date for accounting purposes was December 1, 2017.

In accordance with Circular 4/2004, of December 22, by the Bank of Spain, the Bank measured provisionally the identifiable assets acquired and liabilities assumed at their fair value, for which management engaged the assistance of an independent third party. The recognition of the business combination and the determination of the fair value of the assets acquired and liabilities assumed were made using approaches and assumptions that involved a significant degree of judgement. Accordingly, this was considered a key audit matter.

Our response

We performed the following procedures, among others:

- We obtained, read and understood the corporate resolutions and administrative authorisations.
- We performed audit procedures to obtain evidence of the acquisition-date balances which, as provided for in the terms of merger, were audited by BMN auditor.
- We assessed the criteria used for recognition of the transaction as a business combination and the determination of the acquisition date and the price paid.
- We evaluated, with the involvement of our valuation experts, the approaches used to determine the fair values of the assets acquired and liabilities assumed, the underlying assumptions and the mathematical accuracy of the calculations made. In particular, we considered the appropriateness of the allocation of the purchase price to the assets acquired and liabilities assumed, as described in note 1.16 to the financial statements.
- We reviewed the qualitative and quantitative information included in the accompanying notes to the financial statements.

Estimate of credit impairment losses from loans and receivables

Description

Estimating the impairment loss allowance for credit risk is one of the most significant and complex elements of Bank's financial reporting process. Note 2.9 to the accompanying financial statements explains the main principles and criteria applied by the Bank.

Impairment loss allowances for credit risk are estimated as follows:

- Individually. Estimates of these impairment allowances take into account mainly, among other factors, the identification and classification of impaired exposures, the estimates of borrowers' future business trends (discount of future cash flows) and, where appropriate, estimates of the realisable value of the related guarantees or collateral.
- Collectively. The key issues considered are the identification and classification of either impaired credit exposures or exposures classified in the watch-list, the portfolio stratification, the use of significant assumptions, such as the realisable value of the related guarantees or collateral, to which management applies parameters based on the experience and information of the Spanish banking sector.

Therefore, the estimate of impairment loss allowances for credit risk on the portfolio of loans and receivables was considered a key audit matter.

With Circular 4/2017, of December 27, by the Bank of Spain, becoming effective as of January 1, 2018, as described in note 1.3, the Bank drew up an implementation plan for adopting the standard that entails performing an evaluation of the population of financial instruments in the scope of the new classification and measurement requirements of the aforementioned Circular, and the development of an impairment approach to support the process of estimating the loss allowance for expected credit losses. This approach entailed the definition of new criteria for identifying a significant increase in credit risk in the various credit exposures and the development of different models for the various loan portfolios for the estimation of expected losses. Note 1.3 describes the impact on the Bank's reserves and capital ratios of the first-time application of the new classification, measurement and impairment requirements, following the requirements for the first-application of this standard, without updating comparative data for previous reporting periods.

Our response

Among the audit procedures carried out in this respect, we assessed and evaluated internal control and performed substantive tests on impairment allowances assessed both individually and collectively.

Regarding internal control, our tests focused on:

- Verifying that the policies and procedures established for the Bank comply with applicable regulatory requirements and are applied effectively.
- Assessing the reliability and coherence of the information sources used in the calculations.
- Reviewing, in the authorisation process, the procedures established by the Bank for assessing collection of transactions based on an analysis of the borrower's future cash flows and financial information.
- Evaluating that the regular review process of borrowers' files for monitoring of their classification and identification of impairment, where applicable, is performed adequately.

- Assessing the classification criteria for exposures based on the ageing of arrears, the transaction terms, including refinancing or forbearance, and the monitoring controls in place.
- Assessing the policies and procedures in place for the refinancing or forbearance of credit risk transactions and the monitoring controls in place.
- Evaluating the design of the relevant controls in place for managing and valuing the collateral and guarantees related to credit transactions.

We also performed substantive procedures, consisting mainly of:

- For impairment loss allowances estimated individually, we performed audit procedures to evaluate the assumptions used by management in the identification and measurement of impairment losses. We selected a sample of files with objective evidence of impairment to evaluate the appropriateness of the impairment loss recognised.
- For credit loss allowances determined collectively, we evaluated segmentation, the correct classification of loans the value collateral, and we re-performed the calculation.
- We also assessed the back-testing procedures performed by management as part of the process for estimating loss allowances for credit risk by comparing the impairment losses determined applying the parameters based on experience and information on the Spanish banking sector, with the result of applying parameters obtained from the Bank's internal credit risk models.

Regarding the disclosures related to the first-time adoption of the Circular 4/2017 (Note 1.3), which became effective on January 1, 2018, we obtained an understanding of the implementation plan drawn up by Bank management, its various phases and the milestones reached. In this respect, our work focused on:

- Understanding the accounting policies and approaches used by the Bank to assess their compliance with the new standard.
- The analysis and documentation prepared by the Bank to assess the new classification criteria for financial instruments, including issues such as evaluating the characteristics of these instruments and the business model employed by the Bank for their management. These aspects were reviewed in a sample of transactions.
- The approaches developed for estimating loss allowances for expected credit losses, concentrating on the criteria defined for determining whether there has been a significant increase in credit risk and the classification, based on credit risk, of these exposures, in the estimate of parameters used to determine these losses, as well as the forward-looking information considered in the development of the models.
- Reviewing the qualitative and quantitative information included in the accompanying management report.

Provisions and contingencies

Description In notes 2.20 and 19 to the accompanying financial statements, the Bank describes the legal proceedings to which it is party arising from its ordinary operations and those related to its 2011 IPO. In addition, in note 2.13.2.6, the Bank describes de restructuring agreement reached with the employee unions following the merger of Bankia and BMN.

With all available information, the Bank has estimated, using prudent and consistent calculations, the probability of having to settle an obligation arising from past events or circumstances and the impact on the financial statements, in respect of provisions, or the disclosures included therein, in respect of contingent liabilities.

In general, these proceedings are subject to uncertainty and are completed after a lengthy period of time, resulting in complex estimation processes. Note 20 to the accompanying financial statements discloses the amounts and relevant information related to these proceedings.

Our response

As part of our audit, or work related to these provisions and contingent liabilities included:

- Obtaining an understanding of the control environment and the Bank's policies for classifying legal proceedings and claims, and an estimate of the related provisions, in accordance with applicable accounting standards, and specifically, for the measurement of potential obligations related to the IPO.
- Obtaining and analysing, with the involvement of our legal specialists in the most significant matters, the information prepared by the Bank's legal advisors regarding the ongoing proceedings in relation to the provisions recognised and the significant contingencies disclosed. We reviewed, among others, the supporting legal or regulatory documents for the purposes of evaluating the events and circumstances surrounding each case that could have a material impact on the financial statements.
- Obtaining a confirmation from the Bank's internal legal advisors on the significant open proceedings.
- Performing substantive audit procedures to evaluate historic data and hypothesis used by management to estimate the provision and evaluate its adequacy.
- Assessing the recognition, sufficiency and changes in accounting provisions.
- In addition, our procedures included evaluating whether the information included in accompanying notes 2.20 and 19 was in accordance with the applicable accounting standard.

Specifically on the restructuring provision, our procedures have focused on:

- Reviewing the agreement reached with the employee unions.
- Performing substantive procedures on the data underlying the computations and evaluating the assumptions made by management to estimate the provision.

Evaluation of recoverability of deferred tax assets

Description

In accordance with the Bank's policies, as explained in note 2.16 to the accompanying financial statements, deferred tax assets are only recognised when it is considered probable that there will be sufficient future taxable income to enable their application. As indicated in note 24.5 to the statements, the Bank had deferred tax assets as 31 December 2017 amounting to EUR 9,918,246 thousand, of which the recovery of EUR 6,924,030 thousand is guaranteed through the monetisation mechanisms established in Royal Decree Law 14/2013 and article 130 of the Law on Corporate Income Tax.

Starting from January 1, 2011, the Bank is the Parent Company of the fiscal group number 559/11.

The assessment by management of the recoverability of deferred tax assets is based on estimates of future taxable profit using the Bank's financial projections and business plans and taking into account applicable tax legislation at any given time. Therefore, the assessment of the Bank's ability to recover deferred tax assets is a complex exercise requiring significant judgement and estimation.

Our response	We performed audit procedures to evaluate the assumptions used by management to estimate the period for the recovery of deferred tax assets, focusing our analysis on the economic and financial assumptions used by the Bank to estimate future taxable income, with the involvement of our valuation specialists. We also carried out a sensitivity analysis of income and evaluated the disclosures in the notes to the accompanying financial statements.

Automated financial reporting systems

Description	The continuity of the Bank's business processes is highly dependent on its IT infrastructure. Access privileges to the various systems are granted to employees so they can perform and fulfil their duties. These privileges are relevant, since they are designed to ensure that changes in applications are authorised, monitored and implemented appropriately and constitute key controls for mitigating the potential risk of fraud or error caused by such changes.
Our response	In the scope of our audit, we evaluated the general controls over the key information systems for financial reporting. Our work consisted mainly of assessing the general systems of access controls, change management and applications development, and their security, as well as the application controls established in the key processes for financial reporting, with the involvement of our IT specialists.

Other information: management report

Other information refers exclusively to the 2017 management report, the preparation of which is the responsibility of the parent Bank's directors and is not an integral part of the financial statements.

Our opinion on the financial statements does not cover the management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the management report is defined in the Bank audit governing regulations, which establishes two differentiated responsibility levels:

a) A specific level that is applicable to the statement of non-financial information, as well as to certain information included in the Annual Corporate Governance Report, defined in article 35.2. b) of Law 22/2015 on Accounts Auditing, which solely consists of verifying that the aforementioned information was included in the management report or otherwise report on it.

b) A general level applicable to the remaining information included in the management report, which consists of evaluating and reporting on the agreement of the mentioned information with the financial statements, based on the knowledge of the Bank acquired from the audit of the financial statements and without including information other than that obtained as evidence during such audit, as well as evaluating and reporting whether the content and presentation of this section of the management report comply with the applicable regulations. If we conclude, based on the work performed, that there are material misstatements, we are compelled to report on this.

Based on the work performed, as described in the above paragraph, we verified that the specific information mentioned in section a) above was included in the management report and that the remaining information included in the management report agrees with that included in the 2017 financial statements and their content and presentation comply with the applicable regulations.

Responsibilities of the directors and the audit and compliance committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Bank, in accordance with the regulatory framework for financial information applicable to the Bank in Spain, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The audit and compliance committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit and compliance committee of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and compliance committee of the Bank with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and compliance committee of the Bank, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit and compliance committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit and compliance committee on February 23, 2018.

Term of engagement

The ordinary general shareholders' meeting held on 24 March 2017, we were appointed as auditors for the annual period beginning on 1 January 2017.

Previously, we were appointed as auditors by the ordinary general shareholders' meeting for one year and we have been carrying out the audit of the financial statements continuously since the year commenced January 1, 2013.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under Nº S0530)

Jaume Pallerols Cat
(Registered in the Official Register of Auditors under Nº 22702)

February 23, 2018

Bankia, S.A.

Financial statements for the year ended
31 December 2017

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank (see Notes 1.3 and 44). In the event of a discrepancy, the Spanish-language version prevails.

CONTENTS

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1-3 and 44), In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A.

Balance sheet at 31 December 2017 and 2016

(Thousands of euros)

ASSETS	NOTE	31/12/2017	31/12/2016 (*)
Cash, cash balances at central banks and other demand deposits	**7**	**3,755,070**	**2,081,771**
Financial assets held for trading	**8**	**6,719,052**	**8,278,722**
Derivatives		6,712,727	8,266,655
Equity instruments		4,324	7,062
Debt securities		2,001	5,005
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	5,004
Financial assets designated at fair value through profit or loss		**-**	**-**
Equity instruments		-	-
Debt securities		-	-
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge			-
Available-for-sale financial assets	**9**	**22,725,897**	**25,420,776**
Equity instruments		57,190	26,107
Debt securities		22,668,707	25,394,669
Memorandum item: loaned or advanced as collateral with right to sell or pledge		9,892,613	9,860,557
Loans and receivables	**10**	**126,674,121**	**108,984,992**
Debt instruments		444,158	726,600
Loans and advances		126,229,963	108,258,392
Central Banks		-	-
Credit institutions		3,029,283	3,578,821
Customers		123,200,680	104,679,571
Memorandum item: loaned or advanced as collateral with right to sell or pledge		69,233,531	74,855,038
Held-to-maturity investments	**11**	**32,353,367**	**27,695,063**
Memorandum item: loaned or advanced as collateral with right to sell or pledge		13,222,704	9,999,995
Derivatives – Hedge accounting	**12**	**3,058,341**	**3,620,293**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Investments in subsidiaries, joint ventures and associates	**13**	**2,840,144**	**2,662,372**
Subsidiaries		2,678,645	2,536,348
Joint ventures		31,589	-
Associates		129,910	126,024
Tangible assets	**14**	**2,402,415**	**1,636,708**
Property, plant and equipment		1,745,382	1,381,542
For own use		1,745,382	1,381,542
Leased out under an operating lease		-	-
Assigned to welfare projects (saving banks and credit cooperatives)		-	-
Investment property		657,033	255,166
Of which: assigned under operating leases		657,033	**255,166**
Memorandum item: acquired in financial leasing		-	-
Intangible assets	**15**	**142,669**	**121,813**
Goodwill		-	-
Other intangible assets		142,669	121,813
Tax assets		**10,345,204**	**7,692,782**
Current tax assets		426,958	338,400
Deferred tax assets	24	9,918,246	7,354,382
Other assets	**16**	**909,821**	**760,501**
Insurance contracts linked to pensions		432,981	398,404
Inventories		-	-
Other		476,840	362,097
Non-current assets and disposal groups classified as held for sale	**17**	**3,117,805**	**2,051,940**
TOTAL ASSETS		**215,043,906**	**191,007,733**

(*) Presented solely and exclusively for comparison purposes (see Note 1.5).

The accompanying Notes 1 to 44 and Appendices I to XI are an integral part of the balance sheet at 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1-3 and 44), In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A.

Balance sheet at 31 December 2017 and 2016

(Thousands of euros)

LIABILITIES AND EQUITY	NOTE	31/12/2017	31/12/2016 (*)
Financial liabilities held for trading	**8**	**7,449,989**	**9,008,035**
Derivatives		7,106,560	8,549,198
Short positions		343,429	458,837
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities measured at amortised cost	**18**	**190,916,511**	**166,407,360**
Deposits		170,537,855	147,470,875
Central Banks		15,355,970	14,968,759
Credit institutions		22,212,284	23,881,424
Customers		132,969,601	108,620,692
Debt securities issued		19,288,228	18,195,679
Other financial liabilities		1,090,428	740,806
Memorandum item: subordinated liabilities		2,510,922	1,045,492
Derivatives – Hedge accounting	**12**	**377,469**	**723,034**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Provisions	**19**	**1,953,867**	**1,287,208**
Pensions and other post-employment defined benefit obligations		442,407	401,664
Other long term employee benefits		-	-
Pending legal issues and tax litigation		352,324	395,161
Commitments and guarantees given		380,422	398,469
Other provisions		778,714	91,914
Tax liabilities		**686,139**	**642,631**
Current tax liabilities		1,368	163
Deferred tax liabilities	24	684,771	642,468
Share capital repayable on demand		**-**	**-**
Other liabilities	**20**	**867,586**	**912,517**
Of which: Welfare Fund (only saving banks and credit cooperatives)		-	-
Liabilities included in disposal groups classified as held for sale		-	**-**
TOTAL LIABILITIES		**202,251,561**	**178,980,785**
Own Funds	**21**	**12,477,275**	**11,584,894**
Capital		3,084,963	9,213,863
Paid up capital		3,084,963	9,213,863
Unpaid capital which has been called up		-	-
Memorandum item: Uncalled capital		-	-
Share Premium		619,154	-
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		-	-
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		8,384,243	1,696,334
(-) Treasury shares		(79,837)	(44,758)
Profit or loss attributable to owners of the parent		468,752	719,455
(-) Interim dividends		-	-
Accumulated other comprehensive income	**22**	**315,070**	**442,054**
Items that will not be reclassified to profit or loss		48,764	42,622
Actuarial gains or (-) losses on defined benefit pension plans		48,764	42,622
Non-current assets and disposal groups classified as held for sale		-	-
Other valuation adjustments		-	-
Items that may be reclassified to profit or loss		266,306	399,432
Hedge of net investments in foreign operations [effective portion]		-	-
Foreign currency translation		(714)	511
Hedging derivatives. Cash flow hedges [effective portion]		(10,163)	(950)
Available-for-sale financial assets		280,438	399,874
Debt instruments		264,648	399,349
Equity instruments		15,790	525
Non-current assets and disposal groups classified as held for sale		(3,255)	(3)
TOTAL EQUITY		**12,792,345**	**12,026,948**
TOTAL EQUITY AND TOTAL LIABILITIES		**215,043,906**	**191,007,733**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS	**25.2**	**31,915,570**	**32,765,453**
Contingent exposures		8,930,154	7,683,450
Contingent commitments		22,985,416	25,082,003

(*) Presented solely and exclusively for comparison purposes. (see Note 1.5).

The accompanying Notes 1 to 44 and Appendices I to XI are an integral part of the balance sheet at 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1-3 and 44), In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A.

Income statement for the years ended 31 December 2017 and 2016

(Thousands of euros)

	NOTE	31/12/2017	31/12/2016 (*)
Interest income	**26**	2,315,829	2,627,261
(Interest expenses)	**27**	(391,893)	(581,666)
(Expenses on share capital repayable on demand)		-	-
A) NET INTEREST INCOME		**1,923,936**	**2,045,595**
Dividend income	**28**	61,632	29,126
Fee and commission income	**29**	866,067	825,934
(Fee and commission expenses)	**30**	(75,291)	(70,991)
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	**31**	309,811	253,414
Gains or (-) losses on financial assets and liabilities held for trading, net	**31**	95,613	51,153
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	**31**	-	-
Gains or (-) losses from hedge accounting, net	**31**	(29,627)	(53,785)
Exchange differences [gain or (-) loss], net		9,740	13,612
Other operating income	**32**	52,578	116,374
(Other operating expenses)	**33**	(240,904)	(222,886)
Of which: Mandatory provisions to Welfare Fund (only saving banks and credit cooperatives)		-	-
B) GROSS INCOME		**2,973,555**	**2,987,546**
(Administrative expenses)		(1,833,114)	(1,366,393)
(Staff expenses)	**34**	(1,373,949)	(892,079)
(Other administrative expenses)	**35**	(459,165)	(474,314)
(Amortization)	**36**	(172,555)	(154,455)
(Provisions or (-) reversal of provisions)	**37**	(93,931)	(120,116)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	**38**	(267,664)	(204,618)
(Financial assets measured at cost)		-	-
(Available- for-sale financial assets)		2,188	(18,576)
(Loans and receivables)		(273,581)	(198,151)
(Held to maturity investments)		3,729	12,109
C) TOTAL OPERATING INCOME, NET		**606,291**	**1,141,964**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	**39**	68,129	27,509
(Impairment or (-) reversal of impairment on non-financial assets)	**40**	(38)	1,994
(Tangible assets)		(38)	3,651
(Intangible assets)		-	-
(Other)		-	(1,657)
Gains or (-) losses on the derecognition in nonfinancial assets accounts and investments, net	**41**	9,325	904
Of which: investments in subsidiaries, joint ventures and associates		774	(962)
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**42**	(134,306)	(258,157)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**549,401**	**914,214**
(Tax expense or (-) income related to profit or loss from continuing operations)	**24.3**	(80,649)	(194,759)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**468,752**	**719,455**
Profit or (-) loss after tax from discontinued operations		-	-
F) PROFIT OR (-) LOSS FOR THE PERIOD		**468,752**	**719,455**

(*) Presented solely and exclusively for comparison purposes (see Note 1.5).

The accompanying Notes 1 to 44 and Appendices I to XI are an integral part of the balance sheet at 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1-3 and 44), In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A.

Statement of recognised income and expense for the years ended 31 December 2017 and 2016

(Thousands of euros)

	2017	2016 (*)
Profit or (-) loss for the period	**468,752**	**719,455**
Other comprehensive income	**(126,984)**	**(192,256)**
Items that will not be reclassified to profit or loss	**6,142**	**12,361**
Actuarial gains or (-) losses on defined benefit pension plans	8,774	17,659
Non-current assets and disposal groups held for sale	-	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified	(2,632)	(5,298)
Items that may be reclassified to profit or loss	**(133,126)**	**(204,617)**
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	(1,750)	730
Translation gains or (-) losses taken to equity	(1,750)	730
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	(13,161)	1,233
Valuation gains or (-) losses taken to equity	(13,161)	1,233
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	(170,623)	(294,212)
Valuation gains or (-) losses taken to equity	5,923	(94,875)
Transferred to profit or loss	(176,546)	(199,337)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	(4,646)	(60)
Valuation gains or (-) losses taken to equity	(4,646)	(60)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	57,054	87,692
Total comprehensive income for the period	**341,768**	**527,199**

(*) Presented solely and exclusively for comparison purposes. (see Note 1.5).

The accompanying Notes 1 to 44 and Appendices I to XI are an integral part of the balance sheet at 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1-3 and 44), In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A.

Statement of changes in equity for the year ended 31 December 2017

(Thousands of euros)

Sources of equity changes	Own Funds										Other Accumulated Comprehensive Income	Total
	Capital	Share premium	Equity instruments issued other than Capital Equity	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss of the period	(-) Interim dividends		
Opening balance 31/12/2016 [before restatement]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**1,696,334**	**(44,758)**	**719,455**	**-**	**442,054**	**12,026,948**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**1,696,334**	**(44,758)**	**719,455**	**-**	**442,054**	**12,026,948**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	468,752		(126,984)	**341,768**
Other changes in equity	(6,128,900)	619,154	-	-	-	-	**6,687,909**	**(35,079)**	**(719,455)**	-	-	**423,629**
Issuance of ordinary shares	-	-			-	-	-					-
Issuance of preference shares	-	-	-		-	-	-					-
Issuance of other equity instruments			-		-	-	-					-
Exercise or expiration of other equity instruments issued			-		-	-	-					-
Conversion of debt to equity	-	-	-	-	-		-	-				-
Capital reduction	(6,334,531)	-			-	-	6,334,531	-	-			-
Dividends	-	-	-	-	-	-	(315,957)	-		-		**(315,957)**
Purchase of treasury shares					-	-	-	(132,559)				**(132,559)**
Sale or cancellation of treasury shares					-	-	8,645	97,480				**106,125**
Reclassification of financial instruments from equity to liability	-	-	-	-								-
Reclassification of financial instruments from liability to equity	-	-	-	-								-
Transfers among components of equity			-	-	-	-	719,455		(719,455)	-	-	-
Equity increase or (-) decrease resulting from business combinations	205,631	619,154	-	-	-	-	-	-			-	**824,785**
Share based payments	-	-		-				-				-
Other increase or (-) decrease in equity			-	-	-	-	(58,765)	-	-	-	-	**(58,765)**
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)					-		-					-
Closing balance 31/12/2017 [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,384,243**	**(79,837)**	**468,752**	**-**	**315,070**	**12,792,345**

The accompanying Notes 1 to 44 and Appendices I to XI are an integral part of the balance sheet at 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1-3 and 44), In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A.

Statement of changes in equity for the year ended 31 December 2016(*)

(Thousands of euros)

Sources of equity changes	Own Funds										Other Accumulated Comprehensive Income	Total
	Capital	Share premium	Equity instruments issued other than Capital Equity	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss of the period	(-) Interim dividends		
Opening balance 31/12/2015 [before restatement]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**1,218,016**	**(46,473)**	**940,064**	**-**	**634,310**	**11,959,780**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**1,218,016**	**(46,473)**	**940,064**	**-**	**634,310**	**11,959,780**
Total comprehensive income for the period					-	-	-		**719,455**		**(192,256)**	**527,199**
Other changes in equity	-	-	-	-	-	-	478,318	1,715	(940,064)	-	-	(460,031)
Issuance of ordinary shares	-	-			-	-	-					-
Issuance of preference shares	-	-	-		-	-	-					-
Issuance of other equity instruments			-		-	-	-					-
Exercise or expiration of other equity instruments issued			-		-	-	-					-
Conversion of debt to equity	-	-	-	-	-		-	-				-
Capital reduction	-	-			-	-	-	-	-			-
Dividends	-	-	-	-	-	-	(300,717)	-		-		(300,717)
Purchase of treasury shares					-	-	-	(96,451)				(96,451)
Sale or cancellation of treasury shares					-	-	(12,073)	98,166				86,093
Reclassification of financial instruments from equity to liability	-	-	-	-								-
Reclassification of financial instruments from liability to equity	-	-	-	-								-
Transfers among components of equity			-	-	-	-	940,064		(940,064)	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-			-	-
Share based payments	-	-		-				-				-
Other increase or (-) decrease in equity			-	-	-	-	(148,956)	-	-	-	-	(148,956)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)					-		-					-
Closing balance 31/12/2016 [current period]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**1,696,334**	**(44,758)**	**719,455**	**-**	**442,054**	**12,026,948**

(*) Presented solely and exclusively for comparison purposes. Data adapted as indicated in Note 1.5.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1-3 and 44), In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A.

Statement of cash flows for the years ended 31 December 2017 and 2016

(Thousands of euros)

	2017	2016 (*)
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**(127,857)**	**2,280,290**
Profit/(loss) for the period	**468,752**	**719,455**
Adjustments made to obtain the cash flows from operating activities	**797,140**	**634,672**
Depreciation and amortisation	172,555	154,455
Other	624,585	480,217
Net increase/(decrease) in operating assets	**(8,019,890)**	**(11,951,071)**
Financial assets held for trading	197	802
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	(6,974,873)	(4,303,474)
Loans and receivables	(1,698,751)	(8,533,111)
Other operating assets	653,537	884,712
Net increase/(decrease) in operating liabilities	**(9,579,099)**	**(11,200,135)**
Financial liabilities held for trading	2,876	445,306
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(9,105,077)	(10,097,554)
Other operating liabilities	(476,898)	(1,547,887)
Income tax receipts/(payments)	**165,460**	**175,227**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**1,838,678**	**(1,351,058)**
Payments	**847,010**	**5,964,456**
Tangible assets	106,065	58,275
Intangible assets	103,837	89,106
Investments in joint ventures and associates	3,000	362,436
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	100	331
Held-to-maturity investments	634,008	5,454,308
Other payments related to investing activities	-	-
Proceeds	**2,685,688**	**4,613,398**
Tangible assets	19,444	12,823
Intangible assets	-	-
Investments in joint ventures and associates	47,103	959,291
Subsidiaries and other business units	577,959	-
Non-current assets held for sale and associated liabilities	466,864	486,377
Held-to-maturity investments	1,574,318	3,154,907
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(37,522)**	**(1,921,251)**
Payments	**2,734,387**	**5,392,844**
Dividends	315,957	300,717
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	132,919	96,451
Other payments related to financing activities	2,285,511	4,995,676
Proceeds	**2,696,865**	**3,471,593**
Subordinated liabilities	1,250,000	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	106,125	86,093
Other proceeds related to financing activities	1,340,740	3,385,500
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**1,673,299**	**(992,019)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**2,081,771**	**3,073,790**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**3,755,070**	**2,081,771**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	878,204	760,514
Cash equivalents at central banks	2,614,513	1,202,912
Other financial assets	262,353	118,345
Less: Bank overdrafts refundable on demand	-	-

(*) Presented solely and exclusively for comparison purposes (see Note 1.5).

The accompanying Notes 1 to 44 and Appendices I to XI are an integral part of the balance sheet at 31 December 2017.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 1.3 and 44). In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(1) Description of Bankia, beginnings of the incorporation of Bankia, reporting framework applied to draw up the financial statements and other information.

(1.1) Description of Bankia

Bankia, S.A. (hereinafter the "Bank", "Bankia" or "the Entity") is a financial institution incorporated under the name Altae Banco, S.A. (initially under code 0099 in the Bank of Spain's financial institution register) and on record with the companies register (Registro Mercantil). In the first half of 2011, the Bank was assigned code 2038 in the Bank of Spain's financial institutions register. As a credit institution, the Bank is subject to the supervision of the Bank of Spain. On 16 June 2011, Bankia changed its registered office to calle Pintor Sorolla, 8, Valencia. At 31 December 2017, the Bank's network comprised 2,423 offices. The Bank's bylaws may be consulted, together with other relevant legal information, at its registered office and on its website (www.bankia.com).

Bankia's bylaws stipulate the activities it may engage in, which are those commonly carried on by credit institutions and, in particular, satisfy the requirements of Law 26/1988, of 29 July, on the Discipline and Intervention in Credit Institutions.

In addition to the operations it carries out directly, Bankia is a subsidiary of the BFA, Tenedora de Acciones Group (hereinafter the "BFA Group") and, in turn, the parent of a business group (the "Group" or "Bankia Group"). At 31 December 2017, the scope of consolidation of the Bankia Group encompassed 88 companies, including subsidiaries, associates and jointly-controlled entities. These companies engage in a range of activities, including, among others, insurance, asset management, financing, services and property management.

Appendices I, II and III list the entities that form part of the scope of consolidation of the Bankia Group at 31 December 2017 (subsidiaries controlled by the Bank, jointly-controlled entities and associates over which Bankia, directly or indirectly, exercises significant influence, distinguishing those classified under "Non-current assets held for sale", see Note 2.1), and specifying the percentage of voting rights controlled by Bankia in each company.

The Bankia's financial statements for the year 2017 were authorised for issue by Bankia's directors at the Board meeting held on 22 February 2018. The Bankia's financial statements for 2016 were approved by the shareholders at the general meeting held on 24 March 2017.

In addition to these separate financial statements, Bankia's Board of Directors authorised for issue the Bankia Group's consolidated financial statements for the year ended 31 December 2017, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

(1.2) Restructuring plan

Bankia's main shareholder is BFA, Tenedora de Acciones, S.A.U., hereinafter "BFA" which at 31 December 2017 held shares representing 60.98% of its share capital (61.38% including the impact of treasury shares).

Year 2012

At its meeting of 9 May 2012, BFA's Board of Directors agreed unanimously to submit a request to the Fondo de Restructuración Ordenada Bancaria ("FROB"), through the Bank of Spain, to convert the EUR 4,465 million of convertible preference shares issued by BFA and subscribed by the FROB into BFA shares, which would be issued pursuant to the resolution adopted to increase capital to carry out the conversion. After this request, the FROB's Governing Committee, at its meeting of 14 May 2012, agreed to accept this request.

On 23 May 2012, BFA sent communications to the Bank of Spain and the FROB notifying them of its intention to request a capital contribution from the FROB of EUR 19,000 million. On 24 May 2012, Bankia received replies from both institutions expressing their willingness to provide this financial support immediately pursuant to compliance with the requirements set for in their regulations.

Under EU rules governing aid to Member States, the European Commission gave temporary authorisation to the conversion into capital of the convertible preference shares held by the Spanish state for EUR 4,465 million and granted the possibility of issuing debt backed by the Spanish government for EUR 19,000 million to the BFA Group and its Bankia subsidiary.

On 27 June 2012, once the conversion of the convertible preference shares was completed (which, inter alia, led to the prior reduction of BFA's share capital to zero following the redemption of 27,040,000 shares), the FROB became the sole shareholder of BFA, as it controlled 100% of its share capital, statement of this entity's sole shareholder status.

In June 2012, the results of the stress text of the Spanish banking system carried out by two international consulting firms, which assessed the system's capital deficit under a severely adverse stress scenario, were released. Under this scenario, the system-wide capital buffer requirement estimated by the consultants was between EUR 51,000 million and EUR 62,000 million.

Subsequently, based on the analysis of the credit portfolios of 14 Spanish banks, including BFA-Bankia, performed by four auditing firms, one of the international consultants conducted a final stress test in which it estimated the expected losses by these banks, including those of BFA-Bankia. The result of this stress test was released on 28 September 2012, showing capital needs for the BFA–Bankia Group of EUR 13,230 million in the baseline scenario and EUR 24,743 million in the adverse scenario.

In order to strengthen the BFA-Bank Group's regulatory capital, on 12 September 2012, while the restructuring process was being completed, the FROB agreed to the capital increase of BFA through the non-monetary contribution of EUR 4,500 million through the issue of 4,500 million of shares registered ordinary shares with a par value of EUR 1 each, fully subscribed and paid in. On the same date, BFA granted Bankia, S.A. a subordinated loan in the amount of EUR 4,500 million with an unspecified maturity and an interest rate of 8%.

On 28 November 2012, the BFA–Bankia Group received approval by the European Commission, the Bank of Spain and the FROB for the Bank's 2012-2017 Restructuring Plan (the "Restructuring Plan"). This final approval marked the completion of the joint analysis and work by the entities, the European Commission, the FROB and the Bank of Spain which began in July 2012 and concluded when the results of the stress test were released on 28 September 2012. The capital requirements identified in the stress tests were reduced to EUR 24,552 million due to the impact of the transfer of real estate assets to the Society of Asset Management from the Banking Restructuring (SAREB) (see Note 1.15).

The estimates of public assistance required by the BFA Group set out in the Restructuring Plan to comply with regulatory capital and cash adequacy requirements in applicable regulations include approximately EUR 6,500 million related to the positive impact estimated for certain liability management actions with the BFA Group's hybrid instruments (preference shares and subordinated debt) to be carried out within the scope of the principles and targets regarding the burden-sharing of bank restructuring costs set out in Law 9/2012, of 14 November, on the Restructuring and Resolution of Credit Institutions ("Law 9/2012"). As a result, the amount of public assistance required by the BFA Group in the Restructuring Plan was finally estimated at EUR 17,959 million.

The Bankia Group's capital requirements, which should be considered as part of the BFA Group's requirements indicated above, were estimated at EUR 15,500 million. Of this amount, approximately EUR 4,800 million is expected to be covered through the conversion of hybrid instruments mentioned above and EUR 10,700 million through contributions by the Bank's shareholders, with Bankia's capital increase fully guaranteed by BFA.

In this respect, on 26 December 2012, as part of the before mentioned Restructuring Plan, the FROB adopted the following agreements:

– The capital increase at BFA amounting to EUR 13,459 million, subscribed by the FROB and paid through the non-monetary contribution of securities of the European Stability Mechanism (ESM). The increase comes in addition to that of EUR 4,500 million carried out on 12 September 2012 through the non-monetary payment of treasury bills. These bills were also swapped for securities of the ESM.

– The issue by Bankia of convertible contingent bonds without preferential subscription rights in an amount of EUR 10,700 million subscribed in full by BFA through the contribution of fixed-income securities issued by the ESM.

The BFA Group's Restructuring Plan defines the framework that will allow the BFA–Bankia Group to implement a Strategic Plan for the 2012-2015 period. This plan establishes the measures that will be adopted during the period within the framework of the limitations imposed and commitments assumed by the BFA Group with EU and Spanish authorities in the Restructuring Plan that will enable the BFA Group to meet all the commitments assumed with them by 2017. As a result, from the end of the Strategic Plan until 2017, additional measures to those considered initially for the 2012-2015 period will likely be adopted with the overriding goal of strengthening the Bank's competitive position, rebalancing its balance sheet, improving efficiency and reducing the risk premium. The main measures included in the 2012-2015 Strategic Plan are as follows:

– The disposal of non-earning assets and non-strategic equity investments. Between the transfer of assets to the SAREB, the sale of investees and other portfolios, and the disposal of loan portfolios, Bankia expects to shed EUR 50,000 million (down from EUR 90,000 million to EUR 40,000 million).

– A change in the composition of the loan portfolio, resulting in a greater proportion of lending to businesses and practically zero exposure to the real estate business.

– Reduction in the Bank's capacity, in terms of both its branch network and its workforce, to ensure its future viability. The number of branches will be reduced by approximately 39%, from 3,117 to around 1,900-2,000.

– The workforce will be cut by 28%, from 20,589 to around 14,500 employees. This retrenchment will guarantee the Bank's viability and the preservation of 72% of existing jobs.

Year 2013

On 8 February 2013 a labour agreement was entered into with the majority of the Bank's union representatives, which includes the collective dismissal of up to 4,500 Bank employees (see Note 2.15).

However, these agreements did not imply full compliance with the Restructuring Plan, as they did not result in Bankia's full recapitalisation, but rather temporarily enabled the bank to comply with the solvency requirements of application legislation. Accordingly, to ensure full compliance with the Restructuring Plan and, therefore, achieve the effective recapitalisation of the bank, on 16 April 2013, the FROB's Governing Committee adopted the following restructuring measures:

- Reduction of Bankia's share capital via the reduction in the par value of Bankia shares to EUR 0.01 per share and an amendment to the bylaws consisting of an increase in the par value and grouping of the shares (reverse split).
- Early redemption of 107,000 mandatory convertible shares issued by Bankia, S.A., for a nominal value of EUR 100,000 each, contingent on and simultaneous with the subscription by BFA of the capital increase explained in the following point.
- Capital increase with preferential subscription rights of up to EUR 10,700 million.
- Transactions with hybrid capital instruments and subordinated debt entailing the buy-back of all of the BFA Group's hybrid capital instruments and subordinated debt issues (of which 28 were retail issues) and the simultaneous subscription of shares of Bankia or of a deposit, depending on the issue.

Following execution of these resolutions, the Bank's share capital increased from EUR 3,987,927 thousand at 31 December 2012, represented by 1,993,963,354 fully subscribed and paid up registered shares, to EUR 11,517,329 thousand at 31 December 2013, represented by 11,517,328,544 fully subscribed and paid up registered shares of EUR 1 par value each (see Note 21).

Lastly, on 23 May 2013, the Bank, pursuant to authorisation by the FROB, repaid the EUR 4,500 million subordinated loan granted by BFA on 12 September 2012.

Year 2014

During 2014, the Bank continued to implement the measures contained in the 2012-2015 Strategic Plan.

Elsewhere, the commitments agreed with the authorities in the framework of the Restructuring Plan include the adoption, by BFA, of the following measures by 31 December 2013:

- Its merger, into a single entity, with Bankia, S.A., or
- Its transformation into a holding company without a banking license

In this respect, 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 a credit institution. On 23 December 2014, the Bank of Spain notified BFA that it had approved its request to cease operating as a credit institution, effective from January 2015, becoming from that date a holding company, mainly for the interest in Bankia and for debt portfolios, and changing its name to "BFA, Tenedora de Acciones, S.A.U.". This marked the completion of another milestone in the Group's Restructuring Plan.

Years 2015 and 2016

On 31 December 2015, the Bank had achieved its objectives by having implemented the measures included in the 2012-2015 Strategic Plan.

In addition, the Group continued to implement the measures and commitments contemplated in its 2012-2017 Restructuring Plan, as approved by the European Commission, the Bank of Spain and the FROB.

Year 2017

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.

(1.3) Reporting framework applied to draw up the financial statements

Bankia's financial statements for the year ended 31 December 2017 are presented in accordance with the provisions of Bank of Spain Circular 4/2004 of 22 December on public and confidential financial reporting rules and formats for credit institutions ("Circular 4/2004") and subsequent amendments thereto, which implement and adapt to Spanish credit institutions the International Financial Reporting Standards endorsed by the European Union ("IFRS-EU"), in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, of 19 July 2002 on the application of international accounting standards. The other general Spanish business and accounting standards and other applicable Bank of Spain Circulars and standards were also used in the preparation of these financial statements, including, where appropriate, the disclosures required by these standards in these notes to the financial statements.

Bankia's financial statements for the year ended 31 December 2017 were prepared taking into account all accounting principles and standards and mandatory measurement criteria applicable in order to give a true and fair view, in all material respects, of the equity and financial position of Bankia, S.A. at 31 December 2017 and of the results of its operations and cash flows during the year then ended, pursuant to the aforementioned applicable financial information reporting framework, and in particular to the accounting principles and criteria therein.

The principal accounting policies and measurement bases applied in preparing the Bank's financial statements for 31 December 2017 are summarised in Note 2.

Main regulatory changes during the period from 1 January to 31 December 2017

Below is a description of the most important development in the regulations applicable to Bankia from 1 January 2018 which has not been considered in formulating the accompanying financial statements:

Bank of Spain Circular 4/2017 (of 27 November) on credit institutions and their public and confidential financial reporting rules and templates.

Bank of Spain Circular 4/2017 (of 27 November 2017), replacing Circular 4/2004 (of 22 December 2004), on credit institutions and their public and confidential financial reporting rules and templates, was published on 6 December 2017. The purpose of this circular is to adapt the Spanish banks' accounting regime for incoming changes to European accounting standards deriving from the adoption of two new International Financial Reporting Standards, IFRS 15 and IFRS 9, which, with effect from 1 January 2018, introduce new criteria for accounting for revenue and financial instruments, respectively.

As for the changes deriving from the adaptation for IFRS 15, it is worth noting the new model for recognising revenue other than that deriving from financial instruments and other sources of revenue expressly covered in other standards. The new model will be based on identification of the performance obligations in each contract; determination of the transaction price; allocation of the price to the identified performance obligations; and, lastly, the recognition of revenue when control over the assets is transferred or as that transfer takes place. The Bank estimates that the impact of these changes is not significant.

In relation to implementation of the changes emanating directly from the changes to IFRS 9, the Entity set up a multidisciplinary work team comprised of individuals from the Risk, Financial Control and Systems areas to implement IFRS 9. This team is overseen by Risk and Financial Control officers, who provide regular progress implementation reports to the Bank's governing bodies. The project includes a number of lines of work. The first focuses on disclosures, classification and measurement, the second on impairment, the third on the expected impact on regulatory capital, and the last on the impact on hedge accounting.
A detailed plan has been drawn up to cover all milestones in the initial evaluation and analysis, design, construction, system testing stages at the same time in 2017 and the start-up on 1 January 2018.

The main highlights are as follows:

- **Classification and measurement of financial assets**. The standard requires all financial assets, except equity instruments and derivatives, to be assessed on the basis of the entity's business model and their contractual cash flow characteristics to determine whether the instruments are recognised and measured systematically at amortised cost or fair value. The three new classifications for financial assets in accordance with Bank of Spain Circular 4/2017 are as follows:

    - Financial assets at amortised cost. Financial assets shall be classified in this category if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

    - Financial assets at fair value through other comprehensive income. Financial assets shall be classified in this category if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

    - Financial assets at fair value through profit or loss. Classification of financial assets in this category is mandatory when due to the business model for managing the financial assets or the characteristics of their contractual cash flows, they cannot be classified into either of the preceding categories.

  In any event, the standard allows entities to designate financial assets as measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income if it eliminates or significantly some incongruence in valuation or recognition.

  Equity instruments not held for trading may be presented irrevocably in other comprehensive income, without subsequently transferring gains or losses on disposal to profit or loss.

  The Bank has formulated a process for classifying and measuring its financial assets that contemplates the following business models:

  - Assets held with the objective of collecting the contractual cash flows
  - Assets held to achieve an objective by both collecting the contractual cash flows and selling financial assets
  - Assets held for trading

  The policy regulates the general, qualitative and quantitative criteria for classification into each model, how to monitor them by means of average balance sheet turnover/maintenance ratios, if applicable, and the governance applicable to approving new business models or making changes to existing ones.

  In addition, for the purpose of verifying the contractual characteristics of its financial instruments with the aim of ensuring their correct classification as a function thereof, the Group has formulated a policy setting out the criteria to be used to perform the 'solely payments of principal and interest' (SPPI) test.

Elsewhere, the Group has reviewed its current portfolio of financial assets to verify compliance with the SPPI test, deeming that the test is passed by those instruments whose contractual cash flows are solely payments of principal and interest on the amount of principal outstanding and are, therefore, consistent with a basic loan agreement. More specifically, instruments whose interest rate mainly embodies the time value of money and credit risk, as well as other basic lending risks (e.g. liquidity risk), costs (e.g., administrative) and a spread.

As a result of the review of the business models and contractual characteristics of the financial asset portfolio at year-end 2017, the Bank will reclassify certain assets from the amortised cost to the fair value through other comprehensive income (FVOCI) portfolios that will imply an increase in equity of EUR 172 million. Note that reclassifications to the fair value through profit or loss (FVPL) category will be insignificant.

- **Classification and measurement of financial liabilities.** Financial liabilities will largely be classified and measured in the same way as under the requirements of Bank of Spain Circular 4/2004. However, there is a change in the treatment of fair value changes of financial liabilities designated at fair value through profit or loss which are attributable to the entity's own risk. These are presented in other comprehensive income.

- **Impairment of financial assets.** The standard marks a substantial change in the model for estimating allowances for credit risk, replacing the "incurred loss" approach with a forward-looking "expected loss" (EL) approach, that includes forecasts for future economic conditions.

  EL is based on expected credit losses related to the probability of default occurring over the next 12 months, unless the credit risk has increased significantly since initial recognition, in which case the estimate should consider the probability of default over the expected life of the financial instrument. The assessment of whether there has been a significant increase in credit risk should consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition, and that includes historical, actual and forward-looking information.

  The main conclusions drawn from the comparison between the new expected loss model in Bank of Spain Circular 4/2017 and the current model of incurred loss in Bank of Spain Circular 4/2004 are:

  - Under Bank of Spain Circular 4/2004, entities will recognise expected credit losses for all of the standard lending activities originated by the Bank and for all of the fixed-income securities acquiredat amortised cost or fair value with changes in other comprehensive accumulated income.
  - There will be an increase in judgement required to determine the forward-looking information and scenarios that may occur over the life of the transactions, and how these scenarios are incorporated into the measurement of the expected loss.

  Financial instruments are grouped into three categories based on the increase in their credit risk since initial recognition:

  - Performing risk: the Bank recognises an impairment allowance equal to 12 months' worth of expected credit losses
  - Problem risk: the Bank recognises an impairment allowance to cover the lifetime expected losses of the financial instrument when there is a significant increase in the instrument's credit risk.
  - Non-performing risk: the Bank recognises the lifetime expected credit losses of the loans. In addition, the interest income on the amortised cost of the loan, net of impairment, must be recognised.

  Below is a list of the criteria established that have involved a considerable amount of judgement on the part of the Group and whose impact is deemed most significant:

  - Identification of whether a significant increase in credit risk has occurred: The Group compares the estimated risk of default at the reporting date relative to the estimated credit risk at the date of initial recognition, considering the key risk indicators that are used in the Group's existing risk management processes. This approach is symmetrical, i.e., financial assets can be returned to the Stage 1 category in the event that there is no longer a significant increase in credit risk.
  - Macroeconomic factors, forward-looking information and scenarios used: The measurement of estimated credit losses in each reporting period must reflect reasonable and supportable information available at the reporting date about past events, current conditions and forecasts of future economic conditions, as well as macroeconomic factors. The Bank plans to use three scenarios which will be weighted by their probability of occurrence to determine estimated credit losses based on the Bank's existing modelling framework developed for stress testing purposes.
  - Expected lifetime: In measuring expected credit losses, the Bank will consider the maximum contractual period to which it is exposed to the credit risk, factoring in all of the contractual terms of the financial asset, including any prepayment and/or extension options.

  The Bank estimates that impairment losses under Bank of Spain Circular 4/2017 will tend to increase compared to those recognised applying the current accounting policy (in accordance with Bank of Spain Circular 4/2004) as a result of these changes, an estimated amount EUR 695 milliondue mainly to unimpaired risks classified as watchlist under standard, which are affected most by the change in the approach for calculating provisions and allowances.

The estimation of this impact was based on assessments performed to date. However, the final impact of adaptation to the new standard could change until the Bank releases its first financial statements of 2018 with the definitive impact of the first-time application. This is because the Bank has not completed its tests and the evaluation of the complex adaptations to its approaches, parameters and systems.

- **Hedge accounting.** Spain Circular 4/2017 allows entities to continue to apply the hedge accounting requirements in Bank of Spain Circular 4/2004, even when other elements of IFRS are mandatory from 1 January 2018.

  The new standard aligns hedge accounting more closely with risk management, maintaining the three types of hedges provided in Bank of Spain Circular 4/2004, while expanding the possibilities for designating hedged items and hedging instruments, and simplifying the requirements for effective hedges.

- **Transition.** The classification, measurement and impairment requirements shall be applied retrospectively by adjusting the balances without the need to restate comparatives, with the final amounts resulting from the change in standard recognised in the Bank's reserves. The Bank has elected to apply the requirements in Bank of Spain Circular 4/2004 for hedging accounting in accordance with the option provided in Bank of Spain Circular 4/2017, which permits entities to continue applying the hedge accounting requirements of Bank of Spain Circular 4/2004.

The Bank estimates that the first-time application of IFRS 9 will reduce its equity by approximately EUR 314 million (after tax) as at 1 January 2018. In addition, without factoring in application of the transitional arrangements contemplated in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017, it estimates that the first-time application of IFRS 9 will reduce its phase-in common equity tier 1 ratio by 20 basis points and its phase-in leverage ratio by 8 basis points, similarly as of 1 January 2018.

(1.4) Responsibility for the information and estimates made

The information contained in these financial statements is the responsibility of Bankia's directors.

In the Bank's financial statements for the year ended 31 December 2017, estimates were made in order to quantify certain of the assets, liabilities, income, expenses and obligations reported therein. These estimates relate basically to the following:

- The fair value of certain financial and non-financial assets and liabilities (see Notes 2.5 and 2.21).
- Impairment losses on certain financial and non-financial assets taking into account collateral received (chiefly property), as well as of contingent liabilities (see Notes 2.12, 2.17, 2.18, 2.19 and 2.21). Similarly, impairment losses applying Spain Circular 4/2017, effective from 1 January 2018.
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term commitments (see Note 2.15).
- Estimate of the costs to sell and of the recoverable amount of non-current assets held for sale, investment property and inventories based on their nature, state of use and purpose for which they are intended, acquired by the Bank as payment of debts, regardless of the legal format pursuant to which they were acquired, applied on a consistent basis in accordance with Bank of Spain Circular 4/2004 (see Notes 2.17 and 2.21).
- The recoverability of recognised net deferred tax assets (see Note 24).
- The useful life, fair value and recoverable amount of tangible and intangible assets (see Notes 2.17 and 2.18).
- The assumptions used to quantify certain provisions and the probability of occurrence of certain losses to which the Bank is exposed due to its activity (see Note 2.20, and 19).
- The fair values of the assets, liabilities and contingent liabilities in the context of the business combination purchase price allocation (See Note 1.16).

Although these estimates were made on the basis of the best information available at 31 December 2017 and at the date of authorisation for issue of these financial statements on the events analysed, future events may make it necessary to change these estimates (upwards or downwards) in the years ahead. Changes to accounting estimates would be applied prospectively in accordance with the applicable standards, recognising the effects of the change in estimates in the related income statement in the future financial years concerned.

(1.5) Comparative information

In compliance with current legislation, the information relating to 2016 contained in these financial statements is presented solely for comparison with the information relating to 2017 and, accordingly, does not constitute the Bank's financial statements for 2016.

As indicated in Note 1.16, for the purposes of the accompanying consolidated financial statements, Bankia, S.A. has been treated as the acquiror in the business combination described in that note. For accounting purposes, the pre-existing carrying amounts of the acquiror's assets and liabilities are left intact and the acquisition method is applied to the combined business.

As stipulated in prevailing legislation, the transaction date has been set at 1 December 2017 for accounting purposes, which means that the 2017 financial statements consolidate the assets and liabilities arising from the business combination with Banco Mare Nostrum, S.A. (hereinafter, BMN) (see Note 1.16).

(1.6) Agency agreements

A list at 31 December 2017 of Bankia's Agents which meet the conditions established in Article 22 of Royal Decree 1245/1995 of 14 July is provided in Appendix X attached.

(1.7) Investments in the capital of credit institutions

Bankia's ownership interests of 5% or more in the capital or voting rights of other Spanish or foreign credit institutions at 31 December 2017 are listed in Appendices I, II and III.

The breakdown of ownership interests of more than 5% held by non-Bankia Group Spanish or foreign credit institutions in the share capital or voting rights of credit institutions forming part of the Bankia Group at 31 December 2017 and 2016 is as follows:

Shareholding institution	Investee	Ownership interest
Banco Popular de Ahorro de Cuba	Corporación Financiera Habana, S.A.	40%

(1.8) Environmental impact

In view of the business activities carried on by Bankia (see Note 1.1), it does not have any environmental liabilities, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the financial statements.

(1.9) Minimum reserve ratio

At 31 December 2017 and throughout 2017 Bankia met the minimum reserve ratio requirements stipulated by Spanish legislation.

(1.10) Deposit Guarantee Fund and National Resolution Fund

At 30 July 2012, the Management Committee of the Deposit Guarantee Fund of Credit Institutions (FGDEC for its initials in Spanish) agreed to recognise a shortfall among the members, payable by each through 10 equal annual instalments to be settled on the same day as the members must make their ordinary annual contributions over the next 10 years. The instalment paid at each date by the member may be deducted from the member's annual contribution payable on the same date, as appropriate, up to the amount of this ordinary contribution. In this respect, at 31 December 2017, the Bank recognised a financial liability equal to the present value of the payment commitments assumed and to be settled in the coming years for an amount of EUR 149,376 thousand and an asset account for the same amount to recognise accrual of the payment in the income statement over the entire settlement period.

At 12 May 2014, Directive 2014/59/EU on the recovery and resolution of credit institutions and investment firms (the "Bank Recovery and Resolution Directive" or "BRRD") and Directive 2014/49/EU on deposit guarantee schemes were published in the Official Journal of the European Union:

- Directive 2014/49/EU on deposit guarantee schemes (DGSs), ensures that depositors will continue to have a coverage level for deposits of each depositor and credit institution of EUR 100,000 in the event of failure backed by funds received in advance by the banking sector. For the first time since the introduction of the directive on DGSs in 1994, this Directive sets out financing requirements for DGSs, whereby Member States shall ensure that, by 3 July 2024, the available financial means of a DGS shall at least reach a target level of 0.8% of the amount of the covered deposits of its members. Moreover, access to covered deposits will be easier and quicker, with the maximum repayment period gradually reduced from 20 to 7 working days by 2024.
- Directive 2014/59/EU on the recovery and resolution of credit institutions and investment firms (BRRD) includes, inter alia, the financing of the banking resolution. It indicates that in order to be effective, the resolution instruments must receive financing, so that to prevent the resolution measures being funded by the State, additional financing will be provided through resolution funds, which will raise contributions from banks in proportion to their liabilities and risk profile. In this respect, the funds accumulated must be sufficient to reach 1% of covered deposits within a period of 10 years.

In this respect, on 19 June, Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms was published in the Official State Gazette, transposing Directive 2014/59/EU on bank restructuring and resolution into Spanish legislation. Its objective is to govern the early intervention and pre-emptive resolution phases of those entities and companies.

Law 11/2015 also includes internal recapitalisation instruments, which consist of the absorption of losses by shareholders and by the creditors of the Bank, and compliance with the minimum own funds and minimum required eligible liabilities (MREL) requirements established by the pre-emptive resolution authority.

It also created the National Resolution Fund (NRF, administered by the FROB), funded with annual contributions by credit institutions and investment firms. Its financial resources must reach at least 1% of the deposits guaranteed by all the institutions no later than 31 December 2024. The NRF was combined with the rest of the EU Member State's national funds into a Single Resolution Fund (thereinafter SRF) in January 2016.

On 7 November 2015, Royal Decree 1012/2015, of 6 November, implementing Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms and amending Royal Decree 2606/1996, of 20 December, on deposit guarantee funds of credit institutions was published in the Official State Gazette.

Royal Decree 1012/2015 stipulates that the FROB will determine the annual contributions to the NRF, adjusting them to Bank's risk profile.

On 1 January 2016, Regulation No 806/2014 of the European Parliament and of the Council, of 15 July 2014, was enacted, whereby the Single Resolution Board replaces the national resolution authorities and assumes administration of the SRF and calculation of the bank contributions, applying the calculation methodology set out in Commission Delegated Regulation 2015/63, of 21 October 2014, in accordance with the uniform conditions of application specified by Council Implementing Regulation (EU) 2015/81, of 19 December 2014.

For the contribution payable in 2017, the Single Resolution Board decided to accept up to 15% of the amount to be transferred in the form of an irrevocable payment commitment.

In the year 2017, Bankia made a contribution to the SRF of EUR 64,012 thousand (in the year 2016 made a contribution to the SFR of EUR 72,276 thousand), using EUR 9,602 thousand of irrevocable payment commitments (EUR 10,841 thousand in the year 2016), recognising the cash collateral under “Loans and advances” and the remaining EUR 54,410 thousand under “Other operating expenses” in the accompanying income statement (EUR 61,435 thousand under “Other operating expenses” in the income statement of 2016).

With respect to the Deposit Guarantee Fund, Royal Decree 1012/2015, of 6 November, states, *inter alia*, that the Management Committee of the FGDEC will determine the Bank's annual contributions, amending the calculation basis of the contributions for guaranteed deposits and limiting the individual amount of deposits to EUR 100 thousand.

Bank of Spain Circular 5/2016, of 27 May, published on June 2016, on the method of calculating the contributions of FGDEC member institutions to be commensurate with their risk profile, was issued. The method will be used by the Management Committee of the FGDEC in determining the annual contributions of each bank for the part relating to the guarantee of deposits, taking into consideration capital, liquidity and funding, asset quality, business model, management model and potential losses for the FGDEC as indicators.

The Management Committee of the FGDEC determined that the annual contribution to be made at 1.8 per thousand of the calculation basis for the part relating to the guarantee of deposits and at 2 per thousand for the part relating to the guarantee of securities. Accordingly, the amount accrued at 31 December 2017 was EUR 124,660 thousand (EUR 104,439 thousand in 2016), recognised under "Other operating expenses" in the accompanying income statement (see Note 33).

(1.11) Events after the reporting period

On 15 February 2018, the Bank signed a Preliminary Workforce Restructuring Agreement with worker representatives as a result of the merger between Bankia and BMN (see Note 2.15.2.6).

No other significant events took place between 31 December 2017 and the date of authorisation for issue of these financial statements other than those mentioned in these financial statements.

(1.12) Customer care service

At its meeting on 16 June 2011, the Board of Directors of Bankia, S.A. approved the "Customer Protection Regulations of Bankia, S.A. and its Group", which was subsequently updated at its meeting of 25 July 2012. Among other aspects, the Regulations stipulate that the Bankia, S.A. Customer Care Service must handle and resolve any complaints or claims submitted by those in receipt of financial services from all Bankia Group finance companies – one of which is the Bank – covered by the scope of the service (Bankia, S.A. and Group entities subject to Order ECO/734/2004 of 11 March governing Customer Care Departments and Services and Customer Ombudsmen of Financial Institutions).

Information on the activities of Bankia, S.A.'s Customer Care Service at 31 December 2017 and 2016, as required under Ministerial Order ECO/734/2004, of 11 March, is included in Appendix XI attached hereto.

(1.13) Information on deferred payments to suppliers. Third additional provision. “Disclosure requirement" in Law 15/2010 of 5 July

Information on the average period of payment to suppliers in commercial transactions at 31 December 2017 and 2016, as required under Law 15/2010, of 5 July, is included in Appendix XI attached hereto.

(1.14) Segment reporting and distribution of revenue from ordinary Bank activities, by categories of activities and geographic markets

Segment reporting is carried out on the basis of internal control, monitoring and management of the Bankia activity and results, and developed in accordance with the various areas of business established with regard to the Bank’s structure and organisation. The Board of Directors is the highest operational decision-making body of each business.

Business segments are defined bearing in mind the inherent risks and management characteristics of each. For the purposes of business segment reporting of activities and income, the core business units for which accounting and management figures are available are taken as a reference. The same general principles are applied as those used in Bank management information, and the measurement, valuation bases and accounting principles applied are basically the same as those used to prepare the financial statements, with no asymmetric allocations.

The itemised segments on which the information in these financial statements is presented at 31 December 2017 and 2016 refer to the following business areas:

– Retail Banking

– Business Banking

– Corporate Centre

Retail Banking includes retail banking with legal and natural persons (with annual income of less than EUR 6 million, included Private Banking Corporate Direction and Asset Management, also Bank Insurance Direction distributed through a large multi-channel network in Spain and operating a customer-centric business model.

Business Banking targets legal entities with annual income in excess of EUR 6 million, and activity in Capital Markets (trading in derivatives, financial advisory, loan and special finance origination, fixed income origination and trading, and distribution of fixed income products to the network).Other customers, legal entities or self-employed professionals with income below this figure fall into the Retail Banking category.

Finally, the Corporate Centre deals with any areas other than those already mentioned, including companies. The portfolios and assets covered by the Restructuring Plan, most of which are classified as "Non-current assets and disposal groups classified as held for sale", have been allocated to this segment.

Once the composition of each business segment is defined, the following management criteria are applied to determine segment results:

– Internal transfer prices: An internal transfer price, cost or return, as appropriate, which replicates the market interest rates for the term of the various transactions, is applied to average balances of Private Banking and Business Banking positions. The 1-month Euribor rate is applied to average balances of Corporate Centre positions and to the average balances of the Capital Markets.

– Cost allocations: direct and indirect costs, according to the activity carried out, are allocated to the different segments.

Geographical segment reporting regarding interest and similar income for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Distribution of profit/ loss of interest by geographic areas 31/12/2017	31/12/2016
Domestic market	2,315,829	2,627,261
Export:	-	-
European Union	-	-
Total	**2,315,829**	**2,627,261**

Segment results for the year ended 31 December 2017 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
NET INTEREST INCOME	**938,538**	**353,857**	**631,541**	**1,923,936**
Return on equity instruments	-	230	61,402	61,632
Net fees and commissions	712,436	148,805	(70,465)	790,776
+/- Gains and losses on financial assets and liabilities and exchange differences	205	46,278	339,054	385,537
+/- Other operating income and operating expenses	(113,717)	(6,459)	(68,150)	(188,326)
GROSS INCOME	**1,537,462**	**542,711**	**893,382**	**2,973,555**
Administrative expenses	(792,396)	(57,492)	(983,226)	(1,833,114)
Amortisation	(55,313)	(1,293)	(115,949)	(172,555)
OPERATING INCOME BEFORE PROVISIONS	**689,753**	**483,926**	**(205,793)**	**967,886**
Provisions or (-) reversal of provisions	52	20,537	(114,520)	(93,931)
Impairments or (-) reversal of impairment of financial assets not at fair value through profit or loss	(396,167)	(75,470)	203,973	(267,664)
Impairment losses on other assets (net) and other gains and losses	14,059	-	(70,949)	(56,890)
PROFIT/(LOSS) BEFORE TAX	**307,697**	**428,993**	**(187,289)**	**549,401**

The table below shows the Bank ordinary income by business segments for the years ended 31 December 2017:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
External customers	1,743,661	676,015	1,252,227	3,671,903
Inter-segment transactions	(132,016)	(129,873)	261,889	-
Total ordinary income (1)	**1,611,645**	**546,142**	**1,514,116**	**3,671,903**

(1) In the table above, "Ordinary income" is understood as the balances under "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net", "Gains or (-) losses on financial assets and liabilities held for trading, net", "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net", "Gains or (-) losses from hedge accounting, net" and "Other operating income" in the accompanying income statement for the six months period ended 31 December 2017, which can be regarded as comparable to the Bank's revenue from ordinary business.

No external customer individually represents 10% or more of the Bank's ordinary income.

Segment results for the year ended 31 December 2016(1) are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
NET INTEREST INCOME	**1,113,632**	**355,250**	**576,713**	**2,045,595**
Return on equity instruments	-	268	28,858	**29,126**
Net fees and commissions	620,761	145,578	(11,396)	**754,943**
+/- Gains and losses on financial assets and liabilities and exchange differences	8,239	69,902	186,253	**264,394**
+/- Other operating income and operating expenses	(97,432)	(14,287)	5,207	**(106,512)**
GROSS INCOME	**1,645,200**	**556,711**	**785,635**	**2,987,546**
Administrative expenses	(753,026)	(52,414)	(560,953)	**(1,366,393)**
Amortisation	(55,069)	(1,445)	(97,941)	**(154,455)**
OPERATING INCOME BEFORE PROVISIONS	**837,105**	**502,852**	**126,741**	**1,466,698**
Provisions or (-) reversal of provisions	(11,172)	7,234	(116,178)	**(120,116)**
Impairments or (-) reversal of impairment of financial assets not at fair value through profit or loss	(115,029)	74,786	(164,375)	**(204,618)**
Impairment losses on other assets (net) and other gains and losses	(518)	6	(227,238)	**(227,750)**
PROFIT/(LOSS) BEFORE TAX	**710,386**	**584,878**	**(381,050)**	**914,214**

(1) Minor inter-segment adjustments were made to the 2016 figures to make them consistent with the criteria applied in 2017.

The table below shows the Bank ordinary income by business segments for the years ended 31 December 2016(1):

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
External customers	1,725,401	739,710	1,384,366	3,849,477
Inter-segment transactions	113,033	(169,383)	56,350	-
Total ordinary income (2)	**1,838,434**	**570,327**	**1,440,716**	**3,849,477**

(1) Minor inter-segment adjustments were made to the 2016 figures to make them consistent with the criteria applied in 2017.

(2) In the table above, "Ordinary income" is understood as the balances under "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net", "Gains or (-) losses on financial assets and liabilities held for trading, net", "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net", "Gains or (-) losses from hedge accounting, net" and "Other operating income" in the accompanying income statement for the six months period ended 31 December 2016, which can be regarded as comparable to the Bank's revenue from ordinary business.

Segment assets and liabilities of the Bank by business segments at 31 December 2017 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
Loans and receivables - Loans and advances - Customers	94,811,777	26,241,716	2,147,187	123,200,680
Other assets	4,835,539	13,261,609	73,746,078	91,843,226
Total assets	**99,647,316**	**39,503,325**	**75,893,265**	**215,043,906**
Financial liabilities at amortised cost - Deposit - Customers	106,688,964	8,549,055	17,731,582	132,969,601
Net inter-segment financing	(11,699,590)	13,824,982	(2,125,392)	-
Other liabilities	820,717	14,958,045	53,503,198	69,281,960
Total liabilities	**95,810,091**	**37,332,082**	**69,109,388**	**202,251,561**

Segment assets and liabilities of the Bank by business segments at 31 December 2016[1] are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
Loans and receivables - Loans and advances - Customers	77,981,414	25,952,809	745,348	104,679,571
Other assets	1,083,204	18,042,301	67,202,657	86,328,162
Total assets	**79,064,618**	**43,995,110**	**67,948,005**	**191,007,733**
Financial liabilities at amortised cost - Deposit - Customers	81,381,316	12,626,763	14,612,613	108,620,692
Net inter-segment financing	(6,777,118)	7,890,520	(1,113,402)	-
Other liabilities	527,941	21,190,221	48,641,931	70,360,093
Total liabilities	**75,132,139**	**41,707,504**	**62,141,142**	**178,980,785**

(1) Minor inter-segment adjustments were made to the 2016 figures to make them consistent with the criteria applied in 2017.

(1.15) Company for the Management of Assets proceeding from Bank Restructuring (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, thereinafter SAREB).

As indicated in Note 1.2, on 28 November 2012 the BFA–Bankia Group received approval by the European Commission, the Bank of Spain and the FROB for the Bank's 2012-2017 Restructuring Plan.

Additional provision nine of Law 9/2012, of 14 November, on the restructuring and resolution of credit institutions, which transposes into law Royal Decree-Law 24/2012, of 31 August, on the restructuring and resolution of credit institutions, requires credit institutions that at the date of entry into force of said Royal Decree-Law are majority owned by the FROB, which is the case of the BFA–Bankia Group (see Note 1) to transfer certain assets to the asset management company Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB).

In November and December 2012, with the oversight of the Bank of Spain and the FROB, the scope of the assets eligible for transfer to the SAREB was defined. On 21 December 2012, the deed for the transfer by the BFA Group to the SAREB of a first block asset was placed on public record. The transfer price for the BFA was EUR 22,317 million. The asset transfer agreement was entered into between the SAREB, BFA and Bankia with effect from 31 December 2012.

The price was paid through the delivery of debt securities issued by the SAREB and guaranteed by the Spanish State in amounts of EUR 2,850 million to BFA in proportion to the assets owned by BFA and its subsidiaries, and EUR 19,467 million to Bankia in proportion to the assets owned by Bankia and its subsidiaries.

The securities received by the Bank (with original maturities of 31 December 2013, 2014 and 2015) were recognised under "Held-to-maturity investments" and grant an annual rollover option to the issuer, although the estimated value of the option does not result in any material differences between the fair value of the securities and their nominal amount at the date of the transaction.

In addition, on 28 February 2013, BMN and its subsidiaries transferred assets to SAREB for the price of EUR 5,820 million, which was paid for by means of the delivery fixed-income securities issued by SAREB.

During exercises 2013, 2014, 2015, 2016 and 2017 the SAREB carried out the redemption and delivery of new bonds. As a result, the securities received by the Bank and recognised under "Held-to-maturity investments" at 31 December 2017 were as follows:

(Thousands of euros and %)

Amount	Maturity	Interest rate
7,624,200	31.12.2018	-
5,550,100	31.12.2018	-
2,400,400	31.12.2018	0.06%
2,425,000	28.02.2019	-
1,681,300	28.02.2018	-
1,016,700	28.02.2019	0.19%

As the aforementioned cancellations were made by the nominal amount, there were no differences with respect to the carrying amounts. Therefore, there was no impact on the Bank's income statement in previous years.

On 31 December 2017, the unamortised cash amount was exchanged for other bonds with a similar maturity (rollover option) and bearing interest at the 3-month Euribor, considered equivalent to market rates of interest for public debt with a similar term. Accordingly, the bonds were accounted for at their nominal amount, with no impact recognised on the Bank's income statement in 2017. Rollovers of bonds carried out in previous years and 2017 also did not have any impact on the Bank's income statement for those years.

Additionally, Bankia has registered as "Financial liabilities at amortised cost – Other financial liabilities" of the balance sheet, the outstanding amount corresponding to transferred assets from subsidiaries. The amount at 31 December 2017 is EUR 132,708 thousand (EUR 179,149 thousand at 31 December 2016) (see Note 18).

(1.16) Business combinations

On 26 June 2017, the Boards of Directors of Bankia and Banco Mare Nostrum, S.A. (hereinafter, BMN) authorised and executed common draft terms of merger ("Draft Merger Terms") for the merger of BMN into Bankia (the "Merger").

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

- Designation of the separate balance sheet of Bankia at 31 December 2016, forming part of the 2016 financial statements authorised for issue by the Board of Directors of Bankia on 9 February 2017 (duly verified by Ernst & Young, S.L., Bankia's financial statement auditor, on 10 February 2017, and approved at Bankia's Annual General Meeting on 24 March 2017), as the merger balance sheet for the purposes of the Merger.
- Ratification of the Draft Merger Terms in their entirety and without any modification whatsoever, which are deemed fully reproduced for all intents and purposes. As stipulated in the Structural Modifications Act, the Draft Merger Terms have been available for consultation on Bankia's corporate website (www.bankia.com) since 27 June 2017.
- Approval of the merger deeds in keeping with article 40 of the Structural Modifications Act and article 228 of the Companies Register Regulations.
- Bankia committed to undertake a share issue of the size needed to facilitate the share exchange with BMN, specifically to issue the required number of new ordinary shares, each with a par value of EUR 1 and each of the same class and series as those currently outstanding, represented via the book entry method, subscription of which would be reserved to the holders of shares of BMN, such that there would not be, as provided for in article 304.2 of the Corporate Enterprises Act, pre-emptive subscription rights. Pursuant to the terms of article 26 of the Structural Modifications Act, neither the BMN shares that Bankia holds nor the shares held by BMN as treasury stock, if any, would be exchanged; instead these shares would be cancelled.
- Following: (i) ratification of the Merger at the General Meetings of Bankia and BMN; (ii) presentation of the equivalent documentation referred to in articles 26.1.d) and 41.1.c) of Spanish Royal Decree 1310/2005 (of 4 November 2005); (iii) satisfaction of the conditions precedent; (iv) the placing of the deeds to the merger and the corresponding share issue by Bankia on public record before a notary; and (v) registration of the merger deeds in the Companies Register of Valencia, the shares of BMN would be exchanged for shares of Bankia, as from the date indicated in the notices to be duly published in keeping with application regulations.
- The date from which the transactions of BMN would be deemed undertaken by Bankia for accounting purposes would be that resulting from application of the General Accounting Plan enacted by Spanish Royal Decree 1514/2007 (of 16 November 2007), specifically standard 19 thereof, as well as International Financial Reporting Standard 3, specifically paragraphs 8 and 9, the two standards being consistent in this respect. Nevertheless, in the event of any discrepancy between the above-mentioned standards, the latter would prevail.

  In keeping with these standards, the Merger date for accounting purposes would be the date on which, the Merger having been approved at the General Meetings of Bankia and BMN, the last of the government permits to which effectiveness of the Merger was subject was granted, this being the date on which it is considered that the transferee takes control of the transferor. The idea was to then align that date with a monthly accounting close for convenience; this implied that in the event that the final government permits were obtained before 31 December 2017, the designated date of acquisition for accounting purposes would be the last day of the immediately preceding month, i.e., 30 November 2017.
- Approval to have the Merger avail of the tax neutrality regime provided for in Chapter VII of Title VII and additional provision two of Spain's Corporate Income Tax Act (Law 27/2014, of 27 November 2014).

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

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

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

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

Accounting treatment of the Merger

The transaction outlined above has been recognised as a business combination, in keeping with Spain Circular 4/2004. Given that Bankia, S.A. is the acquiror, the pre-existing carrying amounts of its assets and liabilities have not changed; rather the acquisition method was applied to the business of BMN.

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

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

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

(Millions of euros)

Balance sheet	Note	Initial measurement	Adjustments	Fair Value
Cash, cash balances at central banks and other demand deposits	7	578	-	578
Financial assets held for trading	8	53	-	53
Available-for-sale financial assets	9	4,361	(47)	4,314
Loans and receivables	10	21,822	(309)	21,513
Held-to-maturity investments	11	5,405	-	5,405
Derivatives – Hedge accounting	12	123	-	123
Investments in joint ventures and associates	13	96	(12)	84
Tangible assets	14	1,080	(311)	769
Intangible assets	15	147	(147)	-
Tax assets	24	2,383	356	2,739
Other assets	16	160	(36)	124
Non-current assets and disposal groups classified as held for sale	17	1,549	(240)	1,309
TOTAL ASSETS		**37,757**	**(746)**	**37,011**
Financial liabilities held for trading	8	52	-	52
Financial liabilities at amortised cost	18	35,168	74	35,242
Derivatives – Hedge accounting	12	105	-	105
Provisions	19	60	387	447
Tax liabilities	24	134	-	134
Other liabilities	20	206	-	206
Liabilities included in disposal groups classified as held for sale		**35,725**	**461**	**36,186**
TOTAL LIABILITIES		**2,032**	**(1,207)**	**825**
TOTAL EQUITY				**825**
Consideration paid				-
Difference				**-**

Impact of the business combination on the Group's earnings

The BMN Group's contribution to the 2017 income statement since 1 December 2017 was absolutely negligible.

Other information

Note that, in keeping with the Bank of Spain Circular 4/2004, the acquiror has a measurement period of no more than one year from the acquisition date during which it can restate, retroactively, as warranted, the provisional amounts recognised and can recognise additional amounts of assets and liabilities in order to reflect new information obtained about the facts and circumstances that existed as at the acquisition date. Nevertheless, it is not currently expected that there will be any significant changes between the reporting date and the end of the measurement period stipulated in IFRS 3.

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

- The fair value of the "Loans and receivables" portfolio was determined by applying expected loss percentages, in turn determined basically as a function of the characteristics of the financing granted, the current status of the loans and the associated collateral.

- The Group estimated the fair value of the listed debt instruments classified under "Available-for-sale financial assets" and "Financial liabilities at amortised cost" on the balance sheet using the securities' quoted prices (refer to note 2.2), factoring in the own securities held in the case of issued debt securities.

- The fair value of the portfolio of real estate assets was obtained on the basis of the uses foreseen for the assets, appraisals performed by appraisal companies officially registered with the Bank Spain, the properties' locations, estimated costs to sell, etc., and are recognised under “Tangible assets – Property, plant and equipment”, “Non-current assets and disposal groups classified as held for sale” and “Tangible assets – Investment property”.

- The remaining tangible and intangible assets were measured considering their expected use and useful lives.

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

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

- Lastly, the tax assets deemed recoverable have been recognised

(2) Accounting policies and measurement bases

A summary of the main accounting policies and measurement bases applied to prepare Bankia's financial statements for the year ended 31 December 2017 is as follows:

(2.1) BFA-Bankia Group Restructuring Plan

As indicated in Note 1.2, on 28 November 2012 the BFA–Bankia Group received approval by the European Commission, the Bank of Spain and the FROB for the Group´s 2012-2017 Restructuring Plan. The Restructuring Plan includes, inter alia, the start-up of a disposal plan for non-strategic holdings. Following the roll-out of the disposal plan and in accordance with applicable regulations (see Note 2.21), the Bank reclassified certain equity investments to "Non-current and disposal groups classified as held for sale". The classification, recognition and measurement criteria applied by the Bank in these separate financial statements based on the type of investments put up for sale were as follows:

- **Investments in group companies, jointly-controlled entities and associates:** pursuant to prevailing legislation, investments in group, jointly-controlled entities and associates that meet the criteria for classification under "Non-current and disposal groups classified as held for sale" are presented and measured as "Non-current and disposal groups classified as held for sale", that is, at the lower of fair value less costs to sell and carrying amount at the classification date in accordance with applicable standards (see Note 2.21). The gains and losses arising on their disposal, and impairment losses and recovery, where appropriate, are recognised under "Gains/(losses) on non-current and disposal groups classified as held for sale". The remaining income and expenses are classified under the related income statement items according to their nature.

  Note 17 details the amounts at which the investments are recognised and the related impairment.

  Appendix II and III contains significant information on these entities.

- **Available-for-sale financial assets:** as indicated in Note 2.21, as these are financial assets, they are not measured using the general criteria for non-current assets held for sale, but rather the measurement criteria for financial assets (see Note 2.5). Previously recognises losses in "Equity - Valuation adjustments" are considered realised and recognised in the income statement at the date of classification, Remaining valuation adjustments recognised in equity are classified, as appropriate, under “Other accumulated comprehensive income - Non-current and disposal groups classified as held for sale.”

  As a result of the Restructuring Plan described previously, all the investments recognised under "Available-for-sale financial assets - Equity instruments" were reclassified to “Non-current and disposal groups classified as held for sale" on the accompanying balance sheet at 31 December 2017, Note 17 to the financial statements details the amounts at which the investments are recognised and the related impairment.

(2.2) Subsidiaries

Subsidiaries are companies over which the Bank 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.

Appendix I contains significant information on Bankia's subsidiaries.

Investments in Group entities are shown in these financial statements under "Investments in group companies, jointly-controlled entities and associates" in the balance sheet and measured at cost less any impairment losses (see Note 13), except those of subsidiaries classified as non-current assets held for sale, which are recognised and measured as described in Note 2.1.

Dividends accrued in the year on these investments are recognised under “Dividend income" in the income statement.

At 31 December 2017, there were no major restrictions on the transfer of funds from subsidiaries to the parent, either as dividends or repayment of loans or advances.

(2.3) Joint ventures

These are entities over which there is contractually agreed sharing of control. A joint arrangement is a contractual agreement giving two or more entities, or "parties", control of an activity subject to joint control. In a joint arrangement, no party has control over the arrangement, but rather control is shared with the other parties, which implies, contractually, that decisions about the relevant activities require the unanimous consent of the parties that share control. There are different types of joint arrangements, but they can be grouped as follows:

- A joint operation, whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. It may be structured through a separate vehicle or not. In the individual financial statements, the party to joint operations recognises, according to their nature and in accordance with applicable IFRS:
  - its assets, including its share of the jointly controlled assets;
  - its liabilities, including its share of any liability incurred jointly;
  - its revenue from the sale of its share of the output arising from joint operations;
  - its share of the revenue from the sale of the output by the joint operations; and
  - its expenses, including its share of any expenses incurred jointly.
- Joint venture (multigroup companies), in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement; Joint ventures must necessarily by structure in a separate vehicle. A party to a joint venture must recognise its interest in the joint venture as an investment and account for this investment using the equity method, less any impairment losses.

Investments in jointly controlles entities is showed in the part “Investments in group companies, jointly-controlled entities and associates - Jointly-controlled entities of the balance sheet in the Financial statements for the year, is was valued by the part that mencioned before, (see Note 13), except which were classified as Non-current assets held for sale, which was valued in the Note 2.1.

Dividends accrued in the year on these investments are recognised under “Dividends income" in the income statement.

Appendices III contain significant information on these companies.

(2.4) Associates

“Associates” are entities over which the Bank has significant influence, but not control or joint control.

This influence is usually evidenced by a direct or indirect holding of 20% or more of the investee’s voting rights.

Investments in associates are shown under "Investments in group companies, jointly-controlled entities and associates - Associates" on the balance sheet, and are measured at cost less any impairment losses (see Note 13), except for those classified as "Non-current assets held for sale", which are recognised and measured as explained in Note 2.1

Dividends accrued in the year on these investments are recognised under “Dividends income” in the income statement.

Appendices II and III contain significant information on these companies.

The Bank, at December 31st 2017, does not hold shares in entities in which holding over a 20% of its equity are not classified as associates in its balance sheet.

(2.5) Financial instruments: initial recognition, derecognition of financial instruments, fair value and amortised cost of financial instruments, classification and measurement and reclassification among categories

(2.5.1) Initial recognition of financial instruments

Financial instruments are initially recognised on the balance sheet when the Bank becomes a party to the contract in accordance with the provisions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognised from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments are generally recognised from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognised on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, transactions performed in the spot market are recognised on the settlement date; equity instruments traded in Spanish secondary securities markets are recognised on the trade date, and debt instruments traded in these markets are recognised on the settlement date.

(2.5.2) Derecognition of financial instruments

A financial asset is derecognised in the balance sheet when one or some of these following conditions happens:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred and substantially all its risks and rewards or, although these are not substantially transferred or retained, it transfers control over the financial asset (see Note 2.10).

Financial liabilities are derecognised from the balance sheet when the obligations are extinguished or when they are repurchased by the Bank with the intention either to resell them or to cancel them.

(2.5.3) Fair value and amortised cost of financial instruments

The fair value of a financial instrument on a specific date is the amount at which it could be delivered or settled on that date between knowledgeable, willing parties in an arm’s length transaction. 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 Bank 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.

Note 23 provides information on the fair value of the Bank's main assets and liabilities at 31 December 2017 and 2016.

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and interest payments and the cumulative amortisation (as reflected in the income statement) using the effective interest method) of any difference between the initial cost and the maturity amount of the financial instruments. In the case of financial assets, amortised cost furthermore includes any reductions for impairment or uncollectibility.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to the present value of all its estimated cash flows of all kinds over its remaining life, but disregarding future credit losses. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted, where applicable, for the fees and transaction costs that, pursuant to Bank of Spain Circular 4/2004, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined in a similar fashion to fixed rate transactions and is recalculated on the date of every revision of the contractual interest rate of the transaction, taking into account any changes in the future cash flows.

(2.5.4) Classification and measurement of financial assets and liabilities

Financial instruments are classified in the balance sheet as follows:

- **Financial assets and liabilities at fair value through profit or loss:** this category includes financial instruments classified as held for trading and other financial assets and liabilities classified as at fair value through profit or loss:

    - **Financial assets held for trading** include those acquired with the intention of selling them in the short term or which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking, and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to Bank of Spain Circular 4/2004.

    - **Financial liabilities held for trading** include those that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from financial asset sales under non-optional repurchase agreements or borrowed securities, and derivatives other than as hedging instruments, including those separated from hybrid financial instruments pursuant to Bank of Spain Circular 4/2004.

    - **Financial assets at fair value through profit or loss** are considered as financial assets designated as such from initial recognition, the fair value of which may be determined reliably, which meet one of the following conditions:

        - In the case of hybrid financial instruments in which the embedded derivative(s) must be accounted for separately from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

        - In the case of hybrid financial instruments for which it is compulsory to separate the embedded derivative(s), the Bank has elected to classify the entire hybrid financial instrument in this category from initial recognition, since the requirements established by current regulations are met in the sense that the embedded derivative(s) significantly modify/modifies the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate the embedded derivative(s) from the host contract for accounting purposes.

            - When the classification of a financial asset in this category results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (also referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

            - When the classification of a financial asset in this category results in more relevant information, because a group of financial assets, liabilities or both, is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank's key management personnel.

    - **Other financial liabilities at fair value through profit or loss** are considered as financial liabilities designated as such from initial recognition, the fair value of which may be determined reliably, which meet one of the following conditions:

        - In the case of hybrid financial instruments in which the embedded derivative(s) must be accounted for separately from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

        - In the case of hybrid financial instruments for which it is compulsory to separate the embedded derivative(s), the Bank has elected to classify the entire hybrid financial instrument in this category from initial recognition, since the requirements established by current regulations are met in the sense that the embedded derivative(s) significantly modify/modifies the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that, pursuant to prevailing regulations, there is an obligation to separate the embedded derivative(s) from the host contract for accounting purposes.

        - When the classification of a financial liability in this category results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (also referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

        - When the classification of a financial liability in this category results in more relevant information, because a group of financial liabilities, assets or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided on that basis to the Bank's key management personnel.

Financial instruments at fair value through profit or loss are initially measured at their fair value. Later changes to the fair value are recognised in the income statement under "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net", except for changes in the fair value attributable to income accrued on the financial instrument other than trading derivatives, which is recognised in the income statement under either "Interest expenses", "Interest income" or "dividend income", depending on their nature. The accrued returns on debt instruments included in this category are calculated using the effective interest method.

Notwithstanding the above, financial derivatives whose underlying assets are equity instruments whose fair value cannot be measured reliably and which are settled by delivery of the underlying, are measured in these financial statements at cost.

- **Held-to-maturity investments:** this category includes debt securities traded on active markets with fixed maturities and fixed or determinable cash flows for which the Bank has, from inception and any subsequent date, both the positive intention and demonstrated financial ability to hold to maturity.

  Debt securities included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised in the income statement by the effective interest method as defined in Bank of Spain Circular 4/2004. Subsequent to acquisition, debt securities included in this category are measured at amortised cost calculated using the effective interest method.

  The interests accrued on these securities, calculated using the effective interest method, are recognised under "Interest Income" in the income statement. Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recognised as explained in Note 2.7. Any impairment losses on these securities are recognised as set forth in Note 2.12.

- **Loans and receivables:** this category includes unquoted debt securities, financing granted to third parties in connection with ordinary lending activities carried out by the Bank and receivables from purchasers of their goods and the users of their services. This category also includes finance lease transactions in which the Bank act as the lessor.

  The financial assets included in this category are initially measured at fair value adjusted by the amount of the fees and transaction costs that are directly attributable to the acquisition of the financial asset and which, in accordance with the provisions of the regulations applicable, must be allocated to the income statement by the effective interest method through maturity. Subsequent to acquisition, assets included in this category are measured at amortised cost.

  Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment value and the amount paid is recognised as finance income using the effective interest method during the remaining term to maturity.

  The Bank generally intends to hold the loans and credits granted by it until their final maturity and, therefore, they are presented in the balance sheet, subsequent to initial recognition, at their amortised cost.

  The interest accrued on these assets from their initial recognition, calculated using the effective interest method, are recognised under "Interest Income" in the income statement. Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recorded as set forth in Note 2.7. Any impairment losses on these assets are recognised as described in Note 2.12. Debt securities included in fair value hedges are recognised as explained in Note 2.6.

- **Available-for-sale financial assets:** This category includes debt securities not classified as held-to-maturity investments, as loans and receivables or as financial assets at fair value through profit or loss owned by Bankia and equity instruments owned by Bankia relating to entities other than subsidiaries, joint ventures or associates that are not classified as at fair value through profit or loss.

  The instruments included in this category are initially measured at fair value adjusted by the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised, through maturity, in the income statement by the effective interest method (as defined in the current regulations), except for those of financial assets with no fixed maturity, which are recognised in the income statement when these assets become impaired or are derecognised. Subsequent to acquisition, financial assets included in this category are measured at fair value.

  However, equity instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these financial statements at cost less any impairment losses calculated as detailed in Note 2.12.

  Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends since their initial recognition are recognised in "Dividends income" (calculated using the effective interest method) and "Dividends income" in the income statement, respectively. Any impairment losses on these instruments are recognised as described in Note 2.12. Exchange differences on financial assets denominated in currencies other than the euro are recognised as explained in Note 2.7. Changes in the fair value of financial assets hedged in fair value hedges are recognised as explained in Note 2.6.

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognised in Bank's equity " Equity- Accumulated other comprehensive income- Items that may be reclassified to profit or loss- Available-for-sale financial assets" until the financial asset is derecognised, at which time the balance recorded under this item is recognised under "Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net," in the income statement or, in the case of equity instruments considered to be strategic investments for Bankia, "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations".

- **Financial liabilities at amortised cost:** this category includes financial liabilities not included in any of the preceding categories.

  Financial liabilities included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the issuance or trading of the financial liability, which are recognised in the income statement by the effective interest method defined in Bank of Spain Circular 4/2004 until maturity. Subsequently, these financial liabilities are measured at amortised cost calculated using the effective interest method defined in Bank of Spain Circular 4/2004.

  The interest accrued on these liabilities since their initial recognition, calculated using the effective interest method, is recognised under "Interest expenses" in the income statement. Exchange differences on liabilities included in this portfolio denominated in currencies other than the euro are recognised as explained in Note 2.7. Financial liabilities included in fair value hedges are recognised as explained in Note 2.6.

Nevertheless, financial instruments that should be considered as non-current assets held for sale in accordance with Bank of Spain Circular 4/2004 are recognised in the financial statements as explained in Note 2.21.

(2.5.5) Reclassification of financial instruments between portfolios

In 2017 and 2016, there were no significant reclassifications between financial instrument portfolios, nor were there any sales of financial assets classified as "Held-to-maturity investments" for significant amounts.

(2.6) Hedge accounting and mitigation of risk

The Bank uses financial derivatives as part of its strategy to reduce its exposure to interest rate, credit, foreign exchange risk and other risks. When these transactions meet certain requirements stipulated in Bank of Spain Circular 4/2004, they qualify for hedge accounting.

When the Bank designates a transaction as a hedge, it does so from the initial date of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Bank to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Bank's hedging transactions are classified into the following categories:

- **Fair value hedges**: these hedge exposure to changes in the fair value of recognised financial assets and liabilities or unrecognised firm commitments, or a component of any such item, that is attributable to a specific risk and could affect the consolidated income statement.

- **Cash flow hedges**: these hedge exposure to variability in cash flows that it attributable to a specific risk associated with all or a component of a recognised asset or liability or a highly probable forecast transaction, and could affect consolidated profit or loss.

- **Hedges of net investment in a foreign operation**: these hedge the currency risk deriving from investments in subsidiaries, associates, joint ventures and branches of the Bank whose activities are based or undertaken in a different country or in a currency other than the euro.

The Bank only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument(s) are almost completely offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges designated as such, the Bank analyses whether, from the beginning to the end of the term defined for the hedge, it can expect, prospectively, that the changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument and, retrospectively, that the actual results of the hedge will have been within a range of 80% to 125% of the results of the hedged item.

In the specific case of financial instruments designated as hedged items or qualifying for hedge accounting, gains and losses are recognised as follows:

- In **fair value hedges**, the gains or losses arising on both the hedging instruments and the hedged items (associated to hedged risk), are recognised directly in the consolidated income statement. The balancing entry of changes in fair value of the hedged item attributable to hedged risk is recorded as an adjustment to value of the hedged instrument.
- In **cash flow hedges**, the gains or losses attributable to the portion of the hedging instruments that qualifies as an effective hedge are recognised temporarily in equity under "Other accumulated comprehensive income - Items that may be reclassified to profit or loss - Hedging derivatives. Cash flow hedges". Financial instruments hedged in this type of hedging transaction are recognised as explained in Note 2.5 with no change made to the recognition criteria due to their consideration as hedged items.
- In **hedges of net investments in foreign operations**, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under "Other accumulated comprehensive income - Items that may be reclassified to profit or loss - Hedges of net investments in foreign operations". Financial instruments hedged in this type of hedging transaction are recognised as explained in Note 2.5 with no change made to the recognition criteria due to their consideration as hedged items.

As a general rule, in cash flow hedges, the gains or losses attributable to the effective portion of the hedging instruments are not recognised in the income statement until the gains or losses on the hedged item are recognised in the income statement or, if the hedge relates to a highly probable forecast transaction that will lead to the recognition of a non-financial asset or liability, they will be recognised as part of the acquisition or issue cost when the asset is acquired or the liability is assumed.

In the case of hedges of net investments in foreign operations, the amounts recognised as valuation adjustments in equity in accordance with the aforementioned criteria are recognised in the income statement when they are disposed of or derecognised.

In cash flow hedges and hedges of net investments in foreign operations, the gains or losses on the ineffective portion of the hedging instruments are recognised directly under "Gains or (-) losses from hedge accounting, net" in the income statement.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or it revokes the designation as a hedge.

When, as explained in the preceding paragraph, hedge accounting is discontinued for a fair value hedge, in the case of hedged items carried at amortised cost, the value adjustments made as a result of the hedge accounting described above are recognised in the income statement through maturity of the hedged items, using the effective interest rate recalculated as at the date of discontinuation of hedge accounting.

If hedge accounting is discontinued for a cash flow hedge or a hedge of a net investment in a foreign operation, the cumulative gain or loss on the hedging instrument recognised in equity under " Equity - Other accumulated comprehensive income" in the balance sheet will continue to be recognised under that heading until the forecast hedged transaction occurs, when it will be reclassified into the income statement or it will correct the acquisition cost of the asset or liability to be recorded, if the hedged item is a forecast transaction that results in the recognition of a non-financial asset or liability.

The Bank enters into hedges on a transaction-by-transaction basis pursuant to the aforementioned criteria by assessing the hedging instrument and the hedged item on an individual basis and continually monitoring the effectiveness of each hedge, to ensure that changes in the value of the hedging instrument and the hedged item offset each other.

The Bank's main hedged positions and the financial hedging instruments used are as follows:

Fair value hedges

- Available-for-sale financial assets:
  - Fixed-rate debt securities, whose risk is hedged with interest rate derivatives (basically swaps).
- Loans and receivables:
  - Fixed-rate loans, whose risk is hedged with interest rate derivatives (basically swaps). The Bank also hedges certain positions against credit risk with credit derivatives (basically credit default swaps).
- Financial liabilities at amortised cost:
  - Long-term fixed-rate deposits and marketable debt securities issued by the Bank, whose risk is hedged with interest rate derivatives (basically swaps).

Cash flow hedges

- Available-for-sale financial assets:
  - Floating-rate debt securities, whose risk is hedged with interest rate derivatives (basically swaps).

– Loans and receivables:
  - o Floating-rate loans, whose risk is hedged with interest rate derivatives (basically swaps).
– Financial liabilities at amortised cost:
  - o Marketable debt securities issued by the Bank, whose risk is hedged with interest rate derivatives (basically swaps).

(2.7) Foreign currency transactions

(2.7.1) Functional currency

The Bank's functional currency is the euro. Consequently, all balances and transactions denominated in currencies other than the euro are considered to be denominated in "foreign currency".

The detail, by currency and item, of the equivalent euro value of the main asset and liability balances in the balance sheet at 31 December 2017 and 2016 denominated in foreign currency is as follows:

(Thousands of euros)

	31/12/2017		31/12/2016	
ITEM	Assets	Liabilities	Assets	Liabilities
Balances in US dollars				
Cash, cash balances at central banks and other demand deposits	67,497	-	72,040	-
Assets and liabilities held for trading	213,706	123,457	303,134	177,717
Loans and receivables	1,337,832	-	1,316,834	-
Financial liabilities at amortised cost	-	1,013,310	-	980,814
Available-for-sale financial assets	20,854	-	16,196	-
Other	6,926	37,688	6,954	49,046
Total	**1,646,815**	**1,174,455**	**1,715,158**	**1,207,577**
Balances in pounds sterling				
Cash, cash balances at central banks and other demand deposits	11,936	-	7,912	-
Assets and liabilities held for trading	124,143	126,094	131,770	133,584
Loans and receivables	123,716	-	143,361	-
Financial liabilities at amortised cost	-	206,178	-	89,658
Other	76	112	-	112
Total	**259,871**	**332,384**	**283,043**	**223,354**
Balances in other currencies				
Cash, cash balances at central banks and other demand deposits	28,807	-	26,367	-
Financial assets and liabities held for trading	21,836	20,094	33,759	31,082
Loans and receivables	152,277	-	169,329	-
Financial liabilities at amortised cost	-	45,954	-	49,369
Other	-	9,699	-	10,444
Total	**202,920**	**75,747**	**229,455**	**90,895**
Total foreign currency balances	**2,109,606**	**1,582,586**	**2,227,656**	**1,521,826**

(2.7.2) Criteria for translation of foreign currency balances

Balances in foreign currencies are translated to euros as follows, depending on type of asset:

- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
- Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined.

- Monetary items denominated in a foreign currency are translated to euros applying the spot rate at the reporting date.

(2.7.3) Exchange rates applied

The exchange rates used by the Bank in translating the foreign currency balances to euros for the purpose of preparing the financial statements, taking into account the methods mentioned above, were the official rates published by the European Central Bank.

(2.7.4) Recognition of exchange differences

Exchange differences arising on translating foreign currency balances into the functional currency of the Bank and their branch offices are generally recognised at their net value in the income statement under "Exchange differences (net)". As an exception to this rule, exchange differences affecting the value of financial instruments measured at fair value through profit or loss are recognised in the income statement together with all other changes that may affect the fair value of the instrument, under "Gains or (-) losses on financial assets and liabilities held for trading, net" or "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net".

However, they are recognised in equity under "Other accumulated comprehensive income- Items that may be reclassified to profit or loss-Foreign currency translation" in the balance sheet until they are realised.

(2.8) Recognition of income and expenses

The most significant accounting criteria used by the Bank to recognise its income and expenses are summarised as follows:

(2.8.1) Interest income, interest expense, dividends and similar items

As a general rule, interest income, interest expenses and similar items are recognised on the basis of their period of accrual using the effective interest method defined in Bank of Spain Circular 4/2004. Dividends received from other companies are recognised as income on the date when Bankia's right to receive payment is declared.

However, when a debt security is assessed to be impaired individually or collectively because recovery is considered unlikely, the entity ceases to recognise the interest accrued in the income statement.

In general, amounts received on impaired loans and credits are applied first to the oldest past-due amount. Unpaid interest is recognised first, then any excess is applied to reduce the outstanding principal.

(2.8.2) Commissions, fees and similar items

Fee and commission income and expenses that are not to be included in the calculation of the effective interest rate of transactions and/or are not included in the cost of financial assets or liabilities other than those classified as at fair value through profit or loss are recognised in the income statement using criteria that vary according to their nature. The most significant fee and commission items are as follows:

- Fees and commissions linked to the acquisition of financial assets and liabilities carried at fair value through profit or loss, which are recognised in the income statement at the settlement date.
- Those arising from transactions or services that are performed over a period of time, which are recognised in the income statement over the life of these transactions or services.
- Those relating to services provided in a single act, which are recognised in the income statement when the single act is carried out.

(2.8.3) Non-financial income and expenses

Non-financial income and expenses are recognised on an accrual basis.

(2.8.4) Deferred income and accrued expenses

These are recognised for accounting purposes at the present value of the estimated cash flows discounted at market rates.

(2.9) Offsetting

Asset and liability balances are offset; i.e. reported in the balance sheet at their net amount, only if the Bank has a contractual or legally enforceable right to set off the recognised amounts and it intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

In this regard, presentation in these financial statements in accordance with Bank of Spain Circular 4/2004 of financial assets subject to valuation adjustments for decline in value or impairment, net of these adjustments, is not considered as "offsetting".

In addition, following application of the amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities", the Bank offset the positions in trading derivatives arranged through clearing houses as they met the criteria for offsetting a financial asset and a financial liability, as follows:

a) the entity has a legally enforceable right to set off the recognised amounts of the instruments; and

b) the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The amendment to IAS 32 clarifies when a financial asset and financial liability is eligible for offset. The criteria were considered for the aforementioned set-off. Specifically, regarding the first of the above criteria, the right of set-off cannot be contingent on a future event and must be legally enforceable in the following circumstances: the normal course of business, an event of default and an event of insolvency or bankruptcy of the entity or any of the counterparties.

Regarding the second one, the settlement mechanism through clearing houses must have features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle, so that the result is, effectively, equivalent to net settlement.

Notes 7 and 12 present a detail of net positions by class of derivative. However, in accordance with prevailing regulations, other disclosures regarding offset positions are presented at their gross amount.

(2.10) Transfers of financial assets

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, securitization 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, securitization 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:

    - Bankia 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.

    - Bankia 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.

Note 25.1 contains a summary of the main circumstances of the principal transfers of assets outstanding at 2017 and 2016 year-end which did not lead to the derecognition of the related assets.

(2.11) Exchanges of assets

Exchanges of assets entail the acquisition of tangible or intangible assets in exchange for other non-monetary assets or a combination of monetary and non-monetary assets. For the purposes of these financial statements, the foreclosure of assets to recover amounts owed to Bank by third parties is not considered an exchange of assets.

The assets received in an exchange of assets are recognised at fair value, provided that the transaction can be deemed to have commercial substance, as defined in Bank of Spain Circular 4/2004, and that the fair value of the asset received or, failing this, of the asset given up, can be estimated reliably. The fair value of the instrument received is determined as the fair value of the asset given up plus, where applicable, the fair value of any monetary consideration given up in exchange, unless there is clearer evidence of the fair value of the asset received.

If the exchanges of assets do not meet the above requirements, the asset received is recognised at the carrying amount of the asset given up plus the monetary consideration given up or assumed in the acquisition.

(2.12) Impairment of financial assets

A financial asset is considered to be impaired – and therefore its carrying amount is adjusted to reflect the effect of impairment – when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date. An instrument is considered impaired when there are reasonable doubts that its carrying amount will be recovered and/or the related interest will be collected for the amounts and on the dates initially agreed upon.
- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the income statement for the period in which the impairment is reversed or reduced.

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the Bank may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

The criteria applied by the Bank to determine possible impairment losses in each of the various financial instrument categories and the method used to calculate and recognise such impairment losses are as follows:

Debt instruments carried at amortised cost

The amount of an impairment loss incurred on a debt instrument carried at amortised cost is equal to the negative difference between its carrying amount and the present value of its estimated future cash flows.

In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument; including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued past-due interest receivable.
- The different types of risk to which each instrument is exposed.
- The circumstances in which collections will foreseeably be made.

Specifically as regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency (objective evidence of the impairment):

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons related to the debtors' financial situation and repayment capacity , and/or
- When country risk materialises; country risk is defined as the risk that is associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Impairment losses on these assets are assessed with different processes according to the classification of customers as individually significant or individually no significant after analysing the portfolio and the Bank's risk monitoring policy. With this customer selection criteria, individualised analysis has a large weight on the total estimated impairment in the model.

Once the thresholds are determined, the process is as follows:

- Individualized assessment of individually significant assets. Triggers are analysed to identify customers showing Objective Evidence of Impairment ("OEI"), distinguishing between two groups:
    - *Customers with OEI:* incurred loss is calculated based on the present value of expected future cash flows (repayment of principal plus interest) of each of the customer's transactions (discounted at the original effective interest rate) compared to the current carrying amount. Both going concern and gone concern assumptions are considered.
    - *Customers without OEI*: verification is made that the customer does not present any trigger that effectively evidences impairment and no provision is required given the customer's loan status.
- Collective assessment: for minor exposures with OEI and for the rest of exposures, a collective calculation by homogeneous risk group is made to estimate general allowances and provisions related to a group of transactions and specific allowances and provisions for specific transactions that show similar risk characteristics that enable them to be classified into homogeneous groups. For these purposes, the Bank takes as a reference the risk parameters provided by the Bank of Spain in Circular 4/2004, based on past experience in the Spanish market.

Debt instruments classified as available for sale

The amount of the impairment losses on debt securities included in the available-for-sale financial asset portfolio is the full or partial negative difference, if any, between their fair value and their acquisition cost (net of any principal repayment or amortisation), less any impairment loss previously recognised in the income statement.

In the case of impairment losses arising due to the insolvency of the issuer of the debt instruments classified as available for sale, the procedure followed by the Bank for calculating such losses is the same as the method used for debt instruments carried at amortised cost explained in the preceding section.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the equity item "Other accumulated comprehensive income – Items that may be reclassified to profit or loss - Available-for-sale financial assets" on the Bank's balance sheet and are recognised, for their cumulative amount, in the income statement. If all or part of the impairment losses are subsequently recovered, the amount is recognised in the income statement for the period in which the recovery occurs. In particular, the main events that might indicate evidence of impairment include the following:

- The issuer has been declared or will probably be declared bankrupt or in significant financial difficulty.
- A breach of the contract governing the instruments, such as default on principal or interest, occurs.
- The issuer is granted financing or arranges debt restructuring because it is in financial difficulty, unless there is reasonable certainty that the customer will be able to settle its debt in the envisaged period or new effective collateral is provided.

Similarly, any impairment losses arising on measurement of debt instruments classified as "Non-current assets and disposal groups classified as held for sale" which are recorded in the Bank's equity are considered to be realised and are therefore recognised in the income statement when the assets are classified as "Non-current assets held for sale".

Equity instruments classified as available for sale

The criteria for recognising impairment losses on equity instruments classified as available for sale are similar to those for debt instruments explained in the preceding section, with the exception that any recovery of these losses is recognised in equity under "Other accumulated comprehensive income -Items that may be reclassified to profit or loss -Available-for-sale financial assets" in the balance sheet.

The main events that might constitute evidence of impairment of equity instruments include the following:

- The issuer has been declared or will probably be declared bankrupt or in significant financial difficulty.
- Significant changes in the technological, market, economic or legal environment in which the issuer operates may have adverse effects on the recovery of the investment.
- A significant or prolonged decline in the fair value of an equity instrument below its carrying amount. In this regard, the objective evidence of the impairment of instruments quoted in active markets is more pronounced in the event of a 40% fall in its market price or a fall over period of one-and-a-half years.

Equity instruments measured at cost

The amount of the impairment losses on equity instruments carried at cost is the difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognised in the income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

Investments in subsidiaries, joint venture or associates

Impairment losses on investments in subsidiaries, associates and jointly-controlled entities which, for the purpose of the preparation of these financial statements, are not deemed to be "financial instruments", are estimated and recorded by the Bank as follows: pursuant to the provisions of Circular 4/2004, when there is evidence of impairment of these investments, the amount of the impairment is estimated as the negative difference between the recoverable amount (calculated as the higher of fair value of the investment less costs to sell and value in use; value in use is defined as the present value of the cash flows expected to be received on the investment in the form of dividends and those from its sale or other disposal) and the carrying amount.

Impairment losses on these investments and reversals thereof are debited or credited, respectively, to "Impairment losses on other assets (net) – Other assets" in the income statement.

(2.13) Financial guarantees and provisions for financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may take: deposits, financial guarantees, irrevocable documentary credits issued or confirmed by the entity, etc.

Pursuant to the provisions of Bank of Spain Circular 4/2004, the Bank generally treats financial guarantees provided to third parties as financial instruments.

To determine whether a derivative sold is recognised as a financial guarantee or a trading derivative, a financial instrument is considered a derivative financial instrument when it meets the following conditions:

- Its value changes in response to the changes in an observable market variable, sometimes called the "underlying", such as an interest rate, financial instrument and commodity price, foreign exchange rate, a credit rating or credit index, where this involves non-financial variables that are not specific to one of the parties to the contract.

- It requires no initial investment or one that is much smaller than would be required for other financial instruments that would be expected to have a similar response to changes in market factors.

- It is settled at a future date, except where it relates to a regular way purchase or sale of financial assets in conventional agreements, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the market place and that may not be settled net.

Financial guarantees are considered contracts that require or may require Bankia to make specific payments to reimburse the creditor for the loss incurred when a specific debtor fails to meet its payment obligations under the original or amended terms of a debt instrument, regardless of its legal form, which may be, *inter alia*, a deposit, financial guarantee, insurance contract or credit derivative.

Specifically, guarantee contracts related to credit risk where execution of the guarantee does not require, as a necessary condition for payment, that the creditor is exposed to and has incurred a loss due to a debtor's failure to pay as required under the terms of the financial asset guaranteed, as well as in contracts where execution of the guarantee depends on changes in a specific credit rating or credit index, are considered derivative financial instruments.

The Bank initially recognises the financial guarantees provided on the liability side of the balance sheet at fair value, plus the directly attributable transaction costs, which is generally the amount of the premium received plus, where applicable, the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and it simultaneously recognises, on the asset side of the balance sheet, the amount of the fees, commissions and similar amounts received at the start of the transactions and the amounts receivable at the present value of the fees, commissions and interest receivable. Subsequently, these contracts are recognised on the liability side of the balance sheet at the higher of the following two amounts:

- The amount determined pursuant to the provisions of Appendix IX of Bank of Spain Circular 4/2004. In this regard, financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost, which are described in Note 2.12 above.

- The amount initially recognised for these instruments, less the related amortisation which, in accordance with Bank of Spain Circular 4/2004, is charged to the income statement on a straight-line basis over the contract term.

The provisions made, if applicable, for these instruments are recognised under “Provisions - Commitments and guarantees given” on the liability side of the balance sheet. These provisions are recognised and reversed with a charge or credit, respectively, to “(Provisions or (-) reversal of provisions)” in the income statement.

If, in accordance with the foregoing, a provision is required for these financial guarantees, the unearned commissions on these transactions, which are recognised under “Financial liabilities at amortised cost – Other financial liabilities” on the liability side of the balance sheet, are reclassified to the appropriate provision.

(2.14) Accounting for leases

(2.14.1) Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

The factors considered by the Bank to determine whether a lease agreement is a finance lease include, *inter alia*, the following:

- Whether the lease agreement covers the major part of the useful life of the asset.

- Whether the exercise price of the purchase option is lower than the fair value of the residual value of the asset at the end of the lease term.

- Whether the present value of minimum lease payments at the inception of the lease is equal to substantially all the fair value of the leased asset.

- Whether use of the asset is restricted to the lessee.

When the Bank acts as the lessor of an asset in a finance lease transaction, the sum of the present values of the lease payments receivable from the lessee plus the guaranteed residual value (which is generally the exercise price of the lessee's purchase option at the end of the lease term) is recognised as lending to third parties and is therefore included under “Loans and receivables” in the balance sheet based on the type of lessee.

When the Bank acts as the lessee in a finance lease transaction, it presents the cost of the leased assets in the balance sheet, based on the nature of the leased asset, and, simultaneously, recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present values of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for the Bank’s property, plant and equipment for own use (see Note 2.17).

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to “Interest income” and “Interest expense”, respectively, in the income statement, and the accrued interest is estimated using the effective interest method as defined in Bank of Spain Circular 4/2004.

(2.14.2) Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased asset remain with the lessor.

When the Bank acts as lessor in operating leases, it recognises the acquisition cost of the leased assets under “Tangible assets” as “Investment property” or as “Property, plant and equipment leased out under an operating lease”, depending on the type of assets leased. The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under “Other operating income” in the income statement.

When the Bank acts as the lessee in operating leases, lease expenses, including any incentives granted by the lessor, are charged to “Administrative expenses - Other general administrative expenses” in the income statement on a straight-line basis (or using another method, if applicable).

(2.14.3) Asset sale and leaseback transactions

Where transactions involve the sale to a third party of an asset owned by the Bank that is subsequently leased back by the Bank selling the asset, the terms and conditions of the lease agreement are analysed by the Bank to determine whether it should be considered a finance lease or an operating lease, in accordance with the criteria stipulated in Notes 2.14.1 and 2.14.2 above.

In this regard, if a sale and leaseback transaction by the Bank results in a finance lease, any possible excess of sales proceeds over the carrying amount of the asset sold will not be immediately recognised as income by the Bank. The excess, if any, is deferred by the Bank and apportioned over the term of the lease.

However, if a sale and leaseback transaction by the Bank results in an operating lease, and the transaction was established at fair value, any profit or loss from the sale will be recognised immediately in the income statement, If the sale price is below fair value of the asset sold by the Bank, any profit or loss will be recognised immediately in the income statement, except if the loss is offset by future lease payments at below market price, whereupon it will be deferred and recognised in proportion to the lease payments over the period for which the asset is expected to be used, If the sale price of the asset sold is above fair value, the excess over fair value will be deferred and recognised over the period for which the asset is expected to be used by the Bank.

(2.15) Staff costs

(2.15.1) Post-employment benefits

(2.15.1.1) Types of commitments

Post-employment benefits are forms of compensation payable after completion of employment. The Bank has undertaken to pay post-employment benefits to certain employees and to their beneficiary right holders.

Under current law, post-employment obligations are classified as defined-contribution or defined-benefit obligations, depending on the terms of the commitments assumed in each specific case. The Bank’s post-employment obligations to its employees are deemed to be “defined-contribution plan obligations” wherever the Bank makes predetermined to separated entity, contributions and will have no legal or effective obligation to make further contributions if the employee benefits relating to the service rendered in the current and prior periods cannot be paid. Post-employment obligations that do not meet the aforementioned conditions are considered as defined-benefit obligations.

All pension obligations to current and former employees of the Bank are funded by pension plans and insurance policies.

All pension obligations to current and former employees of the Bank are covered by pension plans in Spain.

(2.15.1.2) Description of the post-employment obligations undertaken by the Bank

The post-employment obligations assumed by the Bank with employees and their characteristics, are as follows:

- **Non-accrued pensions:**
  - A system is in place whereby Bankia makes individual, annual contributions based on a percentage of certain remuneration items, always observing the minimums set out in the collective bargaining agreement.
  - At 31 December 2017, there were 11 employees with defined-benefit obligations for retirement (of which were pre-retired). These obligations are covered with the pension plan or insurance policies.

- **Accrued pensions**
  - All the commitments for vested pensions assumed by Bankia are externalised through the pension plan and insurance policies.

In addition to these obligations, Note 5 describes the obligations with members of the Board of Directors and senior executives of Bankia, S.A.

(2.15.1.3) Actuarial assumptions applied in calculation of post-employment benefits

As a rule, the Bank measures its obligations and commitments and cover and determines coverage evenly based on:

- the projected credit unit method (which treats each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately); and
- which when determined actuarial assumptions:
  - are not biased, and neither reckless nor excessively conservative.
  - are mutually compatible and adequately reflect the economic relations existing between factors such as inflation, expected salary increases, discount rates and expected return on plan assets, future levels of salaries and benefits based on market expectations at the date of the financial statements for the period in which the obligations should be settled.
  - the interest used to discount cash flows is based on market rates for issues of high-rated bonds at the date of the financial statements.

(2.15.1.4) Accounting criteria for post-employment commitments

The Bank classifies post-employment obligations for accounting purposes as follows:

- *Defined-contribution plans*. Bank contributions to defined contribution plans are recognised under "Administrative expenses – Staff costs" in the income statement.

  If at 31 December there are any outstanding contributions to be made to the external plan funding the post-employment benefit obligations, the related amount is recognised at its present value under "Provisions - Provisions for pensions and other post-employment defined benefit obligations". At 31 December 2017, there were no outstanding contributions to be made to external defined-contribution plans.

- *Defined-benefit plans*. Under the caption "Provisions - Provisions for pensions and other post-employment defined benefit obligations". on the liability side of the balance sheet, the Bank recognises the present value of obligations assumed net of the fair value of assets qualifying as "plan assets" (or under "Other assets – Other" on the asset side of the balance sheet, depending on whether the resulting difference is positive or negative and on whether or not the conditions for recognition are satisfied).

  "Plan assets" are defined as those that are related to certain defined benefit obligations, that will be used directly to settle such obligations, and that meet the following conditions:

  - they are not owned by the Bank, but by a legally separate third party that is not a related party.
  - they are only available to pay or fund post-employment benefits for employees.
  - they cannot be returned to the Bank unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan or of the Bank to current and former employees, or they are returned to reimburse employee benefits already paid by the Bank.
  - they may not be non-transferable financial instruments issued by the Bank if held by a long-term post-employment benefits fund or entity.

If the Bank has recourse to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that the insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Bank recognises its right to reimbursement, which in all other respects is treated as a plan asset, under "Insurance contracts linked to pensions" on the asset side of the balance sheet.

In compliance with Bank of Spain Circular 4/2004, rule 35, Bankia recognised in its financial statements the liabilities (or, as the case may be, and/or the assets) related to post-employment benefit obligations at the present value of the obligations, less the fair value of any plan assets.

Defined-benefit post-employment payments are recognised as follows:

- In the income statement:
  - service cost in the current period.
  - any past service cost and gains or losses on plan settlements.

  - the net interest on the defined benefit liability (asset), which is determined by multiplying the net defined benefit liability (asset) by the interest rate used to estimate the present value of the obligations at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset). Net interest comprises the interest income on plan assets, interest cost on the obligation and interest from measuring plan assets at the present value of the cash flows available to the entity from plan curtailments or reduction in future contributions to the plan.

- In the statement of changes in equity:

  - actuarial losses and gains, which are changes in the present value of the defined benefit obligations resulting from the effects of changes in actuarial assumptions and experience adjustments.

  - the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

  - any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

(2.15.2) Other long-term employee benefits

"Other long-term employee benefits" mainly comprises the early-retirement commitments to employees who no longer render services but, not being retirees for legal purposes, continue to hold economic rights against their employers until they become legal retirees. It also comprises any other long-term or similar commitments to employees.

These long-term commitments are recognised under the same caption as defined-benefit post-employment plans, except regarding amounts recognised in the statement of changes in equity that are recognised in the income statement, with the special features disclosed below for each specific case.

(2.15.2.1) Pre-retirements and partial retirements

At 31 December 2017, these commitments were covered by insurance policies and an internal fund.

(2.15.2.2) Commitments derived from the Labour Agreement adopted as result of the creation of BFA

On 14 December 2010, a majority of labour union representatives at the Cajas entered into an agreement entitled "Labour Agreement in the Framework of the Process of Integration under an IPS entered into by Caja Madrid, Bancaja, Caja Insular de Canarias, Caja Ávila, Caixa Laietana, Caja Segovia and Caja Rioja" (the "Labour Agreement") and as a result of the integration of the Cajas and the creation of BFA (the central body of the IPS) set out in the Integration Agreement approved by the Boards of Directors and ratified by the General Meetings of the Cajas.

The Labour Agreement set forth an array of measures offered to the "Cajas" employees on an elective basis until 31 December 2012 so that the necessary staff restructuring could be carried out, with staff reduced by approximately 4,594 employees. The array of measures included pre-retirements, relocation, indemnified redundancies, contract suspension and shorter working time.

(2.15.2.3) Labour Agreement - Bankia Restructuring Plan (see Note 1.2)

On 8 February 2013, a labour agreement was entered into with the majority of the Bank's union representatives, which includes the collective dismissal of up to 4,500 Bank employees, with variable termination benefits depending on the age of the worker and changes to the working conditions of employees that continue to work at the Bank through measures to eliminate or reduce fixed remuneration conditions, variable remuneration conditions, pension plan contributions, entitlements for risk and promotion measures. The agreement encourages voluntary redundancies and employability with the creation of an employment pool for those affected, while also enabling the Bank to move towards an efficiency ratio below 50%.

(2.15.2.4) Commitments derived from the Labour Agreement adopted as a result of the creation of BMN

The savings banks or *Cajas* that founded BMN entered into the so-called "Labour Agreement among the *Cajas* under the Framework of the Process of Integration under an IPS", which contemplated, among other measures, the resizing of the workforce of the founding *Cajas* with the extinction of a maximum of 1,049 jobs, coupled with the commitment to continuing to contribute to their pension plans and make special payments under certain circumstances. In keeping with the content of the above labour agreements and the nature and characteristics of the commitments, these commitments have been classified as "Other long-term commitments".

(2.15.2.5) Labour agreements entered into with the representatives of BMN's employees

Against the backdrop of BMN's Restructuring Plan, the Bank's management and its employees' representatives entered into a series of agreements which mainly contemplate the modification of employment terms which have been extended until 2017. The main measures agreed upon, with the aim of minimising the impact on employment, were the following: 1) paid leaves of absence; 2) rotational, temporary and voluntary contract suspensions for maximum periods of nine months; 3) 20% reductions in working hours; 4) temporary wage reductions until 31 December 2017 and definitive suspension of certain company benefits; 5) suspension of contributions to pension plans and accrual of three-year payment schemes between 1 July 2013 and 31 December 2017; 6) voluntary leaves of absence; 7) unification of pension commitments; and 8) standardisation of employment terms and conditions, including wage standardisation from 1 January 2014 until 2019.

In April 2016 and December 2015, BMN entered into collective voluntary leave agreements with the majority of the employees' representatives under which certain groups of employees have been offered the opportunity to freely avail of a voluntary leave arrangement for certain periods of time, subject to approval by the Bank, and in exchange for the stipulated compensation, as appropriate.

At 31 December 2017, the Bank had covered its liabilities under the aforementioned Labour Agreement in terms of outstanding settlements to employees already on the scheme, with appropriate provisions under "Provisions – Pensions and other post employment defined benefit obligations" (to cover pre-retirement commitments) and "Provisions – Other provisions" (for the remaining commitments assumed) on the balance sheet (see Note 19).

(2.15.2.6) Preliminary Workforce Restructuring Agreement due to the merger between Bankia and BMN

As a result of the merger by absorption of BMN by Bankia (see Note 1.16), on 15 February 2018, a Preliminary Workforce Agreement was signed, with 92% representation of the Bank's trade unions.

The Preliminary Workforce Agreement contains a services of voluntary redundancy measures to implement the required restructuring. The collective procedure includes up to a maximum of 2,000 Bank employees, along with geographical mobility arrangements.

The Preliminary Workforce Agreement also sets the framework for work conditions of Bank employees and the conditions under which BMN employees will be taken on, as well as other labour-related issues.

(2.15.2.7) Death and disability

The obligations assumed for coverage of death and disability of serving employees were set out in the Pension Agreements signed in 2015. These obligations are covered by an insurance policy under the Pension Plan and are recognised in the income statement at an amount equal to the premiums accrued on the insurance policies each year and the contributions made to the fund.

The amount accrued and paid in 2017 to cover these obligations was EUR 2,166 thousand, recognised under "Administrative expenses - Staff costs" in the consolidated income statement for the year (EUR 6,658 thousand at 31 December 2016, of which EUR 6,581 thousand were covered by the Bankia Group Employee Pension Plan and EUR 77 thousand recognised under "Administrative expenses – Staff costs" in the consolidated income statement).

(2.15.3) Financial aid for employees

Financial assistance for employees is set out in the Savings Bank collective wage agreement. Certain terms and conditions have been improved via internal agreements. Assitance mainly entails advances, social loans and loans for the acquisition of primary residences.

The difference between arm's length terms and the interest rates applied for each type of loan mentioned above is recognised as an increase in staff costs with a balancing entry under "Interest income" in the income statement.

(2.15.4) Termination benefits

Under current legislation, the Bank is required to pay termination benefits to employees made redundant without just cause. Termination benefits must be recognised when the Bank is committed to terminate the employment contracts of its employees and has a detailed formal termination plan. In addition to the commitments described in Note 2.15.2 and as explained in Note 1.2, the Bank signed a labour agreement whose related commitments are adequately covered with provisions recognised at 31 December 2017 (see Note 19).

(2.16) Income tax

Expenses for Spanish corporate income tax are recognised in the income statement, except when it results from a transaction recognised directly in equity. In this case, the income tax is also recognised in the Bank's equity.

Income tax expense is calculated as the tax payable on taxable profit for the year, after adjusting for variations in assets and liabilities due to temporary differences, tax credits for tax deductions and benefits, and tax losses (see Note 24).

The Bank considers that a temporary difference exists when there is a difference between the carrying amount of an asset or liability and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Bank to make a payment to the relevant tax authorities. A deductible temporary difference is one that will generate a right for the Bank to a rebate or a reduction in the amount payable to the related tax authorities in the future.

Tax credit and tax loss carryforwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met and the Bank considers it probable that they will be used in future periods.

Current tax assets and liabilities are the taxes that are expected to be recoverable from or payable to, respectively, the related tax authorities within 12 months of the reporting date. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities more than 12 months from the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. Will not any recognition of deferred tax liabilities arising from accounting for goodwill.

The Bank only recognises deferred tax assets arising from deductible temporary differences and from tax credit and tax loss carryforwards when the following conditions are met:

- Deferred tax assets are only recognised when it is considered likely that the entities will have sufficient future taxable profit to make these effective; and, in the case of deferred tax assets arising from tax loss carryforwards, when the carryforwards have arisen for identified reasons that are unlikely to be repeated.

- No deferred tax assets or liabilities are recognised if they arise from the initial recognition of an asset or liability (except in the case of a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are reviewed at the end of each reporting period to ascertain that they remain in force, and the appropriate adjustments are made on the basis of the results of the review.

In this respect, on 30 November 2013, Royal Decree-Law 14/2013, of 29 December, on urgent measures to adapt Spanish law to European Legislation on the supervision and solvency of financial institutions was published in the Official State Gazette (Boletín Oficial del Estado). With effect from tax periods commencing on or after 1 January 2014, this legislation adds a twenty-second additional provision to the Revised Text of the Corporate Income Tax Law (TRLIS), enacted by Royal Decree-Law 4/2004, of 5 March “Conversion of deferred tax assets into credits that give rise to a receivable from the tax authorities”. Meanwhile, on 27 November, Law 27/2014, of 27 November on Corporate Income Tax (CIT) was enacted, repealing the TRLIS with effect from 1 January 2015 except for the rules contained therein. Meanwhile, Article 130 of the Corporate Income Tax Law (LIS) included in the new law the provisions of additional provision twenty-two of the Revised Text of the TRLIS.

Furthermore, article 65 of Law 48/2015, of 29 October, on the General State Budgets for 2016 includes certain amendments to article 130 of the CIT with effect for tax periods beginning on or after 1 January 2016.

Lastly, Royal Decree Law 3/2016 of 2 December, adopting certain tax measures to consolidate public finances and other urgent social measures must be considered.

Note 24.5 explains the main implications of this legislation on the recognised deferred taxes

Constitution of the Bankia tax group

The Bankia Tax Group opted to pay taxes under the special tax consolidation scheme regulated by Chapter VII, Title VII of the TRLIS, approved by Royal Decree-Law 4/2004, of 5 March, for the tax period commencing on 1 January 2011, and informed the tax authorities of this decision.

Note 24 provides a breakdown of the companies making up the Tax Group headed by Bankia, S.A. in 2017.

(2.17) Tangible assets

(2.17.1) Property, plant and equipment for own use

Property, plant and equipment for own use include assets, owned by the Bank or held under a finance lease, for present or future administrative use or for the production or supply of goods and services that are expected to be used for more than one economic period. This category includes, inter alia, tangible assets received by the bank in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use. Property, plant and equipment for own use are presented in the balance sheet at acquisition cost, which is the fair value of any consideration given for the asset plus any monetary amounts paid or committed, less:

- the corresponding accumulated depreciation; and

- any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated using the straight-line method on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The tangible asset depreciation charge for the period is recognised under “Depreciation and amortisation charge” in the income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets:

	Annual rate
Buildings for own use	2%
Furniture and fixtures	10% to 25%
Computer hardware	25%

The Bank assess at the reporting date whether there is any internal or external indication that an asset may be impaired (i.e. that its carrying amount may exceed its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated). When necessary, the carrying amount of tangible assets for own use is reduced with a charge to “Impairment or (-) reversal of impairment on non-financial assets - Other assets"” in the income statement.

Similarly, if there is an indication of a recovery in the value of an impaired tangible asset, the Bank recognise the reversal of the impairment loss recognised in prior periods with the related credit to “Impairment or (-) reversal of impairment on non-financial assets - Other assets” in the income statement, and adjust the future depreciation charges accordingly. Under no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of property, plant and equipment for own use are reviewed at least once a year with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses on property, plant and equipment for own use are recognised as an expense in the income statement in the period in which they are incurred.

Financial assets that require more than twelve months to be readied for use include as part of their acquisition or production cost the borrowing costs which have been incurred before the assets are ready for use and which have been charged by the supplier or relate to loans or other types of borrowings directly attributable to their acquisition, production or construction. Capitalisation of borrowing costs is suspended, if appropriate, during periods in which the development of the assets is interrupted, and ceases when substantially all the activities necessary to prepare the asset for its intended use have been completed.

Foreclosed assets as payment of debts which, based on their nature and intended purpose, are classified as property, plant and equipment for own use, are recognised in accordance with the criteria indicated below in Note 2.17.2 for assets of this type.

(2.17.2) Investment property

"Investment property" on the balance sheet reflects the net values of the land, buildings and other structures held to earn rentals or for potential capital appreciation the event of sale, through potential increases in their market value.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its respective estimated useful life and to recognise the possible impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (Note 2.17.1).

Assets foreclosed by the Bank, understood as assets which the Bank receives from borrowers or other debtors as total or partial payment of financial assets representing collection rights against those which, regardless of the way in which the properties are acquired and, in accordance with their nature and the use to which they are put, are classified as investment properties, are initially recognised at their estimated cost as the lower of the book value of the financial assets applied and the fair value at the time of adjudication or reception of the asset net of the estimated sales costs.

All court costs are recognised immediately in the income statement for the period of foreclosure. Registry costs and taxes paid may be added to the value initially recognised provided that, as a result, this does not exceed the appraisal value less the estimated costs to sell mentioned in the preceding paragraph.

All costs incurred between the date of foreclosure and the date of sale as a result of maintaining and protecting the asset, such as insurance, security services, etc, are recognised in the income statement for the period in which they are incurred.

Appendix VIII provides further information about foreclosed property assets and assets received by the Bank in settlement of debts and classified under this balance sheet heading on the basis of ultimate purpose, as referred to above.

(2.17.3) Property, plant and equipment leased out under an operating lease

"Property, plant and equipment - Leased out under an operating lease" on the balance sheet reflects the net values of the tangible assets, other than land and buildings, leased out by the Bank under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.17.1).

Foreclosed assets which, based on their nature and intended purpose, are classified as property, plant and equipment leased out under an operating lease, are generally recognised in accordance with the criteria indicated for assets of this type in Note 2.17.2 above, taking into account for impairment purposes the effect arising from the rent expected to be received from their lease.

(2.18) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank. Only intangible assets whose cost can be estimated reasonably objectively and from which the Bank consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost, and subsequently carried at cost less any accumulated amortization and accumulated impairment losses.

In the balance sheet, intangible assets can have an “indefinite useful life, amortizing in the same criteria similar to those adopted for the amortization of tangible assets. When the useful life of intangible assets cannot be estimated reliably, they will be amortized over a period of 10 years.

Intangible assets with finite useful lives are amortised over the useful lives using methods similar to those used to depreciate tangible assets. The annual amortisation of intangible assets with a finite useful life is recognised under "Depreciation and amortisation" in the income statement. These intangible assets, which were developed by Group companies, have an average useful life of three years. The entity reviews, at least at the end of each year, the period and method of amortization of its intangible assets.

Bank recognises any impairment loss on the carrying amount of these assets with a charge to “Impairment or (-) reversal of impairment on non-financial assets - Intangible assets" in the income statement. Criteria for recognising impairment losses on these assets and any recovery of impairment losses recognised in past years are similar to those used for property, plant and equipment for own use (Note 2.17.1).

(2.19) Non-financial guarantees provided

The guarantees or guarantee agreements in which the Bank undertakes to compensate an oblige in the event of non-compliance with a specific obligation other than a payment obligation by a particular debtor of the oblige, such as deposits given to ensure participation in auctions or tender processes, surety bonds, irrevocable promises to provide surety and guarantee letters which are claimable by law, are considered, for the purposes of accounting in these financial statements, as insurance contracts.

When the Bank provides the guarantees or sureties indicated in the preceding paragraph, it recognises them under "Other liabilities" in the balance sheet at fair value plus the related transaction costs, which, unless there is evidence to the contrary, is the same as the value of the premiums received plus, if applicable, the present value of cash flows to be received for the guarantee or surety provided, and an asset is recognised simultaneously for the present value of the cash flows to be received. Subsequently, the present value of the fees or premiums to be received is discounted, and the differences are recognised under "Interest income" in the income statement; and the value of the amounts initially recognised in liabilities is allocated on a straight-line basis to the income statement, In the event that, in accordance with Bank of Spain Circular 4/2004, a provision is required for the surety which exceeds the liability recognised, the provision is recognised using criteria similar to those described for the recognition of impairment of financial assets and the amount recorded is reclassified as an integral part of this provision.

(2.20) Provisions and contingent liabilities

When preparing the financial statements, the Bank’s directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Bank, which is considered to be likely to occur and certain as to its nature, but uncertain as to its amount and/or timing, and
- Contingent liabilities: possible obligations arising from past events, whose existence will be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Entity.

The Bank's financial statements include all significant provisions with respect to which is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities other than those initially recognized financial statements, but rather are disclosed in accordance with the requirements of the Bank of Spain Circular 4/2004.

Provisions are measured based on the best information available on the consequences of the events giving rise to them and remeasured at the end of each reporting period. They are used to meet the specific obligations for which they were originally recognised. They may be wholly or partly reversed if these obligations cease to exist or diminish.

In accordance with Bank of Spain Circular 4/2004, in rare cases, where disclosure of information can be expected to prejudice seriously the Bank's position, generally in a class action lawsuit, the Bank does not provide detailed information, but rather discloses the generate nature of the contingencies.

The recognition and reversal of provisions considered necessary pursuant to the foregoing criteria are recognised with a charge or credit, respectively, to “Provisions or (-) reversal of provisions” in the income statement, unless expressly indicated otherwise.

(2.20.1) Legal proceedings related to the 2011 IPO

- Civil proceedings regarding the invalidity of the subscription of shares.

  At present, there are claims being processed seeking the invalidity of the subscription of shares issued in 2011 in the public offering for the stock market listing of Bankia, S.A., including those related to subsequent purchases. In application of prevailing legislation, this contingency was recognised in accordance with the information disclosed in Note 20.

  On 19 July 2016, Bankia was informed of the class action suit presented by ADICAE (Spain’s Association of Bank, Savings Bank and Insurance Users), these proceedings are currently on hold.

- Processing of preliminary proceedings No. 59/2012 in the Central Court of Instruction of the National Court (Nacional Court).

  Criminal procedure in which the court accepted for processing the lawsuit filed by Unión Progreso y Democracia against Bankia, BFA and former members of their respective Boards of Directors. Subsequently, other complaints were added by the alleged injured parties from Bankia's IPO (private accusation) and by persons without this status (public accusation). Bankia raised a total of EUR 3,092 million in July 2011 from the IPO, EUR 1,237 million from institutional and EUR 1,855 million from retail investors.

  With respect to the civil liability proceedings, against the backdrop of the discovery process and in connection with the bail order, on 13 February 2015, the National Criminal Court issued a ruling establishing a joint bail deposit by BFA, Bankia and four former members of Bankia's Board of Directors of EUR 800 million; i.e. six equal parts. The 4/6 corresponding to the four former Directors corresponded to the deposit covered with a charge to the civil liability insurance policy.

On 24 April 2015, the court issued a ruling partially upholding the appeal and reducing the deposit to from EUR 800 million to EUR 34 million, which could be increase if the final monetary damages sought exceed that amount. Subsequently, in 2015, certain requests were filed to amend this deposit, which at 31 December 2015 was established at approximately EUR 38.3 million.

There are new requests for bail deposits had been submitted for which a ruling by the Court is pending amounting to approximately EUR 5.8 million.

The judge presiding Central Examining Court No. 4 of the National High Court has closed the discovery process and is continuing to process the case by means of the Summary Procedure, having issued the corresponding Transformation Ruling on 11 May 2017, as detailed in note 20.

On 17 November 2017, Central Examining Court No. 4 of the National High Court ordered the start of the hearings. Specifically, the court has ordered the start of the hearings for the crimes of financial statement forgery (categorised in article 290 of Spain's Criminal Code) and investor fraud (article 282 *bis* of the Criminal Code) against certain former directors and executives of Bankia and BFA, the external auditor in IPO´s time and against BFA and Bankia as legal persons. As detailed in note 20, the State Prosecutor and the FROB have presented written allegations requesting the dismissal of the criminal charges against BFA and Bankia. The FROB is not seeking subsidiary civil liability on the part of Bankia or BFA.

In addition, under the scope of this proceeding, three separate cases are ongoing.

The first two are investigating the issue of preferred participating securities by Caja Madrid and Bancaja, respectively. The criminal court accepted for processing only those lawsuits regarding the planning carried out by the individuals on the executive bodies of the companies appearing as plaintiffs for their recapitalisation through the sale of preferred participating securities, and rejected the lawsuits filed with respect to the specific sale of preferred participating securities and the matching of trades. Therefore, Bankia, BFA and the issuers of the preferred participating securities are not the defendants in these separate cases.

A ruling was issued on 23 February 2017 on another separate case related with credit cards, sentencing certain former directors and executives of Caja Madrid and Bankia and stipulating that the civil liability claims related with the criminal charges should accrue to Bankia. The individuals sentenced, among other accused parties, have lodged appeals against this sentence which are pending resolution by the Supreme Court.

The Bank considered the lawsuit included in preliminary proceedings No. 59/2012 as a contingent liability with an uncertain outcome. Note 20 provides additional information on the current status of the proceeding and the criteria applied by the Bank in its accounting treatment.

(2.20.2) Other court proceedings / claims in process

At year-end 2017, the Bank was party to a number of legal proceedings and claims arising in the ordinary course of its business activities. The directors believe that, based on the information available at the reporting date and considering the amounts provided for by the Group to this end (note 19), the conclusion of these proceedings and claims will not have a material impact on the Bank's financial situation.

The main claims against the Bank with its situation are as follows:

Class actions

- Civil proceedings regarding hybrid instruments (preferred participating securities and subordinated bonds. The EUR 246 million provision set aside for this was used in full in 2015. Under the terms of the agreement signed between Bankia and BFA, this provision covers the maximum loss for Bankia derived from the costs related to the enforcement of rulings against the Bank in the various proceedings against it related to the aforementioned issues. There are other class action suits filed by ADICAE seeking the cessation and nullity of emissions and the sale of those hybrid instruments.
- Demands seeking invalidity of interest rate floor clauses. There were 4,201 legal proceedings in progress at 31 December 2017. In addition, Bankia, as well as virtually all the banks, are being sued in a class action processed in Madrid mercantile court 11, under case no. 471/2010. A ruling on the appeal filed with the Madrid regional court declaring the absolute invalidity with full retroactive effect is pending. However, for the purposes of this class action, the legal proceeding has largely been rendered without effect in the wake of the out-of-court procedure provided for in Royal Decree-Law 1/2017.
- Lawsuits filed in accordance with Law 57/68. At 31 December 2017, there were 589 legal proceedings in progress.
- Lawsuits presented in connection with mortgage arrangement fees. At 31 December 2017, a total of 6,221 suits had been filed, in addition to a class action presented by Asufin seeking the cessation and reimbursement of fees and the use of the IRPH mortgage price index.
- Lawsuits related to derivatives. There were 275 legal proceedings in progress at 31 December 2017.

- Administrative appeals processed in Section 6 of the High Court filed against the FROB. The appeals seek to render null and void the resolution issued by the FROB, of 16 April 2013, agreeing the recapitalisation and management of hybrid instruments and subordinated debt in execution of the BFA-Bankia Group's Restructuring Plan, governing the early redemption of the preferred participating securities and other bonds through an exchange for shares. Favourable rulings were received in proceedings, two on administrative appeal, and the rest are firm.

Other lawsuits

- Two lawsuits filed by ING Belgium, S.A., BBVA, S.A., Banco Santander, Catalunya Banc and others (banking syndicate) against Bankia S.A., Corporación Industrial Bankia, S.A –CIBSA-, ACS, Sacyr and others, in two courts of first instance in Madrid:
    i) Court of first instance No. 2 in Madrid: Corporación Industrial Bankia and other parties are being sued for breach of obligations under the Alazor Support Agreement, specifically in relation to stipulation two thereof (ratios and expropriations); the court has ruled in favour of Corporación Industrial Bankia at first and second instance and the appeal lodged by the plaintiff banks is now pending ruling by the Supreme Court.
    ii) Court of first instance No. 48 in Madrid: declaratory procedure against Bankia seeking compliance with the comfort letter provided by Bankia to guarantee compliance with the obligations assumed by CIBSA under the Support Agreement. Bankia has been handed down unfavourable rulings by the courts of first and second instance and plans to lodge an appeal before the Supreme Court.
- Lawsuit brought by the Banco de Valencia Small Shareholder Association “Apabankval”: In 2012, Apabankval filed a lawsuit against the Board of Directors of Banco de Valencia and Deloitte S.L. for corporate crimes. It is in the pre-trial phase. The amount of the civil liability claims has yet to be quantified. The APABANKVAL lawsuit has given rise to pre-trial proceedings 65/2013-10 at Central Examining Court No. 1 of the National High Court.
- Subsequently, a second lawsuit was brought by several individuals (“Banco de Valencia”). Against this backdrop, in a ruling dated 6 June 2016, Central Court of Instruction 1 of the National Court admitted the addition to preliminary proceedings 65/2013-10 of a new claim submitted by shareholders of Banco de Valencia against several members of the board of directors of Banco de Valencia, external auditor and Bankia, S.A. (“in place of Bancaja”) for the corporate crime of falsification of accounting documents set out in article 290 of the Spanish Penal Code. The new plaintiffs are seeking joint compensation of EUR 9.9 million.

  On 13 March 2017, section three of the High Court's Criminal Chamber issued a ruling confirming that: (i) Bankia cannot be held criminally liable for the events; and (ii) Bankia should be held subsidiarily liable in the civil liability case.

  As of 1 June 2017, Apabankval encompasses approximately 351 affected parties. In addition, in keeping with the ruling issued on 8 January 2018, Central Examining Court No. 1 has so far identified another 89 people who have come forward as affected parties whose legal representation and defence has been assumed by the Apabankval association, as provided for in article 113 of Spain's Criminal Prosecution Act.

  On 6 September 2017, an individual presented a new lawsuit regarding the crime of accounting forgery under article 290.2 of the Criminal Code. On this occasion the lawsuit has been taken against the former natural person directors in respect of the criminal liability and against Bankia only in respect of the civil liability (with criminal liability also being sought of Valenciana de Inversiones Mobiliarias external auditor).

  On 13 December 2017, Central Examining Court No. 1 ordered the inclusion of BFA, Tenedora de Acciones S.A.U and Fundación Bancaja as parties subsidiarily liable in the civil liability proceedings. BFA filed an appeal for amendment against this order -which was rejected in a ruling of 13 December 2017- not only for BFA to abide by the ruling, but because it is reserving, for a later stage in the proceeding, the re-filing of pleas presented it considers solid and well founded.

  The FROB, through the State Attorney, filed an appeal against the ruling of 13 December 2017 rejecting the appeal for amendment, which is still outstanding. Bankia and BFA are joined thereunder as they consider the FROB's arguments to be materially correct and oppose any subsidiary civil liability on the part of BFA, which would extend to Bankia.
- Complaint presented before Examining Court No. of Coslada by the owners of the properties included in the scope of the intervention by Enforcement Unit UE-1, Plaza de España de San Fernando de Henares, for alleged misappropriation by the town council of San Fernando. In the pre-trial phase.
- On 28 February 2017, a property developed filed to extend the scope of its lawsuit, an application that was denied on 11 April 2017. The inadmissibility ruling was appealed, but this appeal denied by Examining Court No. 1 of Coslada in an order dated 14 July 2017. This order was also appealed, with the Madrid Regional Appellate Court having yet to make its ruling.
- Lawsuit filed by the Bankruptcy Administrators of a property developed against BMN, Gesnostrum Sociedad Gestora, S.L.U. and others, as part of the classification case, seeking disqualification as a result of the negligent bankruptcy ruling. Pending ruling by a court of first instance.
- Lawsuit filed by two companies, one in liquidation and the other in bankruptcy proceedings (and of which the first plaintiff and BMN were shareholders), seeking damages for alleged breach of the shareholder agreement in relation to the acquisition of certain assets after they were transferred to SAREB. Pending ruling at first instance.
- Lawsuit filed by a finance company against BMN, in its capacity as legitimate owner of unpaid promissory notes guaranteed by BMN, released by an investee of the now-merged BMN which, as part of the deferred portion of the price paid for the acquisition of properties, it delivered to a third party, which in turn discounted them. This is added to the

lawsuit filed by BMN against the latter, seeking the nullity and subsidiary termination of the contract on the grounds of supervening lack of object (accumulating damages) generated by delivery of the promissory notes.

(2.21) Non-current assets held for sale

"Non-current assets and disposal group classified as held for sale" includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for sale ("discontinued operations"), whose sale in their present condition is highly likely to be completed within a year from financial statements.

Investments in associates and joint ventures meeting the conditions set forth in the foregoing paragraph also qualify as non-current assets held for sale.

Therefore, the carrying amount of these items, which can be of a financial nature or otherwise, will foreseeably be recovered from sale rather than from its use.

Specifically, property or other non-current assets received by the Bank as total or partial settlement of its debtors' payment obligations to it are deemed to be non-current assets held for sale, unless the Bank has decided to make continuing use of these assets or to hold them to earn rentals or for future capital appreciation.

Non-current assets held for sale arising from foreclosure or otherwise acquired in settlement of debts are initially recognised as the lower of:

- Carrying amount of the financial assets
- The fair value at the time of adjudication or reception of the asset net of the estimated sales costs

After initial recognition, the fair value less estimated costs of disposal is updated at least annually, with impairment, or reversal thereof, recognised for the difference with the carrying amount if the Bank has the ability to realise the asset at the estimated fair value, up to the limit of the cumulative impairment loss.

For the purposes of updating the fair value of the Bank’s foreclosed assets, the Bank considers available appraisal values, which are adjusted to reflect the age of the stock, and the Bank's experience in sales, among other factors.

All court costs associated with the claiming and foreclosure of these assets are recognised immediately in the income statement for the foreclosure period. Registry costs and taxes paid may be added to the value initially recognised provided that, as a result, such value does not exceed the fair value less the estimated costs to sell mentioned in the paragraph above.

Symmetrically, “Liabilities included in disposal groups classified as held for sale” includes the payables related to disposal groups or to discontinued operations of the Bank.

As long as they are classified in this category, the tangible and intangible assets, which by their nature would be depreciable, are not depreciated.

Appendix VIII provides further information about foreclosed property assets and assets received by the Bank in settlement of debts and classified under this balance sheet heading on the basis of ultimate purpose, as referred to above.

In general, non-current assets classified as held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. If the carrying amount of the assets exceeds their fair value less costs to sell, the Bank adjusts the carrying amount of the assets by the amount of the excess with a charge to “Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations” in the income statement. If the fair value of such assets subsequently increases, the Bank reverses the losses previously recognised and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to “Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations” in the income statement.

The gains or losses arising on the sale of non-current assets held for sale are presented under “Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations” in the income statement.

However, financial assets, assets arising from employee remuneration, deferred tax assets and assets under insurance contracts that are part of a disposal group or of a discontinued operation are not measured as described in the preceding paragraphs, but rather in accordance with the accounting policies and rules applicable to these items, which were explained in previous sections of Note 2.

(2.22) Statement of cash flows

The following terms are used in the cash flow statement with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents. Cash equivalents are short-term, highly liquid investments that are subject to an insignificant risk of changes in value (where applicable: and, exclusively, since they form part of cash management, bank overdrafts repayable on demand, which reduce the amount of cash and cash equivalents).
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities. Operating activities also include interest paid on any financing received, even if this financing is considered to be a financing activity. Activities performed with the various financial instrument categories

stipulated in Note 2.5 above are classified, for the purpose of this statement, as operating activities, except for held-to-maturity investments, subordinated financial liabilities and investments in equity instruments classified as available for sale which are strategic investments. For these purposes, a strategic investment is that made with the intention of establishing or maintaining a long-term operating relationship with the investee, since, inter alia, one of the circumstances that could determine the existence of significant influence prevails, even though this influence does not actually exist. The financial interests collected during 2017 amounted to EUR 2,503 million (EUR 2,633 million in 2016) and those paid amounted to EUR 492 million (EUR 733 million in 2016).

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments and debt instruments included in held-to-maturity investments. During 2017 EUR 62 million have been collected from dividends (EUR 29 million in 2016).
- Financing activities: activities that result in changes in the size and composition of equity and liabilities that are not operating activities, such as subordinated liabilities and market debt securities. In 2017 EUR 316 million have been paid as income distribution of 2016 (EUR 301 million paid in 2016 for the income distribution of 2015) (see Note 5). The disclosures regarding the remaining changes in the liabilities arising from financing activities are provided in the notes addressing debt securities (Note 19) and changes in share capital and trading in own equity instruments (Note 21).

In preparing the cash flow statement, "Cash and cash equivalents" were considered to be short-term, highly liquid investments that are subject to a low risk of changes in value. Thus, for the purposes of drawing up the cash flow statement, the balance of “Cash, cash balances at central banks and other demand deposits” on the asset side of the balance sheet was considered as cash and cash equivalents.

(2.23) Share-based payment transactions

Share-based remuneration of senior executives and Board members

When the Bank immediately delivers shares to eligible employees with no requirement of a certain period of time before the employee becomes the unconditional owner of the shares, the total services received are expensed under "Staff costs" in the income statement, with a balancing entry of corresponding increase in equity.

When the shares are delivered to employees after a certain period of service, the expense is recognised under "Staff costs" in the income statement, along with the corresponding increase in the equity of the company making the payment.

At the grant date on which the employee is entitled to receive share-based payments (the grant date is understood as the date on which employees and the entity agree to the share remuneration format, its periods and conditions), the amount of the remuneration to be paid, i.e. the amount of the increase in the equity of the company making the payment, is measured at the fair value of the shares committed. If fair value cannot be reliably estimated, the shares are measured at their intrinsic value. Changes in the fair value of shares between the grant date and the date on which they are delivered are not recognised. If the shares are measured at their intrinsic value, the variation in this value between the grant date and the date on which they are delivered is recognised with a balancing entry in the income statement.

The policy is in accordance with the best corporate governance practices and pursuant to European regulations concerning remuneration policies at credit institutions and also to the provisions of Royal Decree 2/2012 of 3 February, Order ECC/1762/2012, of 3 August, and Law 10/2014, of 26 June. For detailed liquidation scheme see Note 34.8.

(2.24) Treasury shares

On 28 August 2013, Bankia’s Board of Directors approved an update to the Treasury Share policy, determining the framework for the control and management of transactions with treasury shares and the related risk. All purchases and sales of treasury shares by Bankia or its subsidiaries must comply with prevailing legislation and resolutions adopted at the Annual General Meeting of Shareholders.

Transactions involving treasury shares are recognised directly in equity, along with all the expenses and potential income that may arise therefrom.

“Equity (-) equity shares” in equity presents the value of Bankia, S.A. treasury shares held by the Bank at 31 December 2017 and 2016.

Note 21.2 includes the disclosures required by applicable regulations regarding transactions with treasury shares.

(2.25) Statement of recognised income and expense and statement of total changes in equity

The main features of the information presented on both parts of the statement are set out below:

<u>Statement of recognised income and expense</u>

This statement presents the income and expenses generated by the Bank as a result of its business activity in the year, distinguishing between the income and expenses recognized in the income statement and other income and expenses recognized, in accordance with current regulations, directly in equity.

Accordingly, this statement presents:

- The profit or loss of the related years.
- The net revenue or expenses temporarily recognised in equity as valuation adjustments.
- The net revenue or expenses definitively recognised in equity.
- Income tax accrued on the items indicated in the two previous above.
- Total recognised income and expense for the year, calculated as the sum of four previous amounts.

The changes in income and expenses recognised in equity as valuation adjustments, subject to the constraints set out above, are as follows:

- Revaluation gains/(losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in the year for this item are maintained in this heading, but in the same year are transferred to the income statement, where they are added to the initial value of other assets and liabilities or are reclassified to another item.
- Amounts transferred to the income statement: includes valuation gains and losses previously recognised in equity, even in the same year, which are taken to the income statement.
- Amount transferred to the initial carrying amount of hedged items: comprise the valuation gains and losses previously recognised in equity, even in the same year, which are recognised at the initial carrying amount of the assets and liabilities as a result of cash flow hedges.
- Other reclassifications: includes the amount of the transfers made in the year between valuation adjustment items in accordance with current regulations.

As required by the amendment of IAS 1, all items of the statement of recognised income and expense may be recognised in the income statement except "Actuarial gains or (-) losses on defined benefit pension plans ".

The amounts of these items are presented gross and, the related tax effect is recognised in this statement under "Income tax relating to items that may be reclassified to profit or (-) loss".

Statement of changes in total equity

This statement includes all the changes in equity, including the effects of any changes in accounting policies and corrections of errors. This statement accordingly presents a reconciliation between the carrying amount of each component of equity at the beginning and end of the period, separately disclosing each change in the following headings:

- Adjustments due to accounting policy change and Error adjustments: includes changes in equity as a result of the retrospective restatement of financial statement balances on account of changes in accounting policies or for correction of errors, if any.
- Income and expense recognised in the year: represents the aggregate of all items of recognised income and expense, as outlined above.
- Other changes in equity: includes the remaining items recognised in equity such as capital increases or decreases, distribution of results, treasury share transactions, equity-based payments, transfers between equity items, and any other increase or decrease in equity.

(3) Risk management

Risk management is a strategic pillar in the Bank. 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 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 Group implements its risk strategy with a view to ensuring stable, recurring income with a medium-low enterprise risk profile. The key pillars of this strategy are:

1. General principles governing the risk function and its scope, covering all types of relevant risks for the Group as a whole, independence of the risk function and the commitment of senior management, adapting behaviour to the highest ethical standards and strict compliance with laws and regulations. These principles are:
   - Independent and global risk function, which assures there is adequate information for decision-making at all levels.
   - Objectivity in decision-making, taking account of all relevant (quantitative and qualitative) risk factors.
   - Active management throughout the life of the risk, from preliminary analysis until the risk is extinguished.
   - Clear processes and procedures, reviewed regularly as needs arise, with clearly defined levels of responsibility.
   - Comprehensive management of all risks through identification, measurement and consistent management based on a common measure (economic capital).

- Individual treatment of risks, channels and procedures based on the specific characteristics of the risk.
- Generation, implementation and promotion of advanced tools to support decision-making which, with efficient use of new technologies, aids risk management.
- Decentralisation of decision-making based on the approaches and tools available.
- Inclusion of risk in business decisions at all levels (strategic, tactical and operational).
- Alignment of overall and individual risk targets in the Entity to maximise value creation.

2. Efficient risk governance:

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

   Illustrating its willingness to strengthen the importance of corporate governance in risk management and following the recommendations issued by the main international regulatory bodies, at its meeting held in September 2014 the Board of Directors approved the Risk Appetite Framework (RAF) for the BFA-Bankia Group. The RAF sets out the desired levels of risk and the maximum levels of risk that the Entity is willing to accept, monitoring mechanism and the system of responsibilities of the various committees and governing bodies involved.

   In February 2015, 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.

   In June 2016, the Board agreed to review the Framework to include the results of the International Capital Adequacy Assessment Report for an appropriate calibration of risk appetite and tolerance levels. It also expanded the risk appetite statement to include non-financial risks, such as reputational, IT, compliance, legal and model risk, and included additional indicators to enhance the definition of the profile of emerging risks, such as the RAR (risk-adjusted return).

   The Recovery Plan (also approved and effective since February 2015) establishes the potential measures to be adopted in a hypothetical crisis situation. The measures would be triggered if the predefined level of any of the selected indicators in the plan were exceeded. They are consistent with those determined by the tolerance levels in the RAF.

   One mechanism the Group has put in place to mainstream the RAF entails a system for determining target levels and limits in the various loan portfolios in terms of exposure and expected loss. This system is defined to maximise risk-adjusted returns within the overall limits established in the RAF. In fact, preparation of the 2016 budget, beyond the requirement to be commensurate with the risk appetite statement, was drawn up comparing business development proposals with the optimal portfolios provided by the system.

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

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

   o Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) adapted to new European Central Bank criteria: With these processes, the Group performs a self-assessment of risks, liquidity and capital adequacy in different scenarios (baseline and stressed). The results of the assessments were approved by the Board of Directors in April and reported to the European supervisor. This exercise is a core element of the new single European banking supervision process.

3. An organisational model consistent with the function's general principals. In keeping with the ECB's regulatory guidelines, the risk management structure was updated in December, bringing its activity under two specialised corporate departments:

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

   o The Corporate Credit Risk Department is responsible for loan authorisation, monitoring and recoveries and for managing the real estate assets foreclosed by the bank.

A crucial aspect is internal risk control, organised in accordance with a three lines of defense system. The first line entails operational areas, business lines or support units, as well as risk areas that directly service the business. All of these are responsible for complying with the risk frameworks, policies and procedures established by the governing bodies. The second line of defense entails the centralised development of the internal control function. The Internal Validation and Internal Risk Control departments are involved in its execution. Their mission is to supervise the effectiveness of the control system, the correct application of the policies and monitoring of the frameworks, the adequate documentation of processes, risks, events and controls, and of the evidence that they have been performed. Internal risk control must also identify the weaknesses of the internal risk control system and make recommendations to the operational, business and support areas for action plans to correct and mitigate them, monitoring the implementation of these plans as appropriate. The third line of defense is the Internal Audit area.

4. A transformation plan, aimed primarily at enhancing the quality of reporting and providing better risk management tools. The initiatives identified for implementation in the Risk Model over the 2016-18 period, along with their objectives are as follows:

    - Recoveries model: to make recovery more efficient by focusing more on specialisation and outsourcing tasks that generate less value.
    - Irregular Asset Management Strategy: Design and development of a strategy and an operating plan aimed at reducing irregular assets, following the recommendations of the European Central Bank's guide on doubtful loans for credit institutions.
    - Lending enhancement: to achieve integrated customer management through a variety of promotion tools, contribute to the growth of the Group's lending portfolio with solvent customers (using pre-classification tools) and provide better customer service by reducing transaction response times.
    - Early warnings: to improve the detection of impairments in the risk quality of our customers or business groups sufficiently in advance so that they can be managed appropriately, thereby minimising expected loss.
    - Asset allocation: to promote business development planning that targets the maximisation of economic value within the Risk Appetite Framework (RAF) and, at the same time, make inroads in cascading the RAF down so the business units have the necessary benchmarks for assessing whether their decisions are consistent with the risk appetite and tolerance statement.
    - Risk culture enhancement: to extend and improve the risk culture in the Bank, mainly in respect of businesses, spreading the knowledge, the allowable criteria and suitable tools to steer lending growth (new lending) to the portfolios/customers that best meet the Group's objectives.
    - Development of Data Science in the risk function: to develop and operate Big Data infrastructure that will enable the Entity to better classify both customers and non-customers using conventional and unconventional data. In this respect, "Data Science" can be applied to learn more about the customers from a static and dynamic approach, maximising the use of available information.

In view of the activity carried on by the Group, the main risks to which it is exposed are as follows:

- Credit risk (including concentration risk), arising primarily from the business activity performed by the Individual, Business and Treasury and Capital Markets business areas, as well as from certain investments held by the Group.
- Financial instrument liquidity risk, which relates to the possibility that the funds needed to settle the Group's commitments in a timely manner and to allow its lending activity to grow will not be available at reasonable prices.
- Structural balance sheet interest rate risk, which relates to potential losses in the event of adverse trends in market interest rates.
- Market risk and foreign currency risk, which relates to the potential losses due to adverse changes in the market prices of financial instruments with which the Group operates, primarily through the Treasury and Capital Markets area.
- Operational risk, which relates to possible losses arising from failures or shortcomings in processes, personnel or internal systems, or from external events.

The Board of Directors has exclusive power to approve, or delegate the power to approve, investments or transactions considered strategic for their amount or special characteristics.

The organisational model described is rounded off with a number of committees, including:

- The Risk Advisory Committee of the Board of Directors. The main function of the Risk Advisory Committee is to advise the Board of Directors regarding overall risk exposure of the Group, current and future, and its strategy in this regard.
- The Delegated Risk Committee of the Board of Directors is responsible for approving risks within the scope of delegation thereto and guiding and administering exercise of the delegations to lesser bodies. It is also responsible for reporting to the Board of Directors on those risks that may affect solvency, profits, operations or the reputation of the Group.
- 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. Among this committee's responsibilities are the monitoring of the regulatory framework and its potential impact on the Group's regulatory capital, and the monitoring and analysis of the main capital ratios and their components, as well as the leverage ratio. It also monitors the capital initiatives being carried out within the Group.
- Assets and Liabilities Committee. This committee is charged with monitoring and managing structural balance sheet and liquidity risks, reviewing the balance sheet structure, business performance, product profitability, earnings, etc. bearing in mind the policies and authorities approved by the Board of Directors.
- Risk Committee. This committee oversees the operation 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: 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.

- Corporate and Retail Banking Risk Coordination and Recovery Committees. These two committees monitor and coordinate the commercial activities of the business units and risk cooperative manager in order to meet targets more efficiently.

- The Models Committee. Its main job is to manage, approve and monitor the Entity'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 the ratings and credit scores, establishing criteria for situations not contemplated by the ratings models and setting up a body to monitor the credit scoring systems.

The Internal Audit Unit, supervised by the Audit and Compliance Committee, is responsible for overseeing the efficiency of operating processes and internal control systems and for verifying compliance with all applicable regulations.

(3.1) Exposure to credit risk and risk concentration

(3.1.1) Credit risk management objectives, policies and processes

Credit risk, understood as the risk that the Group will assume losses in the regular course of its banking business if its customers or counterparties fail to comply with their contractual payment obligations, is overseen by the Corporate Risk Department (which reports to the CEO), in accordance with the policies, methods and procedures approved by the Bank's Board of Directors.

The main objectives of credit risk management policies are as follows:

- Responsible risk approval. Customers should be offered the financing facilities that are tailored to their needs, for amounts and under terms and conditions that match their payment ability. The necessary support should be provided so that borrowers of good faith can overcome their financial difficulties.

- Stable general approval criteria, per borrower and transaction

- Adaptation. Segment-specific criteria should combine stability with adaptation to the Group’s strategic targets, as well as the prevailing economic environment.

- Appropriate price/risk matching, considering the customer as a whole as well as the operations individually.

- Risk concentration limits.

- Data quality. To assess risk appropriately, sufficient and accurate data are required. Therefore, the coherence and integrity of the data must be assured.

- Solvency. Policies should be aligned to current and future capital needs in accordance with the risk appetite statement.

- Compliance. Credit risk policies must be observed at all times. Exceptions to limits and conditions are approved for customers with strong ties to the Group and must be duly documented and justified.

As a result of completion of the Entity's Restructuring Plan on 31 December 2017, the Board of Directors resolved last December to amend the Credit Risk Declaration and Manual, adapting them for this development, as well as making the changes needed to factor in Spain Circular 4/2017 (of 27 November).

The policies include general approval criteria, underpinned by four cornerstones:

- Responsible approval: The first step in approving credit operations is to gain an understanding of the customer's financing needs and ability to meet them by assessing the customer's solvency. It must be guaranteed to offer the financing facilities that best adapt to the customer's needs, adjusting the terms and conditions and the amounts borrowed to the borrower's payment ability. Moreover, in retail lending, customers must be provided with information so that they can understand the risks inherent in the financing.

- Activity: geared toward Retail – SMEs banking in Spain through the branch network and specialised business centres. Specifically, real estate, project, acquisition and asset finance is restricted. The bank operation restrictions imposed on the Entity under the umbrella of its Restructuring Plan will be lifted from 1 January 2018.

- Borrower solvency: payment ability, global view of the customer, knowledge of the customer and the industry.

- Operation: financing commensurate with the customer size and profile, balance with short- and long-term financing, assessment of guarantees.

- Environmental and social risk: the environmental impact of the borrower's business activity must be taken into account. In addition, new restrictions are placed on new loans to borrowers who do not respect human rights or do not provide decent working conditions or infringe on related laws.

Another key issue for determining approval is the need to apply a diversification policy, setting individual and sector-wide limits.

In addition, the Risk Policies introduce specific approval criteria according to the portfolio segment. This could include setting rating floors or minimum coverage of guarantees or collateral.

As for risk monitoring, there is a monitoring policy for business activity. The main objective is to involve all levels of the Group in the proactive management of risk positions with customers so that potentially problematic situations of impairment can be foreseen before non-payment. The risks portfolio should be monitored continuously. This responsibility falls with the Business Units, in conjunction with the Risks Department. This policy is implemented using a risk classification tool by monitoring levels.

A key feature of the policies is the reference to refinancing and restructuring operations. The objective is to match financing to the customers' current ability to meet its payment commitments, affording sufficient financial stability to ensure the continuity and operation of the borrower or its group. To do so, certain measures must be adopted that can be adapted to the source of the problem, whether they are systemic (affect all segments and borrowers the same, e.g. rises in interest rates) or specific (affect individual borrowers and require individual and structural measures for each case). Appendix X details the criteria governing loan refinancing and restructuring and their accounting classification.

The Credit Risk Policies Framework comprises two elements (Manual and Statement), approved by the Board of Directors, and two documents of specific criteria approved by the Risk Committee:

- Policy Manual: covers issues such as principles, scope of application, roles and responsibilities, organisation, delegation of specific criteria, approval process, monitoring and control over compliance, and dissemination.
- General Policy Statement: set outs the general criteria, delegating the governance of specific criteria to the various management committees.
- Specific Criteria in Policies, Methods and Procedures: sets out specific criteria regarding approval, monitoring and recoveries of exposures, among other things.
- Specific Criteria in Policies, Methods and Procedures for Classification, and Allowances and Provisions for Credit Risk: sets out specific criteria regarding classification, and allowances and provisions for credit risk.

In this respect, the approval policies are governed by credit scoring systems, which allow a response to be given that is objective, consistent and coherent with the Bank'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 existence of significant incidents in (internal and external) databases would 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. At any rate, loans are only granted in euros, thereby avoiding any currency risk.

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, thus ensuring the quality and transparency of the appraisals. In addition, appraisal values must be calculated unconditionally as set out in Ministerial Order ECO805/2003.

However, 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 introduce, as a feature of responsible consumer lending, the requirement that, on the one hand, borrowers provide the entities 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, and, on the other, that they be adequately informed about the characteristics of the products that are suitable to what they are requesting and the inherent risks. In this respect, in due compliance with regulations, the Group provides its customers with the following pre-contract documentation:

- Pre-contract information file: A document prepared for delivery to the customer describing the characteristics and general conditions of the product.

- Personalised information file: Pre-contract information on the specific conditions of the product, which is non-binding and adapted to the customer's application, finance needs, financial position and preference so the borrower can compare the product with other loans available in the market, assess the implications and make an informed decision. Appendices: (I) Adhesion to the Code of Good Practices and (II) Additional information on variable-rate loans (interest rate scenarios), to be delivered together with the personalised information file.
- BO or binding offer: Document with all the terms and conditions of the transaction (similar to the personalised information file) but binding for the Group for a period of 14 calendar days from delivery.

Pre-contract documentation given to customers must be filed together with the customer's record.

The procedures for gathering accreditation of key applicant data are set out in an internal circular approved by the Management Committee on "Quality of data on retail lending transactions".

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.
Risk management is carried out within limits and according to the guidelines set out in the policies. It is supported by the following processes and systems:

- Risk classification
- Risk quantification
- Risk projection
- Risk-adjusted return
- Business revitalisation
- Recovery management
- Concentration risk management

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 allows for the addition of the appetite and tolerance of risk decided by the governing bodies through the limits established the Policies.

The Model 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 Model 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 tools 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 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.

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.

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).

RAR (risk-adjusted return) is a core risk management tool. 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.

Recovery management

Recovery management is defined as a full process that begins even before a payment is missed, covering all phases of the recovery cycle until a (amicable or contentious) solution is reached.

Early warning models are applied in lending to retail customers. They are designed to identify potential problems and offer solutions, which may entail adapting the conditions of the loan. In fact, a large number of the mortgage loan renegotiations resulted from the proposals put forward pro-actively by the Group.

With business loans, the system of levels described above has the same objective: pro-active non-performing loan management. Therefore, the entire portfolio is monitored and default is always a failure after prior negotiation.

Concentration risk management

The Group uses a set of tools to analyse and monitor the concentration of risks. 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 provides a direct measure of concentration risk. An approach similar to that used by ratings agencies is applied, paying attention to the weight of the main risks on the volume of capital and income-generation ability.

(3.1.2) Exposure to credit risk by segment and activity

The maximum credit risk exposure for financial assets recognised in the accompanying consolidated balance sheet is their carrying amount. The maximum credit risk exposure for financial guarantees extended by the Bank is the maximum amount the Group would have to pay if the guarantee were executed.

At 31 December 2017 and 2016, the original credit risk exposure, without deducting collateral or any other credit enhancements received, and without applying the credit conversion factors defined in Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June, grouped in accordance with the main exposure segments and activities established, is as follows:

31 December 2017

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading and financial assets at fair value through profit or loss	Financial assets held for trading - Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Derivatives – hedge accounting	Off-balance sheet items and others
Institutions: Government agencies	**2.001**	**-**	**20.447.937**	**5.494.944**	**11.464.020**	**-**	**358.490**
Institutions: Credit institutions and others	**-**	**-**	**1.589.751**	**3.029.283**	**20.700.696**	**-**	**419.766**
Companies	**-**	**-**	**631.019**	**32.335.796**	**188.651**	**-**	**21.448.500**
Retail customers	**-**	**-**	**-**	**85.814.098**	**-**	**-**	**5.231.338**
Consumer	-	-	-	4.027.108	-	-	49.522
Mortgage – Other	-	-	-	74.244.122	-	-	851.831
Retail – SMEs	-	-	-	6.003.357	-	-	874.780
Cards	-	-	-	1.101.963	-	-	3.455.205
Others	-	-	-	437.548	-	-	-
Derivatives	**-**	**6.712.727**	**-**	**-**	**-**	**3.058.341**	**-**
Equity instruments	**4.324**	**-**	**57.190**	**-**	**-**	**-**	**-**
Total	**6.325**	**6.712.727**	**22.725.897**	**126.674.121**	**32.353.367**	**3.058.341**	**27.458.094**
Memorandum item: Breakdown by country of the Public Agency							
Spanish government agencies	2.001	-	16.167.873	5.396.862	10.204.196	-	358.490
Greek government agencies	-	-	-	-	-	-	-
Italian government agencies	-	-	4.279.208	-	376.769	-	-
Portuguese government agencies	-	-	-	-	-	-	-
Other government agencies	-	-	856	98.082	883.055	-	-
Total	**2.001**	**-**	**20.447.937**	**5.494.944**	**11.464.020**	**-**	**358.490**

31 December 2016

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading and financial assets at fair value through profit or loss	Financial assets held for trading - Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Derivatives – hedge accounting	Off-balance sheet items and others
Institutions: Government agencies	**5,005**	**-**	**20,295,383**	**5,210,065**	**10,913,867**	**-**	**258,265**
Institutions: Credit institutions and others	**-**	**-**	**3,385,359**	**3,578,821**	**16,439,549**	**-**	**2,964,988**
Companies	**-**	**-**	**1,713,927**	**30,293,182**	**341,647**	**-**	**18,748,266**
Retail customers	**-**	**-**	**-**	**69,902,924**	**-**	**-**	**4,881,546**
Consumer	-	-	-	2,917,777	-	-	55,775
Mortgage – Other	-	-	-	61,390,570	-	-	851,196
Retail – SMEs	-	-	-	4,898,241	-	-	769,462
Cards	**-**	-	-	696,336	-	-	3,205,113
Derivatives	**-**	**8,266,655**	**-**	**-**	**-**	**3,620,293**	**-**
Equity instruments	**7,062**	**-**	**26,107**	**-**	**-**	**-**	**-**
Total	**12,067**	**8,266,655**	**25,420,776**	**108,984,992**	**27,695,063**	**3,620,293**	**26,853,065**
Memorandum item: Breakdown by country of the Public Agency							
Spanish government agencies	5,005	-	15,907,429	5,166,944	9,643,345	-	258,265
Greek government agencies	-	-	-	-	-	-	-
Italian government agencies	-	-	4,386,965	-	381,354	-	-
Portuguese government agencies	-	-	-	-	-	-	-
Other government agencies	**-**	**-**	989	43,121	889,168	**-**	-
Total	**5,005**	**-**	**20,295,383**	**5,210,065**	**10,913,867**	**-**	**258,265**

(3.1.3) Breakdown of original exposure by product

Original credit risk exposure (net of impairment for credit risk), at 31 December 2017 and 2016, by product (excluding equity products), is shown in the table below. Loans and credits reflect the highest customer demand, accounting for 64,7% at 31 December 2017 (61.7% at 31 December 2016). Fixed income products represent the second-highest customer demand, accounting for 25,3% at 31 December 2017 (26.8% at 31 December 2016).

The breakdown at 31 December 2017 is as follows:

(Thousands of euros)

PRODUCT	Financial assets held for trading and financial assets at fair value through profit or loss	Financial assets held for trading - Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Derivatives – hedge accounting	Off-balance sheet items and others
Loans and credits	-	-	-	123,200,561	-	-	18,527,940
Fixed income	2,001	-	22,668,707	444,277	32,353,367	-	-
Interbank deposits	-	-	-	3,029,283	-	-	-
Guarantees and documentary credits	-	-	-	-	-	-	8,930,154
Derivatives	-	6,712,727	-	-	-	3,058,341	-
Total	**2,001**	**6,712,727**	**22,668,707**	**126,674,121**	**32,353,367**	**3,058,341**	**27,458,094**

The breakdown at 31 December 2016 is as follows:

(Thousands of euros)

PRODUCT	Financial assets held for trading and financial assets at fair value through profit or loss	Financial assets held for trading - Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Derivatives – hedge accounting	Off-balance sheet items and others
Loans and credits	-	-	-	104,679,571	-	-	19,169,615
Fixed income	5,005	-	25,394,669	726,600	27,695,063	-	-
Interbank deposits	-	-	-	3,578,821	-	-	-
Guarantees and documentary credits	-	-	-	-	-	-	7,683,450
Derivatives	-	8,266,655	-	-	-	3,620,293	-
Total	**5,005**	**8,266,655**	**25,394,669**	**108,984,992**	**27,695,063**	**3,620,293**	**26,853,065**

(3.1.4) Credit quality

The Bank uses advanced systems to measure the credit risk inherent in certain credit portfolios to measure exposure to credit risk by both the standardized approach and by the internal ratings-based (IRB) approach.

Thus, at 31 December 2017, the internal ratings-based approached is used to assess approximately 58.1% of the Bank's portfolio. This segment comprises both part of the corporate client portfolio (measured using internal rating systems), and part of the retail portfolio (individual customers, micro-companies, i.e., companies with revenue under EUR 1 million per year, and self-employed professionals: measured using points-based or scorings). Otherways, the Bank's remaining portfolio 41.9% of the original exposure is assessed by the standard approach.

All ratings appearing in this section reflect the definitions given by the Standard & Poor’s scale.

The rating system designed by the Group primarily covers two dimensions:

- Risk of default by the borrower: reflected in the probability of default (PD) by the borrower or rating.
- Specific factors in transactions: reflected in loss given default (LGD), such as guarantees or interests in various tranches of leveraged financing. The term also constitutes a major factor.

The rating system used makes a distinction between the following:

- Exposure to risk with companies, governments, institutions and banks: each exposure with the same borrower is given the same credit quality grading (known as borrower grade), regardless of the nature of the exposures. This is known as the borrower rating.
- Retail exposures: the systems focus both on borrower risk and the characteristics of the transactions. This is known as scoring.

The rating system has grading models for banks, large companies, companies, public institutions and special financing. There are three different types of rating:

- **External** rating: this refers to the ratings issued by external rating agencies (S&P's, Moody's and Fitch).
- **Automatic** rating: these ratings are obtained through internal models, depending on the segment to which the customer belongs.
- **Internal** rating: these are the final ratings assigned to customers when all the available information has been reviewed. The internal rating may be the external rating, the automatic rating or the rating determined by the Rating Committee from all the information analysed.

Customers form part of the same rating system, i.e. when financial information is added to the NEO corporate system, the rating is automatically produced by the appropriate model.

Credit quality. Exposure and average (rating/scoring), by segment

The breakdown by segment of the Bank's original credit risk exposure (net of impairment for credit risk) at 31 December 2017 and 2016, excluding variable income and derivatives, with the average ratings per segment, is as follows:

Breakdown at 31 December 2017

(Thousands of euros)

	IRB		Standard		Standard Non Rating [1]
SEGMENT	Amount	Average rating	Amount	Average rating	Amount
Institutions	**18,277,574**	**BBB-**	**43,772,735**	**BBB**	**1,338,959**
Companies	**47,346,857**	**BB-**	**962,606**	**-**	**2,603,160**
Retail customers	**50,812,588**	**B+**	**19,728,896**	**BB-**	**16,089,033**
Consumer	3,154,903	B+	203,986	B	684,539
Mortgage – Other	39,908,025	BB-	17,762,486	BB-	13,609,919
Retail – SMEs	3,730,855	B	1,171,972	B+	1,415,031
Cards	4,018,805	BB-	152,904	BB	379,544
Others	-	-	437,548	-	-
Total (Excluded Default)	**116,437,019**	**BB-**	**64,464,237**	**BB+**	**20,031,152**
Total (Default)	**5,004,633**	**D**	**961,153**	**D**	**2,258,096**

(1) Unrated exposures corresponding to the business combination (see Note 1.16).

Breakdown at 31 December 2016

(Thousands of euros)

	IRB		Standard	
SEGMENT	Amount	Average rating	Amount	Average rating
Institutions	**26,148,367**	**BBB-**	**36,584,422**	**BBB**
Companies	**46,833,546**	**BB-**	**962,138**	**BB**
Retail customers	**51,362,266**	**B+**	**20,423,504**	**BB-**
Consumer	2,684,031	B+	249,268	B
Mortgage – Other	41,295,019	BB-	18,576,198	BB-
Retail – SMEs	3,659,005	B	1,428,715	B+
Cards	3,724,211	BB-	169,323	BB
Total (default excluded)	**124,344,179**	**BB-**	**57,970,064**	**BB+**
Total default	**5,509,278**	**D**	**1,109,273**	**D**

Credit quality. Rating distribution by exposure of the institutions and corporate portfolio

The distribution of original exposure (net of impairment for credit risk) by credit ratings, differentiating between rating-based exposures whose capital requirements are determined using the IRB approach and exposures under the standardized approach, is as follows:

(Thousands of euros)

	31/12/2017		31/12/2016	
RATING	IRB	Standard	IRB	Standard
AAA to A-	4,448,994	1,405,826	5,090,518	1,759,667
BBB+ to BB-	53,610,448	42,233,922	59,545,981	35,577,234
B+ to B-	7,062,642	132,987	7,783,652	209,203
CCC+ to C	502,347	-	561,762	456
No qualifications [(1)]	-	4,904,725	-	-
Default	2,986,869	822,094	3,518,309	101,542
Total	**68,611,300**	**49,499,554**	**76,500,222**	**37,648,102**

(1) Unrated exposures corresponding to the business combination (see Note 1.16).

Credit quality. Rating distribution for exposures of the corporate portfolio

The distribution of the original exposure (net of impairment for credit risk) by credit ratings at 31 December 2017 and 2016, differentiating between rating-based exposures whose capital requirements are determined using the internal ratings method (excluding special financing) and exposures under the standard method, is shown in the table below:

(Thousands of euros)

	31/12/2017		31/12/2016	
RATING	IRB	Standard	IRB	Standard
AAA to A-	3,748,122	-	2,974,099	52,217
BBB+ to BB-	35,555,919		35,421,844	729,100
B+ to B-	7,99,916	-	7,860,450	180,099
CCC+ to C	542,900	-	577,153	722
No qualifications [(1)]	-	3,565,766	-	-
Default	2,887,834	803,509	3,297,958	3,380
Total	**50,234,691**	**4,369,275**	**50,131,504**	**965,518**

(1) Unrated exposures corresponding to the business combination (see Note 1.16.

Credit quality. Distribution of retail exposures

The distribution of the original exposure (net of impairment for credit risk) by credit ratings at 31 December 2017 and 2016 for scoring-based exposures whose capital requirements are determined using the internal ratings method and exposures under the standard method, is shown in the table below:

(Thousands of euros)

RATING	31/12/2017		31/12/2016	
-	IRB	Standard	IRB	Standard
AAA to A-	16,914,226	5,824,594	16,292,638	5,350,296
BBB+ to BB-	26,079,201	11,014,751	23,200,060	10,600,456
B+ to B-	6,631,308	1,971,159	10,085,627	3,859,865
CCC+ to C	1,187,853	480,843	1,783,941	612,887
No qualifications [(1)]	-	16,526,582	-	-
Default	2,017,767	2,397,152	1,990,969	1,007,731
Total	**52,830,355**	**38,215,081**	**53,353,235**	**21,431,235**

(1) Unrated exposures corresponding to the business combination (see Note 1.16).

Credit quality. Historical default rates

The Bank's default rate, understood as the ratio between default risks at any given time and the Bank's total credit risks stood at 8.85% at 31 December 2017 (9.76% at 31 December 2016).

(3.1.5) Concentration of risks

Appendix IX provides information on risk concentration by activity and geographic area.

The table below shows information concerning the diversification of risks by business sectors, measured by credit risk, excluding equity income and derivatives, in accordance with the borrower's CNAE activity code and regardless of the purpose of the financing at 31 December 2017 and 2016**.**

(Thousands of euros)

SECTOR	31/12/2017	31/12/2016
Foodstuffs	1,506,497	1,094,781
Associations	542,771	503,295
Automotive and auto services	1,411,697	1,251,369
Wholesale	6,403,899	5,618,247
Retail	4,002,660	3,773,569
Construction and development (*)	11,791,990	11,048,698
Machinery and equipment manufacturing	3,575,341	3,643,827
Manufacturing of intermediate products	4,297,435	3,643,946
Finance	25,739,496	26,368,717
Catering and tour operators	3,527,269	3,013,085
Food, beverages and tobacco industry	2,711,855	2,268,788
Basic manufacturing, textiles, furniture	951,047	804,566
Mining, energy and infrastructures	4,741,055	4,552,442
Public sector	37,767,392	36,682,585
Company services	6,043,802	6,048,628
Leisure, culture, health and education	5,117,181	4,853,407
Supplies: electricity, gas, steam, water	6,308,539	7,210,147
Telecommunications	1,155,642	1,172,260
Transport	2,702,919	2,727,784
Other sectors (Homes included)	78,857,803	62,652,653
TOTAL	**209,156,290**	**188,932,794**

(*) Included financing not related to real estate development.

The Bank regularly monitors major customer risk, and these are periodically reported to the Bank of Spain.

(3.1.6) Netting agreements and collateral agreements

In addition to amounts that can accounting be set off in accordance with IAS 32 (see Note 2.9), there are other offsetting (netting) and collateral agreements that effectively reduce credit risk, but do not meet the requirements for offsetting in the financial statements.

The table below lists these derivatives, along with the effects of the arrangements and the collateral received and/or posted.

Amounts related to cash collateral and collateral in financial instruments are shown at their fair values. Rights to set off are related to the guarantees and collateral in cash and financial instruments and depend on non-payment by the counterparty:

(Thousands of euros)

	31/12/2017		31/12/2016	
Derivatives (trading and hedging)	Assets	Liabilities	Assets	Liabilities
Gross exposure	**16,193,168**	**13,906,129**	**21,617,972**	**19,003,256**
Amount netted (Note 8 and 12)	(6,422,100)	(6,422,100)	(9,731,024)	(9,731,024)
Carrying amount of the Balance sheet	**9,771,068**	**7,484,029**	**11,886,948**	**9,272,232**
Netting agreement	(5,439,250)	(5,439,250)	(6,740,143)	(6,740,143)
Collaterals (*)	(3,402,648)	(2,111,341)	(4,030,675)	(2,513,959)
Net exposure	**929,170**	**(66,562)**	**1,116,130**	**18,130**

(*) Guarantee value received included.

In addition, under the framework of repurchase and reverse repurchase transactions carried out by the Bank (see Note 25.1), there are other agreements entailing the receipt and/or delivery of the following additional guarantees or collateral to the contractual guarantees in the transactions:

(Thousands of euros)

	31/12/2017		31/12/2016	
Collateral	Delivered	Received	Delivered	Received
Cash	5,840	37,874	12,642	18,386
Securities	46,341	-	61,410	21,571
Total	**52,181**	**37,874**	**74,052**	**39,957**

(3.1.7) Collateral received and other credit enhancements

At 31 December 2017, the distribution by segments of original exposure (net of impairment from credit risk), excluding equities and trading derivatives, with collateral and other credit enhancements is as follows:

(Thousands of euros)

SEGMENT	Mortgage collateral	Other collateral	Unsecured guarantees	Other guarantees	TOTAL
Standard Approach	**36,424,172**	**328,072**	**49,997,867**	**964,527**	**87,714,638**
IRB Approach	**48,800,242**	**7,675,038**	**64,150,130**	**816,242**	**121,441,652**
Institutions	349,041	134,324	17,893,236	8	18,376,609
Companies	5,281,853	7,317,954	37,019,732	615,152	50,234,691
Retail customers	43,169,348	222,760	9,237,162	201,082	52,830,352
Consumer	36,275	46,142	3,094,009	129	3,176,555
Mortgage – Other	41,268,799	-	363,415	-	41,632,214
Retail – SMEs	1,864,274	176,618	1,755,837	200,953	3,997,682
Cards	-	-	4,023,901	-	4,023,901
TOTAL	**85,224,414**	**8,003,110**	**114,147,997**	**1,780,769**	**209,156,290**

At 31 December 2016, the distribution by segments of original exposure (net of impairment from credit risk), excluding equities and trading derivatives, with collateral and other credit enhancements was as follows:

(Thousands of euros)

SEGMENT	Mortgage collateral	Other collateral	Unsecured guarantees	Other guarantees	TOTAL
Standard Approach	**21,544,718**	**323,995**	**36,699,329**	**511,295**	**59,079,337**
IRB Approach	**50,370,980**	**8,919,354**	**69,855,084**	**708,039**	**129,853,457**
Institutions	364,280	326,088	25,676,630	1,719	26,368,717
Companies	5,438,361	8,321,497	35,852,527	519,119	50,131,504
Retail customers	44,568,339	271,769	8,325,927	187,201	53,353,236
Consumer	44,625	57,781	2,600,546	139	2,703,091
Mortgage – Other	42,493,938	-	422,080	-	42,916,018
Retail – SMEs	2,029,776	213,988	1,571,715	187,062	4,002,541
Cards	-	-	3,731,586	-	3,731,586
TOTAL	**71,915,698**	**9,243,349**	**106,554,413**	**1,219,334**	**188,932,794**

For the purposes envisaged in the tables above, the following are explained:

- Transactions with mortgage collateral: property mortgage, concession mortgage, chattel mortgage, shipping mortgage and aircraft mortgage.
- Other collateral: equity securities, fixed-income securities and other types of securities, government securities, term deposits and other account deposits, goods and receipts, investment funds, bills of exchange, deposit certificates, mortgage-backed securities, etc.
- Personal guarantees: with or without guarantor, joint guarantee and insurance policy.
- Other guarantees: endorsement by a reciprocal guarantee association, CESCE credit insurance policy, bank guarantee and comfort letter.

From the legal viewpoint, a guarantee is a contract which provides greater security towards compliance with an obligation or payment of a debt in such a way that, in the event of default by the borrower, the guarantee reduces the losses arising from the transaction.

Guarantees will enjoy legal certainty so that all contracts contain the conditions legally stipulated to make them fully valid, and so they are fully documented in such a way as to establish a clear effective procedure to enable the guarantee to be executed rapidly.

These are the principles inspiring the functional definition of the Corporate Guarantee System.

Guarantees and collateral provided in each transaction must be duly reported and measured in the system. The Credit Risk Policy document details the main characteristics that these measurements must have, both in terms of type of eligible appraisals and the frequency with which the appraisals must be updated.

(3.1.8) Renegotiated financial assets

As part of its credit risk management procedures, the Bank carried out renegotiations of assets, modifying the conditions originally agreed with borrowers in terms of repayment deadlines, interest rates, collateral given, etc.

Appendix IX contains the classification and hedging policies and criteria applied by the Bank in this type of transaction, along with the amount of refinanced operations detailing their risk and respective coverages of credit risk.

(3.1.9) Assets impaired and derecognised of the balance sheet

Following are the changes in 2017 and 2016 in the Bank's impaired financial assets that were not recognised on the balance sheet because their recovery was considered unlikely, although the Bank had not discontinued actions in order to recover the amounts owed ("written-off assets"):

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Accounting balance at the beginning of the year	**1,290,560**	**1,377,335**
Additions from:		
Assets unlikely to be recovered	372,299	**243,029**
Uncollected past-due amounts	70,679	**68,619**
Sum	**442,978**	**311,648**
Derecognition through:		
Cash collection	(27,547)	**(53,295)**
Foreclosure of assets and other causes	(223,370)	**(345,332)**
Sum	**(250,917)**	**(398,627)**
Additions due to business combination	499,760	**-**
Net change due to exchange differences	(1,284)	**204**
Accounting balance at the end of the year	**1,981,097**	**1,290,560**

(3.2) Liquidity risk of financial instruments

Liquidity risk can be expressed as the probability of incurring losses through insufficient liquid resources to comply with the agreed payment obligations (both expected and unexpected) within a certain time horizon, and having considered the possibility of the Bank managing to liquidate its assets in reasonable time and price conditions.

The Bank has the objective to maintain a long-term financing structure that is in line with the liquidity of its assets, with a maturity profile that is compatible with the generation of stable, recurring cash flows to enable the Bank to manage its balance sheet without short-term liquidity pressures.

For this purpose, the Bank's liquidity position is identified, controlled and monitored daily. According to the retail business model underpinning the Bank's banking activity, the main funding source is customer deposits. Bankia taps domestic and international capital markets, particular repo markets, to raise finance so that it meets its additional liquidity needs as well as the long-term financing provided through TLTRO by the ECB. At the same time, and as a prudent measure to prepare for potential stress or crises, the Bank has deposited certain assets in the European Central Bank (ECB) that it can use to raise liquidity immediately. Through ongoing monitoring of assets, the Bank can identify those that are readily usable as liquidity reserves at times of market stress, differentiating between assets that are considered eligible by the ECB, or by clearing houses or other financial counterparties (e.g. insurance companies, investment funds).

The undrawn amount on the facility, coupled with the high-quality liquid asset buffer, make up the bulk of the liquidity reserve estimated by the Bank to confront internal and systemic stress events:

(Thousands of euros)

	31/12/2017	31/12/2016
Cash (*)	2,206	950
Undrawn amount on the facility	10,918	1,881
Highly liquid available assets (**)	19,703	27,004

(*) Notes and coins plus balances at central banks less the amount of minimum reserves.
(**) Market value considering the ECB haircut.

Other assets have been identified which, although not considered to be highly liquid, can be converted at relatively short notice.

Regarding the structure of roles and responsibilities, the Assets and Liabilities Committee (ALCO) is charged with monitoring and managing liquidity risk based on recommendations, mainly by the Corporate Finance Department, in accordance with the Liquidity Risk Appetite and Funding Framework approved by the Board of Directors. The ALCO proposes the rules of action to secure financing through instruments and maturities, with a view to guaranteeing at all times the availability of funds at reasonable prices so the Bank can meet the obligations undertaken and finance the growth of its investment business.

The Markets and Operational Risks Department (MORD), which operates as an independent unit, monitors and analyses liquidity risk, among other responsibilities. It promotes the integration of these activities in management by developing metrics and methodologies to ensure that liquidity risk remains within the tolerance levels.

Specific liquidity risk management targets are defined for these metrics under normal market conditions. The overriding objective is to achieve appropriate self-financing of on-balance sheet credit activity, with a reduction in the loan-to-deposit ratio (relationship between loans and advances to customers and customer deposits) and budgetary monitoring of the level of self-financing in the retail and corporate business, as well as the commercial activity as a whole. Secondly, there are efforts to promote appropriate diversification in the corporate funding structure, limiting the use of capital markets in the short term, as well as in the funding mix, maturity terms and concentration of assets in the liquidity buffer.

Alongside the monitoring of liquidity risk in normal market conditions, action guidelines have been designed to measure, prevent and manage situations of liquidity stress. This pivots around the Liquidity Contingency Plan (LCP), which sets out the committees in charge of monitoring and activating the LCP and the protocol for determining responsibilities, internal and external communication flows, and potential action plans to, where appropriate, redirect the risk profile within the Bank's tolerance limits.

The LCP is backed by specific metrics, in the form of LCP monitoring alerts, and by complementary metrics to liquidity risk and regulatory funding indicators, LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). These ratios have built-in stress scenarios for the ability to maintain available liquidity and funding sources (Corporate and retail deposits, funding on capital markets) and allocate them (loan renewal, unprogrammed activation of contingent liquidity lines, etc).

For the LCR, the scenario relates to a survival period of 30 days, and the regulatory assumptions underlying the construction of the ratio are valid exclusively for this period. At 31 December 2017 the LCR complies with the risk limits of the entity and the regulatory requirements.

In addition to the regulatory LCR, the MORD designs expanded stress scenarios in two ways:

- It builds more survival horizons, which implies adapting the regulatory assumptions to these horizons, and envisaging and adopting corrective measures to address future liquidity vulnerabilities.
- It creates varying degrees of stress for each survival horizon. This approach allows us to build the stressed LCR calculated at different horizons using more stringent assumptions than the regulatory assumptions, based on expert criteria, past experience or a combination of both.

Monitoring the results indicates that the Bank has a sufficient buffer of liquid assets to weather any type of crisis.

As for the net stable financing ratio (NSFR), which will become one of the minimum requirements following approval of the new Capital Requirements Regulation (CRR), with a ratio of at least 100%, the Group expects to comply with the regulatory requirements.

Maturities of issues

The following table provides information on the term to maturities of the Bank's issues at 31 December 2017 and 2016, by type of founding instrument, including promissory notes and issues placed via the network.

31 December 2017

(Thousands of euros)

ITEM	2018	2019	2020	> 2020
Mortgage-backed bonds and securities	2,835,687	2,764,180	417,917	14,405,508
Senior debt	261,627	1,000,000	-	135,740
Subordinate, preference and convertible securities	-	1,000,000	-	1,425,000
Securitizations sold to third parties	-	-	-	1,841,011
Commercial paper	1,335,000	-	-	-
Total maturities of issues (*)	**4,432,314**	**4,764,180**	**417,917**	**17,807,259**

(*) Figures shown in nominal amounts less treasury shares and issues withheld.

31 December 2016

(Thousands of euros)

ITEM	2017	2018	2019	> 2019
Mortgage-backed bonds and securities	555,000	2,435,687	1,718,987	12,646,166
Senior debt	888,199	247,000	1,000,000	100,000
Subordinate, preference and convertible securities	-	-	1,000,000	-
Securitizations sold to third parties	-	-	-	2,615,644
Commercial paper	1,100,000	-	-	-
Total maturities of issues (*)	**2,543,199**	**2,682,687**	**3,718,987**	**15,361,810**

(*) Figures shown in nominal amounts less treasury shares and issues withheld.

Issuance capacity

(Thousands of euros)

	31/12/2017	31/12/2016
Mortgage-backed securities issuance capacity (Appendix VII)	15,539,614	10,844,220
Territorial bond issuance capacity	1,595,168	1,215,609

(3.3) Residual maturities

The following table provides a breakdown of balances of certain items in the accompanying balance sheet, by residual contractual maturity, excluding, as appropriate, valuation adjustments and impairment losses:

31 December 2017

(Thousands of euros)

ITEM	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Assets							
Cash and balances with central banks and other demand deposits	3,755,070	-	-	-	-	-	3,755,070
Loans and advances to credit institutions	-	2,507,516	1,323	500,090	14,097	636	3,023,662
Loans and advances to customers	-	3,654,159	4,701,465	10,634,321	30,085,174	79,646,562	128,721,681
Financial assets held for trading and financial assets at fair value through profit or loss	-	2,001	-	-	-	-	2,001
Other portfolios - Debt securities	-	117,265	2,973,770	16,695,816	13,290,328	22,397,248	55,474,427
Derivatives (trading and hedging) (1)	-	426,464	489,841	1,997,979	5,973,087	7,305,797	16,193,168
Total	**3,893,723**	**6,568,751**	**8,166,400**	**29,828,206**	**49,362,686**	**109,350,243**	**207,170,009**
Liabilities							
Deposits from central banks and credit institutions	-	10,662,730	2,136,863	3,678,891	18,171,666	2,911,025	37,561,175
Customer deposits	76,143,285	9,719,089	9,083,526	25,124,524	8,019,963	3,645,912	131,736,299
Marketable debt securities	-	-	150,000	3,012,109	6,439,312	8,571,903	18,173,324
Other financial liabilities (2)	1,090,428	-	-	-	-	-	1,090,428
Derivatives (trading and hedging) (1)		326,912	549,717	1,739,023	5,424,604	5,865,873	13,906,129
Total	**77,233,713**	**20,708,731**	**11,920,106**	**33,554,547**	**38,055,545**	**20,994,713**	**202,467,355**
Contingent liabilities							
Financial guarantees	68	6,160	17,050	86,427	244,723	60,484	414,912

(1) Gross exposure excluding netting arrangements (see Notes 3.1.6, 8 and 12).

(2) A residual item comprising items that are generally transitory or do not have a contractual maturity, making it impossible to allocate reliably the amounts recognised by term of maturity, and therefore classified under demand liabilities.

31 December 2016

(Thousands of euros)

ITEM	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Assets							
Cash and balances with central banks and other demand deposits	2,081,771	-	-	-	-	-	2,081,771
Loans and advances to credit institutions	-	2,956,863	56,095	4,145	553,905	-	3,571,008
Loans and advances to customers	-	3,248,677	3,785,681	8,402,210	25,789,980	69,329,739	110,556,287
Financial assets held for trading and financial assets at fair value through profit or loss	-	1,000	2,005	2,000	-	-	5,005
Other portfolios - Debt securities	-	1,134,950	626,800	7,593,693	21,763,666	22,653,651	53,772,760
Derivatives (trading and hedging) (3)	-	290,162	631,498	2,368,514	8,866,126	9,461,672	21,617,972
Total	**2,081,771**	**7,631,652**	**5,102,079**	**18,370,562**	**56,973,677**	**101,445,062**	**191,604,803**
Liabilities							
Deposits from central banks and credit institutions	-	12,311,489	1,830,602	411,413	21,231,007	3,050,916	38,835,427
Customer deposits	53,194,748	10,383,287	8,101,790	25,143,494	7,707,493	2,746,277	107,277,089
Marketable debt securities	-	5,816	474,927	1,082,456	6,242,650	8,982,353	16,788,202
Other financial liabilities (4)	740,806	-	-	-	-	-	740,806
Derivatives (trading and hedging) (3)	-	211,934	581,809	2,196,396	8,227,657	7,785,460	19,003,256
Total	**53,935,554**	**22,912,526**	**10,989,128**	**28,833,759**	**43,408,807**	**22,565,006**	**182,644,780**
Contingent liabilities							
Financial guarantees	136	6,861	11,699	46,799	373,215	21,153	459,863

(3) Gross exposure excluding netting arrangements (see Notes 3.1.6, 8 and 12).
(4) A residual item comprising items that are generally transitory or do not have a contractual maturity, making it impossible to allocate reliably the amounts recognised by term of maturity, and therefore classified under demand liabilities.

(3.4) Exposure to interest rate risk

Interest rate risk reflects the probability of incurring losses because of changes in the benchmark interest rates for asset and liability positions (or certain off-balance sheet items) that could have an impact on the stability of the Entity's results. Interest rate risk management is designed to lend stability to margins, maintaining levels of solvency that are appropriate for the Entity's level of risk tolerance.

Interest rates risk monitoring and management at the Bank is performed in accordance with the criteria approved by the governing bodies.

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 financial 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 Board Risk Committee. In addition, information prepared by the ALCO is reported by the Global Risk Management Division, along with other risks, to the Bank's senior management.

According to Bank of Spain 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

Sensitivity analyses performed by analysing interest rate risk scenarios from both perspectives provide the following information:

- Impact on profit and loss. At 31 December 2017, the sensitivity of net interest income, excluding the trading portfolio and financial activity not denominated in euros, in the most adverse scenario of a 200 bp parallel shift in yield curve over a one-year time horizon in a scenario of a stable balance sheet is -3.94% (0% at 31 December 2016).

- Impact on economic value of equity, understood as the present value of estimated cash flows from different assets and liabilities. At 31 December 2017, the sensitivity of economic value, excluding the trading portfolio and financial activity not denominated in euros, facing the most adverse scenario of a parallel downward shift in the yield curve of 200 bp is 8.04% of equity and 4.41% of economic value of the Bank (9.25% and 4.95%, respectively, at 31 December 2016).

The sensitivity analysis was performed using static assumptions. Specifically, this means maintaining the balance sheet structure and applying new spreads with the Euribor interest rate for the same term to maturing transactions. Irregular deposits are presumed to be refinanced at a higher cost. A maximum duration of non-remunerated demand deposits of 4 years is considered, less 10% for those with nil duration as they are considered volatile.

(3.5) Exposure to other market risks

This risk arises from the possibility of incurring losses on positions in financial assets caused by changes in market risk factors (interest rates, equity prices, foreign exchange rates or credit spreads). It stems from Treasury and Capital Markets positions and can be managed by arranging financial instruments.

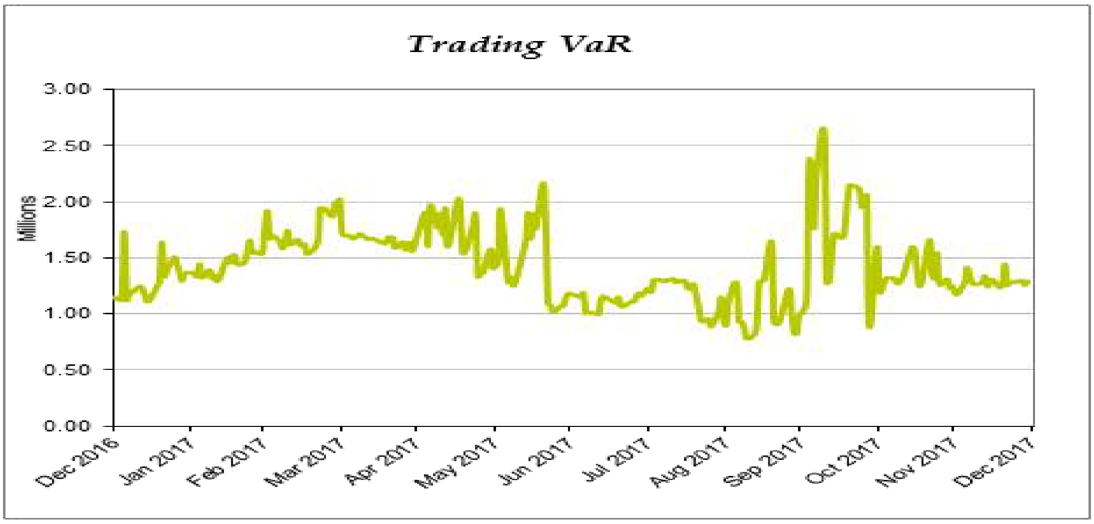
The Board of Directors delegates proprietary trading in financial markets to the Financial Department and its business areas, so they can exploit business opportunities using the most appropriate financial instruments at any given time, including interest rate, exchange rate and equity derivatives. In general, the financial instruments traded must be sufficiently liquid and entail hedging instruments.

Each year, the Board of Directors approves the risk limits and internal risk measurement procedures for each product and market in which the various trading areas operate. The Market and Operational Risks Area, depending of Risk Division has the independent function of measuring, monitoring and controlling the Entity's market risk and the limits issued by the Board of Directors. VaR (value at risk) and sensitivity analysis approaches are used, specifying different scenarios for each class of risk.

Market risks are monitored daily, with existing risk levels and compliance with the limits established for each unit reported to the control bodies. In this way, variations in risk levels caused by changes in prices of financial products and their volatility can be detected.

The reliability of the VaR approach used is confirmed through backtesting, verifying that the VaR estimates are within the confidence level considered. Backtesting is extended to measure the effectiveness of the hedging derivatives. There were no changes in the methods or assumptions underlying the estimates included in the financial statements in 2017 compared to those used in last year.

The following chart shows the trend in one day VaR with a 99% confidence level for operations in the markets area in 2017.



The impact on equity and on the accompanying income statement of reasonable future changes in the various market risk factors at 31 December 2017 and 2016, calculated for the Bank's portfolio registered at fair value (excluding investments held for trading), is as follows:

(Thousands of euros)

	Impact on Equity (1)		Impact on profit and loss (1)	
MARKET RISK FACTORS	2017	2016	2017	2016
Interest rate	(345,824)	(351,104)	(3,967)	(3,728)
Equity instruments	(3,977)	-	(189)	(32)
Exchange rates	-	-	(986)	217
Credit spread	(333,444)	(360,920)	0	(15)

(1) Amounts shown net of the related tax effect.

The assumptions used in the calculation of sensitivity were as follows:

– Interest rates: 100 bp increase

– Equities: 20% fall

– Exchange rates: 10% fluctuation

– Credit spreads: increase consistent with credit rating, as follows:

AAA	AA	A	BBB	<BBB
5 bp	10 bp	20 bp	50 bp	150 bp

In addition, at 31 December 2017 there was a structural portfolio consisting of debt securities designed to provide stability to interest margin. The nominal value of this portfolio at 31 December 2017 is EUR 50,611,564 thousand (EUR 48,417,062 thousand at 31 December 2016) .The following table shows the sensitivity of the portfolio in which the debt securities that comprise it are classified and the related risks:

(Millions of euros)

	31/12/2017			31/12/2106		
	Interest rate risk	Credit risk (spreads)	Total	Interest rate risk	Credit risk (spreads)	Total
Held for sale portfolio	(346)	(333)	(679)	(351)	(361)	(712)
Held-to-maturity portfolio	-	(327)	(327)	-	(566)	(566)
Total	(346)	(660)	(1,006)	**(351)**	**(927)**	**(1,278)**

As for the sensitivities in the preceding table:

– For debt securities classified as available-for-sale financial assets, the impact would have a balancing entry in "Accumulated other comprehensive income" in the equity.

– For debt securities classified as held-to-maturity investments, although the sensitivity shows the theoretical impact of credit risk (default) that would require the recognition of higher credit loss provisions (impairment losses) than presented in the accompanying annual financial statements, this is highly unlikely given the portfolio's composition; i.e. mainly debt securities issued directly or guaranteed by the government.

At 31 December 2017 and 2016, the Bank's net exposure to currency risk is not significant.

(4) Capital management

(4.1) Capital requirements

On 26 June 2013, Regulation 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 approved, repealing regulations on solvency in force until now. They came into effect on 1 January 2014 and will be phased in gradually until 1 January 2019.

The CRR and CRD regulate capital requirements in the European Union and include the recommendations set out in the Basel III capital regulatory framework or agreement, specifically:

- The CRR, which is directly applicable to Member States, contains prudential requirements for credit institutions and covers, inter alia, the following:
  - The definition of elements of eligible own funds, establishing requirements for hybrid instruments to be included and limiting the eligibility of minority interests.
  - The definition of prudential filters and deductions of items in each capital levels. In this respect, the Regulation includes new deductions compared to Basel II (deferred tax assets, pension funds…) and introduces changes to existing deductions. Nevertheless, it notes that the Regulation establishes a phase calendar until its final full implementation between 5 and 10 years.
  - Establishment of minimum requirements (Pillar I), with three levels of own funds: a Common Equity Tier I capital ratio of 4.5%, a Tier I capital ratio of 6% and a minimum requirement total capital ratio of 8%.
  - Requirement of financial institutions to calculate a leverage ratio, defined as Tier 1 capital divided by total exposure unadjusted for risk. The disclosure requirement will be applicable from 2015 onwards.
- The aim and main purpose of the CRD, which must be transposed into national legislation by the Member States according to their criteria, is to coordinate national legislation regarding the access to the activity of credit institutions and investment firms and their governance and supervisory framework. The CRD includes, inter alia, additional capital requirements to those established in the CRR, which will be phased in gradually until 2019. Failure to comply will imply restrictions on the discretionary distributions of profit, specifically:

- A capital conservation buffer and a countercyclical capital buffer, extending the regulatory framework of Basel III, to mitigate pro-cyclical effects of financial regulation. All financial institutions must maintain a common capital buffer of 2.5% above Common Equity Tier 1 and an institution-specific countercyclical buffer above Common Equity Tier 1.
- A systemic risk buffer. For global systemically important institutions and other systemically important institutions to mitigate systemic or macroprudential risks; i.e. risks of disruptions in the financial system with the potential to have serious negative consequences for the financial system and the real economy in a specific Member State.
- In addition, Article 104 of the CRD IV, Article 68 of Law 10/2014 and Article 16 Council Regulation (EU) No 1024/2013, of 15 October 2013, confer specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (SSM). This regulation allows supervisory authorities to impose additional capital requirements to the Pillar I minimum capital requirements for risks not covered therein; i.e. Pillar II capital requirements.

In addition, at the end of 2016, the European Central Bank notified the Bankia Group of the capital requirements applicable to it in 2017: a minimum Common Equity Tier 1 ratio of 7.875% and a minimum Total Capital ratio of 11.375%, both measured in relation to its transitional (phase-in) regulatory capital. These requirements include the minimum Pillar I (4.5% at capital ordinary level I and 8% at total level capital) requirement, the Pillar II requirement (2%) and the combined buffer requirements applicable to the Group (1.375%).

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

Regarding combined capital buffer requirements, bearing in mind the phase-in period provided for in Law 10/2014, the capital conservation buffer applicable in 2017 will be 1.250% (which will amount to1,875 in 2018), corresponding to 50% (75% in 2018) of the total (2.5%). Similarly, as the Bank of Spain has identified the Bank Group as another systemically important institution (O-SII), a Common Equity Tier I capital buffer was established at 0.25% of its total risk exposure on a consolidated basis. In 2017, it must meet 50% (75% in 2018) of this buffer; i.e. 0.1250% (0.1875% in 2018). Finally, the Group's own countercyclical buffer, calculated based on the geographical location of its exposures, is 0%. These is because the Group's exposures are located in countries.

Regarding Spanish regulations, the new legislation is aimed at transposing European rules at local level:

– **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.

– **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.

– **Bank of Spain Circular 3/2014, of 30 July**. 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.

– **Bank of Spain 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. 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.

In addition, in 2016 the European Central Bank published **Regulation (EU) 2016/445, of 14 March 2016.** 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.

The Group applies the following to its minimum capital requirements:

– For credit risk requirements:
  - For exposure retail customers and companies:
    - Both advanced internal-rating based (IRB) approved by the Bank of Spain models and the standardized approach depending on the origin of the portfolio.
    - Advanced internal models for all new business.
  - For exposures to institutions, both advanced internal-rating based (IRB) and the standardised approach.
  - The standardized approach for all other exposures.

– Requirements linked to the held-for-trading portfolio (foreign currency and market rates) were calculated using internal models, including additional counterparty credit risk requirements to OTC derivatives (CVA credit value adjustment). The calculation model for market risk is in the process of being reviewed. During this period, the risk-weighted assets (RWAs) included an increase for market risk related to the calculation method and not to market activity.

– For the portfolio of equity securities, it used the simple risk-weight approach, the PD/LGD method and the standard approach, depending on the origin of the various sub-portfolios.

– To calculate the capital requirements for operational risk, the standardized approach was used.

As for the calculation of the Group's capital requirements using internal models, the ECB's Supervisory Board has initiated a Targeted Review of Internal Models (TRIM) with the aim of standardising current differences across entities in the risk weightings they apply to their exposures that are not attributable to their risk profiles but rather stem from their calculation models, all framed by a standardised supervisory model. This review takes in around 70 European financial institutions, including the Bankia Group, and the work will span the period elapsing between 2016, 2017 and 2018.

The following table provides a detail of the Bankia Group's capital levels at 31 December 2017 and 2016 as well as the RWA (Risk Weighted Assets) calculated in accordance with the CRR and CRD IV:

(Thousands of euros and %)

ITEM	31/12/2017	31/12/2016
Common Equity Tier I (CET 1)	**12,173,452**	**11,605,956**
Equity	3,084,963	9,213,863
Share premium	619,154	-
Profit or loss attributable to owners of the parent	504,513	804,163
Reserves and treasury shares	9,001,491	2,284,800
Other comprehensive eligible and accumulated income	261,982	269,971
Non-controlling interests	4,863	13,929
Deductions	(1,303,514)	(980,770)
Deferred tax assets depends on future incomes	(586,600)	(323,672)
Prudent valuation related to assets side (AVA)	(35,266)	(66,556)
Dividend to be deducted for regulatory purposes	(340,086)	(317,424)
Intangible assets and others deductions	(341,562)	(273,118)
Additional Tier I Capital (AT1)	**682,125**	**-**
TIER I (TIER1=CET1+AT1)	**12,855,577**	**11,605,956**
TIER2	**1,631,837**	**1,030,059**
Subordinated debt	1,672,270	1,000,000
Others eligible elements	(40,433)	30,059
Total capital (TIER1+TIER2)	**14,487,414**	**12,636,015**
Total Risk Weighted Assets	**86,046,106**	**76,959,536**
Credit risk, counterparty and dilution	**77,957,716**	**67,383,302**
Standardized approach	36,942,431	23,438,352
Internal ratings-based approach	41,015,285	43,944,950
By market risk	**1,607,743**	**3,161,821**
By operational risk	**6,480,647**	**6,414,413**
Common Equity Tier I ratio	**14.15%**	**15.08%**
Equity Tier I ratio	**14.94%**	**15.08%**
Total capital ratio	**16.84%**	**16.42%**

* Estimated data

On 31 December 2017, the Bankia Group shows a surplus of EUR 5,397 million (EUR 3,670 million on 31 December 2016) over the regulatory minimum Common Equity Tier 1 of 7.875% (10.3125% on 31 December 2016) established considering Pillar I, Pillar II and the combined requirement of buffers.

At the same date, the Bankia Group shows a surplus of EUR 4,700 million (EUR 4,700 million on 31 December 2016) over the regulatory minimum Common Equity Tier 1 of 11,375%. (10.3125% on 31 December 2016) established considering Pillar I, Pillar II requirement and the combined requirement of buffers.

(4.2) Leverage ratio

The leverage ratio was designed by the Basel Committee on Banking Supervision in its Global Regulatory Framework for more resilient banks and Banking system of December 2010 as a supplementary measure to the capital requirements. Therefore, plans are to make it a binding Pillar I requirement from 1 January 2018, once the review and calibration stage of the ratio begun on 1 January 2013 is completed.

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

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

The leverage ratio is calculated as an entity's Tier 1 capital divided by its total exposure. For these purposes, total exposure is the sum of the exposure values of assets on the balance sheet, derivatives (with different treatment to the rest of the assets on the balance sheet), part of off-balance sheet items and counterparty risk in repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions.

The Bankia Group's leverage ratio at 31 December 2017 and 2016 calculated in accordance with Commission Delegated Regulation (EU) No. 2015/62 is as follows:

(Thousands of euros and %)

ITEM	31/12/2017 (*)	31/12/2016
Tier I Capital	12,855,577	11,605,956
Exposure	213,518,208	189,491,589
Leverage ratio	**6.02%**	**6.12%**
(+) Exposures in balance sheet	201,147,273	176,100,269
(+) Derivatives exposures	2,243,588	2,533,663
(+) Counterparty credit risk add-on in securities financing transactions (SFTs)	3,254,634	1,398,395
(+) Exposure to off-balance sheet items (includes application of CCFs)	6,872,713	9,459,262
Total leverage ratio exposures	**213,518,208**	**189,491,589**

(*) Estimated data.

At 31 December 2017, the leverage ratio exceeded the 3% minimum defined by the Basel Committee on Banking Supervision.

(4.3) Transparency Exercise 2017

During the second half of 2017, the European Banking Authority (EBA) undertook a new transparency exercise in coordination with the national competent authorities and the European Central Bank. The goal of this exercise is to boost transparency and familiarity with the capital adequacy and solvency of the European banks, thereby contributing to market discipline (Pillar 3) and financial stability in the European Union.

On 24 November 2017, along with the Risk Assessment Report on the European Banking System, which encompasses a sample of 187 banks, detailed information, corresponding to 31 December 2016 and 30 June 2017, was published for each of the 132 participating banks, including the BFA Group, Bankia's parent. As on prior occasions, the information published relates to the banks' capital adequacy, risk-weighted assets, asset quality (non-performance), profitability, exposures to sovereign bonds, credit risk and market risk, all from the perspective of supervisor reporting.

The capital ratios published for the BFA Group, Bankia's parent, did not include the earnings generated during the first half of 2017. At 30 June 2017, the phase-in common equity tier 1 ratio stood at 14.13%; this would have increased to 14.77% had first-half earnings been factored in. In the fully-loaded scenario, the ratio stood at 13.09% (increasing to 13.40% factoring in the first-half results). As gleaned from the Risk Assessment of the European Banking System, the average metrics reported for the European banks as of the same date and for the same ratio were 14.3% on a phase-in basis and 14.0% on a fully-loaded basis.

(4.4) Minimum requirement for own funds and eligible liabilities (MREL)

Directive No 2014/59/EU of the European Parliament and of the Council on the recovery and resolution of credit institutions (Bank Recovery and Resolution Directive or BRRD) was approved in May 2014 and became effect in January 2015. It was transposed into Spanish legislation through Law 11/2015 on the Resolution and Recovery of Credit Institutions, of 18 June. This legislation determines in what circumstances the resolution scheme of a financial institution entries into force, designing an internal mechanism where shareholders and creditors absorb losses (bail-in) in order to protect deposits, minimise the costs for taxpayers and avoid as far as possible recourse to the Singe Resolution Fund (SRF).

Regarding the mechanism for internal loss-absorption, a minimum requirement for own funds and eligible liabilities with loss-absorbing capacity MREL (Minimun Required Elegible Liabities) has been established. The level of MREL is determined by the Resolution authority on a case-by-case basis over the course of 2016 and compliance is mandatory from communication of the MREL. That implies that entities subject to themselves, those that have the things that have characteristics that favor the absorption of losses in the case of resolution of the entity.

On 23 June 2017, on the Spanish legislative front, Royal Decree Law 11/2017 on urgent measures in financial matters was enacted. Among other things, the legislation created a new category of senior non-preferred debt, with a lower ranking relative to other preferred claims or ordinary senior debt, and established the requirements for classification in this category to guarantee loss-absorption capacity in the event of resolution. Enactment of this Royal Decree takes non-preferred ordinary claims to a legal status, in line with other EU Member States and the regulatory proposals being put forward in Europe in this respect.

The Group is currently reporting its MREL levels to the Spanish Resolution Authority, the FROB, in accordance with the BRRD definition, as the ratio of the amount of own funds and eligible liabilities as a percentage of the entity's total liabilities and own funds.

(4.5) Capital management objectives and policies

The Bankia Group’s capital management covers two targets, a regulatory capital target and an economic capital target.

The regulatory capital target implies amply satisfying the minimum capital requirements in applicable regulations (Pillar I and Pillar II), including additional capital buffers applicable at all times.

The economic capital target is set internally based on the results of the internal capital adequacy assessment process (ICAAP), which analyses the Group’s risk profile and evaluates its internal control and corporate governance systems.

A main cornerstone of capital management is the (short- and medium-term) Capital Planning process, designed to assess the sufficiency of capital in relation to the minimum capital requirements for each level of capital and to the target and optimal structure of capital determined by the governing bodies. For this, the capital buffer requirements affecting the Group are considered, along with their direct impact on the Bank's remuneration policy (including the distribution of dividends).

The capital planning exercise is based on financial planning (e.g. balance sheet, income statement, planned corporate transactions and restrictions included in the Group's Recapitalisation Plan approved by the European Commission and the Spanish Finance Ministry on 28 November 2012) in the macroeconomic scenarios forecast by the Group and in the impact analysis of potential changes in capital adequacy regulations.

The capital planning process is formally documented in the following reports approved by the Bank's Board of Directors:

- The Corporate Risk Appetite and Tolerance Framework, which defines the level of risk appetite (internal capital target) based on the risks the Group is willing to assume in carrying out its business. Together with the capital target, tolerance or maximum levels of deviation from the established target which the Bank considers acceptable are determined.

- The Corporate Capital Planning Framework, which sets out a clear governance framework to ensure the involvement and coordinated orientation of the Group's various divisions related to the capital planning process to achieve a common objective and that this objective fits in the Group's Risk Appetite and Tolerance Framework.

- Capital Planning Policies, which include Senior Management's guidelines regarding capital preservation and correct risk measurement, as well as the corrective measures for potential deviations included in the Capital Contingency Plan.

- Recovery Plan, which sets out the solvency and leverage indicator levels below the Entity's tolerance level which, prior to potential non-compliance with regulations, would trigger the corrective measures in crises situations, as well as the range of measures and execution of each.

Capital planning is a dynamic and ongoing process. Therefore, these documents define a series of regulatory and financial indicators and metrics, with related minimum thresholds, calibrated and graded in accordance with the various levels of admission (risk appetite and tolerance levels, early warning levels and Recovery Plan levels). The objective is to facilitate appropriate monitoring and control of the established targets and identify in advance future capital requirements and the corrective measures to be adopted.

In this respect, real capital adequacy ratios are measured against these metrics and indicators, and their various thresholds. Potential deviations are analysed to determine whether the causes relate to one-off or structural events. The measures required to adapt the level of capital so it complies with the established targets is analysed and decided. In the case of default, this could ultimately trigger the Capital Contingency Plan or even the Recovery Plan.

(5) Remuneration of Board members and senior executives

(5.1) Remuneration of Board members

a) Remuneration accrued at the Bank

Regarding remuneration of directors for the performance of their duties as members of the Board of Directors, the Bank applies the provisions of Royal Decree-Law 2/2012 of 3 February, on the reorganisation of the financial sector and Order ECC/1762/2012, of 3 August. In this respect, fixed remuneration at Bankia, S.A. for all items of members of the various boards of directors other than executive chairmen, CEOs and executives of the companies is capped at EUR 100,000 per year. The limit for executive directors is EUR 500,000.

i) Gross remuneration in cash

(Thousands of euros)

Name	Salaries	Fixed Compensation	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership on Board committees	Termination benefits	2017
Mr. José Ignacio Goirigolzarri Tellaeche	500	-	250	50	-	-	800
Mr. José Sevilla Álvarez	500	-	250	50	-	-	800
Mr. Antonio Ortega Parra	500	-	250	50	-	-	800
Mr. Joaquín Ayuso García	-	100	-	-	-	-	100
Mr. Francisco Javier Campo García	-	100	-	-	-	-	100
Mrs. Eva Castillo Sanz	-	100	-	-	-	-	100
Mr. Jorge Cosmen Menéndez-Castañedo	-	100	-	-	-	-	100
Mr. José Luis Feito Higueruela	-	100	-	-	-	-	100
Mr. Fernando Fernández Méndez de Andés	-	100	-	-	-	-	100
Mr. Álvaro Rengifo Abbad (1)	-	80	-	-	-	-	80
Mr. Antonio Greño Hidalgo	-	100	-	-	-	-	100

(1) On 17 October 2017, Mr. Álvaro Rengifo Abbad resigned as director. The amounts shown correspond to the period from 1 January to 17 October 2017.

(2) The targeted amount of annual bonuses for the three executive directors was EUR 250 thousand per director in 2017. The data corresponding to the annual bonuses accrued by these three directors in 2017 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(3) The targeted amount of long-term bonuses for the three executive directors was EUR 150 thousand per director in 2017; note, however, that the sum of that remuneration and the annual bonus may not exceed 60% of their fixed remuneration. The data corresponding to the long-term bonuses accrued by these three directors in 2017 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

ii) Golden parachute clauses in Board of Directors' contracts

Pursuant to additional provision seven of Law 3/2012, Bankia may not pay "compensation for termination of contract" for employment contracts of directors of Bankia in excess of the lower of the following amounts:

EUR 1,000,000 or

Two years of the fixed compensation stipulated.

Compensation for termination of contract includes any amount of a compensatory nature that the director may receive as a consequence of termination of contract, whatever the reason, origin or purpose, so that the sum of all the amounts that may be received may not exceed the established limits.

The contracts of three executive directors contain a termination benefit of one year of fixed remuneration if the Company decides to terminate their employment unilaterally or in the event of a change of control of the Company. The contracts also contain a post-contractual non-compete clause for the one year of fixed remuneration. Pursuant to prevailing legislation, Bankia has amended these contracts, establishing that any compensation and/or amounts received by these executive directors must comply with Royal Decree-Law 2/2012, Law 3/2012 and Law 10/2014.

iii) Share-based payment schemes.

No shares have delivered in 2017 as no amounts of variable compensation has paid.

iv) Long-term saving schemes

(Thousands of euros)

Name	Contribution Funds and Pension Plans (1) 2017 by the Entity	Life Insurance Premiums 2017 by the Entity
Mr. José Ignacio Goirigolzarri Tellaeche	-	-
Mr. José Sevilla Álvarez	-	-
Mr. Antonio Ortega Parra	-	-
Mr. Joaquín Ayuso García	-	-
Mr. Francisco Javier Campo García	-	-
Mrs. Eva Castillo Sanz	-	-
Mr. Jorge Cosmen Menéndez-Castañedo	-	-
Mr. José Luis Feito Higueruela	-	-
Mr. Fernando Fernández Méndez de Andés	-	-
Mr. Álvaro Rengifo Abbad	-	-
Mr. Antonio Greño Hidalgo	-	-

(1) Regarding pension obligations, there are no cumulative amounts as there is no pension scheme for directors.

b) Remuneration accrued for membership on the Boards of other Group companies or investees

On 7 June 2012, the Company reported, in a material disclosure, a review of its policy for remunerating directors in Group companies and investees. In this filing, it stated that the Bank's Board of Directors had decided that directors representing it in investees would receive no remuneration and that the per diems to which they are entitled would be paid by the Group.

i) Gross remuneration in cash

Not applicable.

ii) Share-based payment schemes

Not applicable.

iii) Long-term saving systems

Not applicable.

iv) Other benefits

Not applicable.

c) Remuneration summary:

(Thousands of euros)

Name	Total remuneration in the entity	Total remuneration in the Group	Total 2017
Mr. José Ignacio Goirigolzarri Tellaeche	800 (2) (3)	-	800 (2) (3)
Mr. José Sevilla Álvarez	800 (2) (3)	-	800 (2) (3)
Mr. Antonio Ortega Parra	800 (2) (3)	-	800 (2) (3)
Mr. Joaquín Ayuso García	100	-	100
Mr. Francisco Javier Campo García	100	-	100
Mrs. Eva Castillo Sanz	100	-	100
Mr. Jorge Cosmen Menéndez-Castañedo	100	-	100
Mr. José Luis Feito Higueruela	100	-	100
Mr. Fernando Fernández Méndez de Andés	100	-	100
Mr. Álvaro Rengifo Abbad	80	-	80
Mr. Antonio Greño Hidalgo (2)	100	-	100

(2) On 17 October 2017, Mr. Álvaro Rengifo Abbad resigned as director. The amounts shown correspond to the period from 1 January to 17 October 2017.

(2) The targeted amount of annual bonuses for the three executive directors was EUR 250 thousand per director in 2017. The data corresponding to the annual bonuses accrued by these three directors in 2017 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(3) The targeted amount of long-term bonuses for the three executive directors was EUR 150 thousand per director in 2017; note, however, that the sum of that remuneration and the annual bonus may not exceed 60% of their fixed remuneration. The data corresponding to the long-term bonuses accrued by these three directors in 2017 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(5.2) Remuneration of the Bank's senior executives (Management Committee)

a) Remuneration accrued at the Bank

For the purposes of these financial statements, the members of the Management Committee, without taking into consideration the executive directors, were considered as senior executives. A total of four people, Mr. Miguel Crespo Rodríguez, Mrs. Amalia Blanco Lucas, Mr. Fernando Sobrini Aburto and Mr. Gonzalo Alcubilla Povedano, were classified for these purposes as key personnel for the Bank.

Regarding remuneration of senior executives, the Entity applies the provisions of Royal Decree-Law 2/2012, of 3 February, on the reorganisation of the financial sector, Law 3/2012, of 6 July, on urgent measures to reform the labour market, Ministry of Economy Order ECC/1762/2012, of 3 August and Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

i) Gross remuneration

The following table shows the remuneration received by the senior executives:

(Thousands of euros)

	Short-term remuneration (1)	Long-term remuneration (2)	Post-employment benefits (2)	Termination benefits	Total
Senior Executives	2,357	302	123	-	**2,782**

(1) Includes the target variable remuneration for 2017 of the four Management Committee members, which amounts to EUR 725 thousand, although the definitive assessment is pending.

(2) The targeted amount of long-term bonuses for the three executive directors was EUR 150 thousand per director in 2017; note, however, that the sum of that remuneration and the annual bonus may not exceed 60% of their fixed remuneration. The data corresponding to the long-term bonuses accrued by these three directors in 2017 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(3) Correspons to contribution mades in respect of pensions and life insurance premiums.

ii) Golden parachute clauses in senior executive contracts

Pursuant to additional provision seven of Law 3/2012, Bankia may not pay "compensation for termination of contract" for employment contracts of senior executives of Bankia in excess of the lower of the following amounts:

EUR 1,000,000 or
Two years of the fixed compensation stipulated.

Compensation for termination of contract includes any amount of a compensatory nature that the director may receive as a consequence of termination of contract, whatever the reason, origin or purpose, so that the sum of all the amounts that may be received may not exceed the established limits.

The contracts of four senior executives included clauses that set compensation for all items if they are dismissed for legal reasons, except for disciplinary reasons considered legally valid, equivalent to two years' fixed compensation. Pursuant to prevailing legislation, Bankia has amended these contracts, establishing that any compensation and/or amounts received by senior executives must comply with Royal Decree-Law 2/2012, Law 3/2012 and Law 10/2014.

iii) Share-based payment schemes

No shares were delivered as no amounts of variable compensation were paid in 2017.

(5.3) Situation of conflict of interest of Bank directors' holdings and business activities

In accordance with the disclosure requirements under Section 229 of Royal Legislative Decree 1/2010, of 2 July, enacting the Consolidated Text of the Spanish Enterprises Act, it is hereby stated that at 31 December 2017, directors are not in any of the situations constituting a conflict of interest set out said article.

According to the Regulations of the Board of Directors, directors must notify the Board of Directors of any direct or indirect conflict which they themselves or persons related to them may have with the interests of the Company. Moreover, directors must refrain from deliberating or voting on resolutions or decisions in which they, or persons related to them, have a direct or indirect conflict of interest.

In this respect, in accordance with Section 228.c) of Royal Legislative Decree 1/2010, of 2 July, enacting the Consolidated Text of the Spanish Corporations Act, it is hereby stated that in 2017:

- On 8 occasions, Bank directors (Joaquín Ayuso García, Eva Castillo Sanz and Fernando Férnandez Méndez de Andés) refrained from participating in the deliberation and voting on matters at the Board of Directors' meetings regarding transactions that they, or persons related to them, had a direct or indirect potential conflict of interest with the Bank.
- On one occasion, directors José Ignacio Goirigolzarri Tellaeche, Francisco Javier Campo García and Antonio Ortega Parra, as directors of Bankia, S.A. and patrons of Fundación Bankia through dual training programmes, also refrained from participating in the deliberations and voting on the Dual Training agreement transfer proposal between Bankia and Fundación Bankia.
- In addition, in keeping with best practices in corporate governance, the Entity's executive directors, José Ignacio Goirigolzarri Tellaeche, José Sevilla Álvarez and Antonio Ortega Parra, in light of their vested interests as directors of the Board of Directors of BFA, in addition to the vested interest of José Ignacio Goirigolzarri Tellaeche's by virtue of his role as the natural person representing the FROB and serving director and chairman of the Board of Directors, abstained from participating in any of the deliberations and votes related to the merger between Bankia and Banco Mare Nostrum during both the preliminary study and analysis phase and during the subsequent decision-making phase. These same directors refrained from participating in the deliberations and votes corresponding to the sale of Bankia shares by BFA and the extension of financing to BFA by Bankia.

(6) Proposed distribution of profit of Bankia, S.A.

The allocation of individual profit of Bankia, S.A. for the financial year ended 31 December 2017 proposed by the Board of Directors of Bankia, S.A., to be submitted for approval at the General Meeting of Shareholders (with data for 2016 presented for purposes of comparison), is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
To reserves	128,666	402,031
To dividends	340,086	317,424
Net profit for the year	**468,752**	**719,455**

(7) Cash, cash balances at central banks and other demand deposits

The detail of "Cash, cash balances at central banks and other demand deposits" in the accompanying balance sheet at 31 December 2017 and 2016:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Cash	878,204	760,514
Balances with the Central Banks	2,614,513	1,202,912
Other demand deposits	262,353	118,345
Total	**3,755,070**	**2,081,771**

(8) Financial assets and liabilities held for trading

Breakdown

The detail, by counterparty and type of instrument, of these items in the balance sheet at 31 December 2017 and 2016, showing the carrying amounts at 31 December 2017 and 2016:

(Thousands of euros)

	31/12/2017		31/12/2016	
ITEM	Asset positions	Liability positions	Asset positions	Liability positions
By counterparty				
Credit institutions	4,590,009	6,586,819	5,869,677	8,051,307
Resident public sector	148,361	3,043	179,651	123
Other resident sectors	1,646,782	792,789	1,824,810	872,935
Other non-resident sectors	333,900	67,338	404,584	83,670
Total	**6,719,052**	**7,449,989**	**8,278,722**	**9,008,035**
By type of instrument				
Trading derivatives	6,712,727	7,106,560	8,266,655	8,549,198
Equity instruments	4,324	-	7,062	-
Debt securities	2,001	-	5,005	-
Short positions	-	343,429	-	458,837
Total	**6,719,052**	**7,449,989**	**8,278,722**	**9,008,035**

Note 3.1 contains information on the credit risk assumed by the Bank in relation to these financial assets. Notes 3.2 and 3.4 contain, respectively, information relating to the liquidity risk and interest rate risk assumed by the Bank in relation to the financial assets included in this category.

Note 23 contains certain information on the fair value of these financial assets, while Note 3.1.5 discloses certain information on the risk concentration of, inter alia, certain assets included in this category of financial instruments.

Financial Assets and Liabilities held for trading. Derivatives

The breakdown of the derivatives held for trading at fair value, by type of derivatives, in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017 Fair Value	31/12/2017 Amount netted	31/12/2017 Carrying amount	31/12/2016 Fair Value	31/12/2016 Amount netted	31/12/2016 Carrying amount
Debit balances:						
Unmatured foreign currency purchases and sales	72,198	-	72,198	40,010	-	40,010
Equity instrument derivatives	10,304	-	10,304	7,790	-	7,790
Interest rate derivatives	12,698,116	(6,106,161)	6,591,955	17,395,545	(9,210,330)	8,185,215
Credit derivatives	1,485	-	1,485	3,769	-	3,769
Other	36,785	-	36,785	29,871	-	29,871
Total	**12,818,888**	**(6,106,161)**	**6,712,727**	**17,476,985**	**(9,210,330)**	**8,266,655**
Credit balances:						
Unmatured foreign currency purchases and sales	37,554	-	37,554	37,468	-	37,468
Equity instrument derivatives	11,329	-	11,329	8,513	-	8,513
Interest rate derivatives	13,113,703	(6,106,161)	7,007,542	17,669,412	(9,210,330)	8,459,082
Credit derivatives	1,665	-	1,665	4,796	-	4,796
Other	48,470	-	48,470	39,339	-	39,339
Total	**13,212,721**	**(6,106,161)**	**7,106,560**	**17,759,528**	**(9,210,330)**	**8,549,198**

The detail, by maturity, of the notional amount of the trading derivatives at 31 December 2017, is as follows:

(Thousands of euros)

ITEM	0 to 3 years	3 to 10 years	More than 10 years	Total
Unmatured foreign currency purchases and sales	2,259,147	158,157	-	2,417,304
Securities derivatives	1,647,750	3,378,084	177,000	5,202,834
Interest rate derivatives	90,550,036	115,765,217	87,343,389	293,658,642
Credit derivatives	-	324,777	-	324,777
Other	2,551,369	-	-	2,551,369
Total	**97,008,302**	**119,626,235**	**87,520,389**	**304,154,926**

The detail, by maturity, of the notional amount of the trading derivatives at 31 December 2016, is as follows:

(Thousands of euros)

ITEM	0 to 3 years	3 to 10 years	More than 10 years	Total
Unmatured foreign currency purchases and sales	2,682,949	301,070	-	2,984,019
Securities derivatives	2,885,847	2,929,116	625,789	6,440,752
Interest rate derivatives	91,320,771	144,083,665	81,955,251	317,359,687
Credit derivatives	-	348,852	-	348,852
Other	1,952,798	-	-	1,952,798
Total	**98,842,365**	**147,662,703**	**82,581,040**	**329,086,108**

The notional amount of derivatives is the amount that is used as a basis for estimating the results associated therewith, although, bearing in mind that a highly significant portion of these positions offset each other, thus hedging the risks assumed, the notional amount cannot be understood to represent a reasonable measure of the Bank's exposure to the risks associated with these products.

Financial Assets held for trading. Equity instruments

The breakdown of this heading in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Equity instruments		
Shares of resident companies	4,316	6,998
Shares of non-resident foreign companies	8	64
Total	4,324	**7,062**

Financial Assets held for trading. Debt securities

The breakdown of this heading in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Equity instruments		
Shares of resident companies	2,001	5,005
Total	2,001	**5,005**

The average effective annual interest rate of debt securities included in the held-for trading investments portfolio at 31 December 2017 was 0.81% (0.18% at 31 December 2016).

(9) Available-for-sale financial assets

Breakdown

The detail of this item, by type of counterparty and type of financial instrument in the accompanying balance sheet, is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Credit institutions	1,611,384	3,387,722
Resident public sector	16,210,851	15,907,429
Non-resident public sector	4,280,064	4,387,954
Other resident sectors	201,704	826,765
Other non-resident sectors	423,051	914,513
Doubtful assets	3,467	4,657
Impairment losses	(4,624)	(8,264)
Total	**22,725,897**	**25,420,776**
By type of instrument		
Debt securities	22,668,708	25,394,669
Spanish government debt securities	16,210,851	15,907,429
Government bonds and obligations	15,850,136	15,236,466
Regional administrations	360,715	670,963
Foreign government debt securities	4,280,064	4,387,954
Issued by financial institutions	1,589,866	3,385,359
Other fixed-income securities	592,551	1,722,191
Impairment losses	(4,624)	(8,264)
Equity instruments	57,189	26,107
Total	**22,725,897**	**25,420,776**

Note 3.1 contains information on the credit risk assumed by the Bank in relation to these financial assets. Notes 3.2 and 3.4 contain, respectively, information relating to the liquidity risk and interest rate risk assumed by the Bank in relation to the financial assets included in this category.

Note 22 provides details of the gains and losses on these financial instruments recognised under “Accumulated other comprehensive income -Items that may be reclassified to profit or loss -Available-for-sale financial assets” in the accompanying balance sheet.

Note 23 contains certain information on the fair value of these financial assets, while Note 3.1.5 discloses certain information on the risk concentration of, inter alia, certain assets included in this category of financial instruments.

The average effective annual interest rate of debt securities included in the available-for-sale financial assets portfolio at 31 December 2017 was 1.27% (1.73% at 31 December 2016).

Past-due and/or impaired assets

At 31 December 2017 and 2016, no asset recognised under "Available-for-sale financial assets" was past-due but not impaired.

The detail of those assets recognised under "Available-for-sale financial assets – Debt securities", that were considered to be impaired at 31 December 2017 and 2016, is as follows:

Impaired assets

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Credit institutions	2,677	199
Other non-resident sectors	790	4,458
Total	**3,467**	**4,657**

Changes for the year in impairment losses

A summary of the changes in relation to impairment losses and fair value adjustments due to credit risk of debt securities included in this portfolio for the year ended 31 December 2017 and 2016 are as follows:

At 31 December 2017

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 December 2016	**4,656**	**3,608**	**8,264**
Impairment losses for the year charged to income	-	4,818	4,818
Available credit loss allowance	(4,656)	(2,350)	(7,006)
Net provision/(release) charged/(credited) to income statement	**(4,656)**	**2,468**	**(2,188)**
Amount used for depreciated assets	-	(4,878)	(4,878)
Additions due to business combination	3,398	28	3,426
Balances at 31 December 2017	**3,398**	**1,226**	**4,624**
Of which:			
Type of counterparty:	**3,398**	**1,226**	**4,624**
Entities resident in Spain	-	318	318
Entities resident abroad	3,398	908	4,306

At 31 December 2016

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 December 2015	**4,637**	**1,569**	**6,206**
Impairment losses for the year charged to income	11,487	12,546	24,033
Available credit loss allowance	(11,468)	-	(11,468)
Net provision/(release) charged/(credited) to income statement	**19**	**12,546**	**12,565**
Amount used for depreciated assets	-	(10,507)	(10,507)
Balances at 31 December 2016	**4,656**	**3,608**	**8,264**
Of which:			
Type of counterparty:	**4,656**	**3,608**	**8,264**
Entities resident in Spain	-	1,768	1,768
Entities resident abroad	4,656	1,840	6,496

In 2017, the Bank has not recognised amoutns in the income statement for impairment losses on equity instruments recognised under “Non-current assets and disposal group classified as held for sale” (6,011 thousand euros as of 31 December 2016).

(10) Loans and receivables

Breakdown

The detail, by type of financial instrument, of "Loans and receivables" on the asset side of the balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Loans and advances to customers		
Debt securities	447,545	727,138
Loans and advances	131,745,343	114,127,295
Credit institutions	3,023,662	3,571,008
Customers	128,721,681	110,556,287
Sum	**132,192,888**	**114,854,433**
Impairment losses	(5,716,579)	(5,870,315)
Other valuation adjustments	197,812	874
Total	**126,674,121**	**108,984,992**

Note 3.1 contains information on the credit risk assumed by the Bank in relation to these financial assets. Notes 3.2 and 3.4 contain, respectively, information relating to the liquidity risk and interest rate risk assumed by the Bank in relation to the financial assets included in this category.

Note 23 contains certain information on the fair value of these financial assets, while Note 3.1.5 discloses certain information on the risk concentration of, inter alia, certain assets included in this category of financial instruments.

Credit quality of Loans and Receivables Portfolio. Guarantees received

The breakdown at 31 December 2017 and 2016 of guarantees received related to Loans and Receivables in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Value of the collateral	86,927,190	75,039,353
Of which: collateral with default risks	10,213,726	9,443,706
Value of others collateral	-	-
Of which: collateral with default risks	-	-
Total	**86,927,190**	**75,039,353**

(*) Guarantees are stated at the lower of the value of the collateral received and the amount of the loans, except for non-performing transactions, for which fair value is used.

Loans and receivables. Loans and advances. Credit institutions

The detail, by instrument type, of this caption on the balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By instrument type		
Time deposits	114,398	104,830
Reverse repurchase agreements	685,968	847,412
Other financial assets	2,222,660	2,618,766
Doubtful assets	636	-
Sum	**3,023,662**	**3,571,008**
Impairment losses	(626)	-
Other valuation adjustments	6,247	7,813
Total	**3,029,283**	**3,578,821**

The average effective annual interest rate of financial instruments included under this heading at 31 December 2017 was 0% (0% at 31 December 2016).

Loans and receivables. Loans and advances. Customers

The detail, by loan type and status and counterparty, of this caption on the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Resident public sector	5,471,233	5,303,230
Other financial corporations	2,998,641	2,055,942
Non-financial corporations (1)	32,327,228	27,410,522
Households	82,403,578	69,909,877
Total	**123,200,680**	**104,679,571**
By loan type and status		
Commercial credit	5,129,122	4,218,706
Secured loans	78,740,312	67,044,367
Reverse repurchase agreements	255,649	468,561
Other term loans	29,112,330	25,550,911
Receivable on demand and other	2,596,674	1,960,008
Other financial assets (1)	1,619,779	594,545
Doubtful assets	11,267,815	10,719,189
Sum	**128,721,681**	**110,556,287**
Impairment losses	(5,707,017)	(5,869,777)
Other valuation adjustments	186,016	(6,939)
Total	**123,200,680**	**104,679,571**

The carrying amount recorded in the foregoing table, disregarding the portion relating to “Other valuation adjustments”, represents the Bank's maximum level of credit risk exposure in relation to the financial instruments included therein.

The average effective annual interest rate of financial instruments included under this heading at 31 December 2017 was 1.68% (1.68% at 31 December 2016).

“Loans and receivables - Loans and advances - Customers” in the accompanying balance sheet includes certain loans with mortgage collateral which, as indicated in Appendix VII and under the Mortgage Market Law are considered eligible to guarantee the issue of long-term mortgage-backed securities. This item also includes certain securitised loans that have not been derecognised from the balance sheet (see Note 2.5.2). The amounts shown in the accompanying balance sheet related to securitised loans are:

(Thousands of euros)

Securitised loans	31/12/2017	31/12/2016
Securitised mortgage-backed assets	11,603,686	12,474,745
Of which:		
Receivable on demand and other	2,720	2,048
Doubtful assets	586,295	710,396
Other securitised assets	727	5,755
Total securitised assets (Note 25.1.1)	**11,604,413**	**12,480,500**
Of which:		
Liabilities associated with assets kept on the balance sheet (*)	2,059,762	2,468,446

(*) Recognised under "Financial liabilities at amortised cost – Deposit - Customers" in the accompanying balance sheet.

Other securitised loans were derecognised from the accompanying balance sheet as the Bank did not retain substantially either the risks or rewards, as follows:

(Thousands of euros)

Securitised loans	31/12/2017	31/12/2016
Securitised mortgage-backed assets	341,728	552,204
Other securitised assets	50	50
Total securitised assets (Nota 25.1.1)	**341,778**	**552,254**

As indicated in Note 1.15, in 2012 assets classified under this balance sheet heading were transferred to the SAREB. In 2013, 2015 and 2016, an adjustment was made to the deed of transfer of assets.

Doubtful assets

The amounts shown in the accompanying balance sheet related to doubtful assets are:

(Thousands of euros)

ITEM	2017	2016
Accounting balance at the beginning of the period	**10,719,189**	**12,260,113**
Additions	1,676,907	3,240,896
Disposals	(3,383,874)	(4,781,820)
Through foreclosure	(478,176)	(561,245)
Through portfolios sales	(338,420)	(445,100)
Through reversals and others	(1,991,618)	(3,388,380)
Through forgiveness and disposals of assets	(575,660)	(387,095)
Additions due to business combination	2,255,593	-
Accounting balance at the end of the period	**11,267,815**	**10,719,189**

Loans and receivables. Loans and advances. Credit institutions and customers. Past-due and impaired assets (doubtful)

Following is a detail of assets classified as "Loans and receivables - Loans and advances -Credit institutions" and "Loans and receivables - Loans and advances- Customers", considered to be impaired at 31 December 2017 and 2016, and of the assets which, although not considered to be impaired, include any past-due amounts as at those dates, by counterparty.

Impaired assets at 31 December 2017 and 2016

The table below shows the classification of the Bankia's doubtful assets related to “Loans and advances - customers” and “Loans and advances - credit institutions” at 31 December 2017 and 2016, by counterparty, age of the oldest past-due amount of each operation or consideration as impaired, and the type of collateral:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Resident public sector	128,209	40,276
Credit institutions	626	-
Other financial corporations	42,270	25,509
Non-financial corporations	5,473,036	6,064,678
Households	4,822,050	3,694,804
Total	**10,466,191**	**9,825,267**
By age		
Up to 6 months	4,636,683	4,540,201
Between 6 and 9 months	506,216	506,594
9 to 12 months	230,321	377,971
More than 12 months	5,092,971	4,400,501
Total	**10,466,191**	**9,825,267**
By type of collateral		
Operation with full mortgage collateral	6,955,661	5,758,014
Operation with other collateral	84,479	60,027
Operation without collateral	3,426,051	4,007,226
Total	**10,466,191**	**9,825,267**

The amount of past-due and impaired not accumulated doubtful assets by 31 December 2017 amounts to EUR 401,117 thousand (EUR 368,071 thousand by 31 December 2016).

The following table provides a breakdown of doubtful assets with collateral included in this category by the percentage of risk in relation to the value of the collateral ("loan to value"), as the key measure for the collateral in relation to the risks to which it is exposed:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Lower than or equal to 40%	971,323	835,692
Greater than 40% and lower than or equal to 60%	954,859	957,003
Greater than 60% and lower than or equal to 80%	1,973,502	866,119
Greater than 80%	3,140,456	3,159,227
Total	**7,040,140**	**5,818,041**

Assets including past-due amounts not considered to be impaired at 31 December 2017 and 2016

The table below shows the classification of assets past-due but not impaired related to loans and receivables to customers and credit institutions at 31 December 2017 and 2016, by counterparty, age past-due and type of collateral:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Credit institutions	515	1,705
Public sector	15,143	109,861
Other financial corporations	15,058	9,016
Non-financial corporations	300,859	358,314
Households	625,496	570,498
Total	**957,071**	**1,049,394**
By age		
Less than one month	330,847	329,159
Between 1 and 3 months	92,700	127,410
More than 3 months	533,524	592,825
Total	**957,071**	**1,049,394**
By type of collateral		
Operation with full mortgage collateral	812,354	792,034
Operation with other collateral	3,622	2,279
Operation without collateral	141,095	255,081
Total	**957,071**	**1,049,394**

The following table provides a breakdown of assets with collateral included in this category by the percentage of risk in relation to the value of the collateral ("loan to value"), as the key measure for the collateral in relation to the risks to which it is exposed:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Lower than or equal to 40%	302,187	287,592
Greater than 40% and lower than or equal to 60%	236,913	299,314
Greater than 60% and lower than or equal to 80%	173,042	189,253
Greater than 80%	103,834	18,154
Total	**815,976**	**794,313**

The table below shows the changes for the years ended 31 December 2017 and 2016 in provisions for impairment losses and fair value adjustments due to credit risk in relation to assets in "Credit institutions" and " under "Loans and receivables -Loans and advances " on the accompanying balance sheet:

31 December 2017

(Thousands of euros)

ITEM	General allowance	Country risk allowance	Specific allowance	Total
Balances at 31 December 2016	**593,467**	**16,441**	**5,259,869**	**5,869,777**
Individually assessed	-	-	2,738,630	2,738,630
Collectively assessed	593,467	16,441	2,521,239	3,131,147
Impairment losses for the year charged to income	122,612	8,335	1,717,164	1,848,111
Available credit loss allowance	(223,835)	(19,815)	(1,307,436)	(1,551,086)
Net provision/(release) charged/(credited) to income statement	**(101,223)**	**(11,480)**	**409,728**	**297,025**
Amounts used for depreciated assets	(1,664)	-	(1,410,837)	(1,412,501)
Other changes	108,649	-	(134,253)	(25,604)
Exchange differences	(1,284)	-	(45,715)	(46,999)
Additions due to business combination	126,339	36	899,570	1,025,945
Balances at 31 December 2017	**724,284**	**4,997**	**4,978,362**	**5,707,643**
Individually assessed	-	-	2,263,709	2,263,709
Collectively assessed	724,284	4,997	2,714,653	3,443,934
Of which:				
Type of counterparty:	**724,284**	**4,997**	**4,978,362**	**5,707,643**
Entities resident in Spain	704,356	-	4,600,275	5,304,631
Entities resident abroad	19,928	4,997	378,087	403,012

31 December 2016

(Thousands of euros)

ITEM	General allowance	Country risk allowance	Specific allowance	Total
Balances at 31 December 2015	**56,329**	**21,393**	**7,318,738**	**7,396,460**
Individually assessed	-	-	4,574,569	4,574,569
Collectively assessed	56,329	21,393	2,744,169	2,821,891
Impairment losses for the year charged to income	543,374	15,940	1,425,676	1,984,990
Available credit loss allowance	-	(20,893)	(1,720,940)	(1,741,833)
Net provision/(release) charged/(credited) to income statement	**543,374**	**(4,953)**	**(295,264)**	**243,157**
Amounts used for depreciated assets	(6,482)	-	(1,231,937)	(1,238,419)
Other changes	-	-	(537,363)	(537,363)
Exchange differences	246	1	5,695	5,942
Balances at 31 December 2016	**593,467**	**16,441**	**5,259,869**	**5,869,777**
Individually assessed	-	-	2,738,630	2,738,630
Collectively assessed	593,467	16,441	2,521,239	3,131,147
Of which:				
Type of counterparty:	**593,467**	**16,441**	**5,259,869**	**5,869,777**
Entities resident in Spain	572,690	-	4,694,093	5,266,783
Entities resident abroad	20,777	16,441	565,776	602,994

The different items recognised in 2017 and 2016 under “impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss” on the income statements for those years are summarised below:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Net charge for the year	297,032	243,149
Written-off assets recovered	(23,451)	(44,998)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss – Loans and receivables (Note 38)	**273,581**	**198,151**

Loans and receivables. Debt securities

The breakdown, by counterparty, of this balance sheet heading:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Other resident sectors	367,402	578,548
Other non-resident sectors	66,774	89,467
Doubtful assets	13,369	438
Impairment losses and fair value adjustments due to credit risk	(8,936)	(538)
Other valuation adjustments	5,549	58,685
Total	**444,158**	**726,600**

The average effective annual interest rate of debt securities included in loans and receivables portfolio at 31 December 2017 has increased to 3.53% (3.75% at 31 December 2016).

Impaired assets at 31 December 2017 and 2016

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Other resident sectors	13,369	438
Total	**13,369**	**438**

At 31 December 2017 and 2016, no assets recognised under "Loans and receivables – Debt securities" were past-due but not impaired.
A summary of the changes in impairment losses, due to credit risk, on debt securities recognised as loans and receivables for the years ended 31 December 2017 and 2016 are as follows:

31 December 2017

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed
Balances at 31 December 2016	-	**538**
Impairment losses for the year charged to income	-	76
Available credit loss allowance	-	(69)
Net provision/(release) charged/(credited) to income statement	-	**7**
Amount used for depreciated assets and other netted changes	-	(289)
Additions due to business combination	-	8,680
Balances at 31 December 2017		**8,936**
Of which:		
Type of counterparty:	-	**8,936**
Entities resident in Spain	-	8,802
Entities resident abroad	-	134

31 December 2016

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed
Balances at 31 December 2015	-	**546**
Impairment losses for the year charged to income	-	185
Available credit loss allowance	-	(193)
Net provision/(release) charged/(credited) to income statement	-	**(8)**
Amount used for depreciated assets and other netted changes	-	-
Balances at 31 December 2016	-	**538**
Of which:		
Type of counterparty:	-	**538**
Entities resident in Spain	-	360
Entities resident abroad	-	178

(11) Held-to-maturity investments

Breakdown

The breakdown of this heading in the accompanying balance sheet by type of counterparty and financial instrument is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Credit institutions	2,815	8,633
Resident public sector	10,204,196	9,643,345
Non-resident public sector	1,259,824	1,270,522
Other resident sectors (*)	20,818,794	16,589,384
Other non-resident sectors	67,922	187,106
Doubtful assets	-	2,384
Impairment loss	(184)	(6,311)
Total	**32,353,367**	**27,695,063**
By type of instrument		
Spanish government debt securities	10,204,196	9,643,345
Foreign government debt securities	1,259,824	1,270,522
Bonds and obligations (*)	20,889,531	16,787,507
Impairment loss	(184)	(6,311)
Total	**32,353,367**	**27,695,063**

(*) Includes debt securities received as consideration for assets transferred to the SAREB recognised at nominal amount and backed by the Spanish government (see Note 1.15).

Note 3.1 contains information on the credit risk assumed by the Bank in relation to these financial assets. Notes 3.2 and 3.4 contain, respectively, information relating to the liquidity risk and interest rate risk assumed by the Bank in relation to the financial assets included in this category.

Note 23 contains certain information on the fair value of these financial assets, while Note 3.1.5 discloses certain information on the risk concentration of, inter alia, certain assets included in this category of financial instruments.

The average effective annual interest rate of debt securities included in the held-to-maturity investments portfolio at 31 December 2017 was 0.72% (0.82% at 31 December 2016).

A summary of the changes in relation to impairment losses and fair value adjustments due to credit risk in this portfolio for the years ended 31 December 2017 and 2016 is as follows:

31 December 2017

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed
Balances at 31 December 2016	**-**	**6,311**
Impairment losses for the year charged to income	-	609
Available credit loss allowance	-	(4,338)
Net provision/(release) charged/(credited) to income statement	**-**	**(3,729)**
Amounts used for depreciated assets and other net movements	-	(2,398)
Balances at 31 December 2017		**184**
Of which:	**-**	
Type of counterparty:	-	**184**
Entities resident in Spain	-	51
Entities resident abroad	**-**	133

31 December 2016

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed
Balances at 31 December 2015	**-**	**27,821**
Impairment losses for the year charged to income	-	23,648
Available credit loss allowance	-	(35,757)
Net provision/(release) charged/(credited) to income statement	**-**	**(12,109)**
Amounts used for depreciated assets and other net movements	-	(9,401)
Balances at 31 December 2016	**-**	**6,311**
Of which:		
Type of counterparty:	**-**	**6,311**
Entities resident in Spain	-	2,151
Entities resident abroad	-	4,160

Held-to-maturity portfolios investments. Past-due and impaired assets

A breakdown of assets recognised under "Held-to-maturity investments" that were considered to be impaired at 31 December 2017 and 2016 are as shown below.

The Bank did not have any assets classified as held to maturity at 31 December 2017 and 2016 with any past-due amount but not impaired.

Impaired assets at 31 December 2017 and 2016

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
By counterparty		
Other resident sectors	-	2,384
Total	**-**	**2,384**

(12) Derivatives– hedge accounting

At 31 December 2017 and 2016, the Bank had entered into financial derivative hedging arrangements with counterparties of recognised creditworthiness as the basis of an improved management of the risks inherent to its business (see Note 3).

The Bank enters into hedges on a transaction-by-transaction basis by assessing the hedging instrument and the hedged item on an individual basis and continually monitoring the effectiveness of each hedge, to ensure that changes in the value of the hedging instrument and the hedged item offset each other.

Note 2.6 details the Bank's main hedged positions and the financial hedging instruments.

Following is a breakdown, by type of derivative and for each type of hedge, of the fair value of derivatives designated as hedging instruments at 31 December 2017 and 2016:

(Thousands of euros)

ITEMS	31/12/2017 Fair Value	31/12/2017 Netting	31/12/2017 Carrying Amount	31/12/2016 Fair Value	31/12/2016 Netting	31/12/2016 Carrying Amount
Debit Balance:						
Operations of fair value hedges	3,372,088	(315,939)	3,056,149	4,137,333	(520,694)	3,616,639
Operations of cash flow hedges	2,192	-	2,192	3,654	-	3,654
Total	**3,374,280**	**(315,939)**	**3,058,341**	**4,140,987**	**(520,694)**	**3,620,293**
Credit Balance:						
Operations of fair value hedges	677,421	(315,939)	361,482	1,235,145	(520,694)	714,451
Operations of Cash flow hedges	15,987	-	15,987	8,583	-	8,583
Total	**693,408**	**(315,939)**	**377,469**	**1,243,728**	**(520,694)**	**723,034**

Operations of fair value hedges:

(Thousands of euros)

ITEMS	31/12/2017 Fair Value	31/12/2017 Netting	31/12/2017 Carrying Amount	31/12/2016 Fair Value	31/12/2016 Netting	31/12/2016 Carrying Amount
Debit Balance:						
Interest rate derivatives	3,372,088	(315,939)	3,056,149	4,137,333	(520,694)	3,616,639
Total	**3,372,088**	**(315,939)**	**3,056,149**	**4,137,333**	**(520,694)**	**3,616,639**
Credit Balance:						
Interest rate derivatives	677,421	(315,939)	361,482	1,234,439	(520,694)	713,745
Rest	-	-	-	706	-	706
Total	**677,421**	**(315,939)**	**361,482**	**1,235,145**	**(520,694)**	**714,451**

Operations of cash flow hedges:

(Thousands of euros)

ITEMS	31/12/2017 Fair Value	31/12/2017 Netting	31/12/2017 Carrying Amount	31/12/2016 Fair Value	31/12/2016 Netting	31/12/2016 Carrying Amount
Debit Balance:						
Interest rate derivatives	2,192	-	2,192	3,654	-	3,654
Total	**2,192**	**-**	**2,192**	**3,654**	**-**	**3,654**
Credit Balance:						
Interest rate derivatives	15,987	-	15,987	3,215	-	3,215
Rest	-	-	-	5,368	-	5,368
Total	**15,987**	**-**	**15,987**	**8,583**	**-**	**8,583**

The cash flow hedges relate entirely to micro-hedges. Therefore, the hedged item and hedging derivative are perfectly identified. As a result, in 2017 and 2016, there was no ineffectiveness that, according to applicable regulations, required recognition on the Bank´s income statement for that year.

The detail of the periods after 31 December 2017 and 2016 at which it is estimated that the amounts recognised in equity under "Equitity - Accumulated other comprehensive income - Items that may be reclassified to profit or loss- Hedging derivatives. Cash flow hedges" at that date will be recognised in future income statements is as follows:

(Thousands of euros)

ITEMS	Remaining term to maturity as of 31 December 2017: Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	TOTAL
Losses (*)	(9,994)	(371)	(815)	(4,622)	(15,802)
Gains (*)	14	4,965	427	233	5,639
Total	**(9,980)**	**4,594**	**(388)**	**(4,389)**	**(10,163)**

(*) Taking into consideration the related tax effect.

(Thousands of euros)

ITEMS	Remaining term to maturity as of 31 December 2016: Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	TOTAL
Losses (*)	-	(31)	-	(8,193)	(8,224)
Gains (*)	-	135	6,689	450	7,274
Total	**-**	**104**	**6,689**	**(7,743)**	**(950)**

(*) Taking into consideration the related tax effect.

The table below presents an estimate at 31 December 2017 and 2016 of future receipts and payments hedged with cash flow hedges, classified by the time as from that date that the hedges are expected to take effect in the form of receipt or payment:

(Thousands of euros)

	Remaining term to maturity as of 31 December 2017			
ITEMS	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Receipts	131,899	9,466	41,670	30,694
Payments	(128,603)	(8,179)	(44,243)	(30,711)
Total	**3,296**	**1,287**	**(2,573)**	**(17)**

(Thousands of euros)

	Remaining term to maturity as of 31 December 2016			
ITEMS	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Receipts	11,819	155,426	9,904	175,020
Payments	(10,616)	(138,171)	(10,274)	(174,095)
Total	**1,203**	**17,255**	**(370)**	**925**

The detail, by maturity, of the notional amount of the derivatives classified as hedging derivatives at 31 December 2017 and 2016 is as follows:

(en miles de euros)

	Remaining term to maturity as of 31 December 2017			
ITEMS	0 to 3 years	3 to 10 years	More than 10 years	Total
Interest rate derivatives	11,519,390	16,872,807	3,610,413	32,002,610
Total	**11,519,390**	**16,872,807**	**3,610,413**	**32,002,610**

(en miles de euros)

	Remaining term to maturity as of 31 December 2016			
ITEMS	0 to 3 years	3 to 10 years	More than 10 years	Total
Interest rate derivatives	11,791,925	15,509,433	4,403,228	31,704,586
Other	135,000	-	-	135,000
Total	**11,926,925**	**15,509,433**	**4,403,228**	**31,839,586**

(13) Investments in subsidiaries, joint ventures and associates

(13.1) Investments in subsidiaries, joint ventures and associates – Group entities

The detail of the main investments under "Investments in subsidiaries, joint ventures and associates – Group entities" in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

COMPANY	31/12/2017	31/12/2016
Arrendadora Aeronáutica, A.I.E.	62,057	62,057
Arrendadora de Equipamientos Ferroviarios, S.A.	10,812	10,812
Bankia Fondos, SGIIC, S.A.	66,422	66,422
Bankia Habitat, S.L.U.	3,904,326	3,898,052
Bankia Inversiones Financieras, S.A.U.	1,182,206	1,182,206
Bankia Pensiones, S.A., EGFP	114,000	114,000
BMN Brokers Correduría de Seguros, S.A.U.	3,051	-
BMN Mediación Operador de Banca-Seguros Vinculado, S.L.U.	5,500	-
Centro de Servicios Operativos e Ingeniería de Procesos, S.L.	12,522	12,522
Corporación Empresarial Mare Nostrum, S.L.U.	65,446	-
Corporación Industrial Bankia, S.A.U.	702,525	702,525
Gesmare Sociedad Gestora, S.L.U.	13	-
Gesnostrum Sociedad Gestora, S.L.U.	3,644	-
Innostrum Division Inmobiliaria, S.L.U.	37,642	-
Inversiones y Desarrollos 2069 Madrid, S.L.U.	39,480	39,480
Mediación y Diagnósticos, S.A.	20,344	20,344
Pagumar, A.I.E.	-	57,894
Puertas de Lorca Desarrollos Empresariales, S.L.U.	10,240	-
Valenciana de Inversiones Mobiliarias, S.L.U.	136,841	136,841
Vector Capital, S.L.U.	18,763	-
Other investments	7,788	7,848
Sum	**6,403,622**	**6,311,003**
Valuation adjustments - Impairment losses	**(3,724,977)**	**(3,774,655)**
Total	**2,678,645**	**2,536,348**

Changes in this balance sheet heading in 2017 and 2016 were as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Accounting balance at the beginning of the year	**2,536,348**	**3,100,697**
Acquisitions	-	361,576
Disposals	(57,954)	(1,442,535)
Others changes	6,274	-
Additions due to business combination	60,586	-
Net change in impairment losses	133,391	516,610
Total	**2,678,645**	**2,536,348**

(13.2) Investments in subsidiaries, joint ventures and associates - Jointly-controlled entities

The detail of the main investments under "Investments in subsidiaries, joint ventures and associates – Jointly-controlled entities" in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

COMPANY	31/12/2017	31/12/2016
Cajagranada Vida, Compañía de Seguros y Reaseguros, S.A.	17,281	-
Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.	16,826	-
Subtotal	**34,107**	-
Valuation adjustments – Imparment losses	**(2,518)**	-
Total	**31,589**	-

Changes in this balance sheet heading in 2017 and 2016 were as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Accounting balance at the beginning of the year	-	-
Acquisitions	-	-
Disposals	-	-
Additions due to business combination	**31,589**	-
Net change in impairment losses	-	-
Total	**31,589**	-

(13.3) Investments in subsidiaries, joint ventures and associates – Associates

The detail of the main investments under "Investments in subsidiaries, joint ventures and associates – Associates " in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousand of euros)

COMPANY	31/12/2017	31/12/2016
Bankia Mapfre Vida, S.A. de Seguros y Reaseguros	173,050	173,050
Avalmadrid, S.G.R. (1)	29,578	-
Redsys Servicios Procesamiento SL	7,676	-
Nettit Colaborative Payment, S.L.	3,000	-
Subtotal	**213,304**	**173,050**
Valuation adjustments - Impairment losses	**(83,394)**	**(47,026)**
Total	**129,910**	**126,024**

(1) Investment transferred to "Non-current assets held for sale"

Changes in this balance sheet heading in 2017 and 2016 were as follows:

(Thousands of euros)

ITEMS	31/12/2017	31/12/2016
Accounting balance at the beginning of the year	**126,024**	**124,748**
Acquisitions	10,676	173,050
Disposals	-	(179,900)
Transfers (Note 17)	29,578	
Net change of impairment loss	(36,368)	8,126
Total	**129,910**	**126,024**

(13.4) Investments in subsidiaries, joint ventures and associates – Impairment losses

A summary of the changes in impairment losses and other fair value adjustments of these items in the years ended 31 December 2017 and 2016 is as follows:

31 December 2017

(Thousands of euros)

ITEM	Group entities	Jointly-controlled entities	Associates	TOTAL
Accounting balance at the beginning of the year	**3,774,655**	**-**	**47,026**	**3,821,681**
Provision charged to income	48,315	4,029	6,790	59,134
Recovery of provisions with a credit to income	(127,263)	-	-	(127,263)
Net provision (Note 39)	**(78,948)**	**4,029**	**6,790**	**(68,129)**
Other changes and exchange differences	(54,443)	(4,029)	-	(58,472)
Transfers	-	-	29,578	29,578
Additions due to business combination	83,713	2,518	-	86,231
Total	**3,724,977**	**2,518**	**83,394**	**3,810,889**

31 December 2016

(Thousands of euros)

ITEM	Group entities	Associates	TOTAL
Accounting balance at the beginning of the year	**4,291,265**	**55,152**	**4,346,417**
Provision charged to income	163,354	-	163,354
Recovery of provisions with a credit to income	(182,737)	(8,126)	(190,863)
Net provision (Note 39)	**(19,383)**	**(8,126)**	**(27,509)**
Amounts used due to losses on sales	(497,227)	-	(497,227)
Total	**3,774,655**	**47,026**	**3,821,681**

In order to ascertain whether there are impairment losses on these investments, the Bank compares their carrying amount with their recoverable amount, which is deemed to be the higher of its market price and the present value of the future cash flows expected to be generated from continuing to hold the investment (dividends, profit/loss from ordinary activities excluding extraordinary items, gains/losses on disposal of assets, etc.).

(14) Tangible assets

The detail of this caption in the accompanying balance sheet and changes in 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	For own use	Investment property	Total
Cost			
Balances at 31/12/2015	**3,738,480**	**316,512**	**4,054,992**
Additions/disposals (net)	60,172	(14,720)	45,452
Transfers to non-current assets held for sale and other changes (1)	(75,058)	36,222	(38,836)
Balances at 31/12/2016	**3,723,594**	**338,014**	**4,061,608**
Additions/disposals (net)	100,130	(15,101)	85,029
Transfers to non-current assets held for sale and other changes (1)	(122,828)	36,470	(86,358)
Additions due to business combination	1,087,127	590,577	1,677,704
Balances at 31/12/2017	**4,788,023**	**949,960**	**5,737,983**
Accumulated depreciation			
Balances at 31/12/2015	**(2,302,762)**	**(23,495)**	**(2,326,257)**
Additions/disposals (net)	19	1,974	1,993
Depreciation for the year	(80,748)	(4,548)	(85,296)
Transfers to non-current assets held for sale and other changes (1)	49,495	1,751	51,246
Balances at 31/12/2016	**(2,333,996)**	**(24,318)**	**(2,358,314)**
Additions/disposals (net)	17	1,755	1,772
Depreciation for the year	(84,701)	(5,257)	(89,958)
Transfers to non-current assets held for sale and other changes (1)	86,591	5,218	91,809
Additions due to business combination	(575,828)	(40,584)	(616,412)
Balances at 31/12/2017	**(2,907,917)**	**(63,186)**	**(2,971,103)**
Impairment losses			
Balances at 31/12/2015	**(14,713)**	**(59,115)**	**(73,828)**
Net provision/(release) charged/(credited) to income statement	6	3,645	3,651
Transfers to non-current assets held for sale and other changes	6,651	(3,060)	3,591
Balances at 31/12/2016	**(8,056)**	**(58,530)**	**(66,586)**
Net provision/(release) charged/(credited) to income statement	(220)	182	(38)
Transfers to non-current assets held for sale and other changes	(688)	(5,184)	(5,872)
Additions due to business combination	(125,760)	(166,209)	(291,969)
Balances at 31/12/2017	**(134,724)**	**(229,741)**	**(364,465)**
Total at 31 December 2016	**1,381,542**	**255,166**	**1,636,708**
Total at 31 December 2017	**1,745,382**	**657,033**	**2,402,415**

(1) In the case of assets for own use, relates mainly to the transfer to "Non-current assets held for sale" of properties and facilities earmarked for disposal.

Recoverable amount at 31 December 2017 exceeded carrying amount.

(14.1) Tangible asset for own use

The detail, by type of asset, in this heading in the accompanying balance sheet is as follows:

31 December 2017

(Thousands of euros)

ITEM	Cost	Accumulated depreciation	Impairment losses	Net balance
Buildings and other structures	1,926,355	(417,714)	(66,259)	1,442,382
Furniture and vehicles	233,326	(198,163)	(3,167)	31,996
Fixtures	1,490,970	(1,217,404)	(61,772)	211,794
Office and IT equipment	1,137,372	(1,074,636)	(3,526)	59,210
Total	**4,788,023**	**(2,907,917)**	**(134,724)**	**1,745,382**

31 December 2016

(Thousands of euros)

ITEM	Cost	Accumulated depreciation	Impairment losses	Net balance
Buildings and other structures	1,494,712	(353,189)	(8,056)	1,133,467
Furniture and vehicles	164,902	(148,823)	-	16,079
Fixtures	1,117,672	(936,878)	-	180,794
Office and IT equipment	946,308	(895,106)	-	51,202
Total	**3,723,594**	**(2,333,996)**	**(8,056)**	**1,381,542**

At 31 December 2017 and 2016, there were no items of property, plant and equipment for own use of significant amounts which were:

- Temporarily idle.
- Fully depreciated but still in use.
- Retired from active use but not classified as non-current assets held for sale.

(14.2) Tangible assets - Investment property

"Investment property" includes land, buildings and other structures held either to earn rentals or for capital appreciation.

At 31 December 2017 and 2016, the Bank did not have any significant contractual obligations in connection with the future operation of the investment properties included in the balance sheet, and there were no relevant restrictions thereon, other than those inherent to the current conditions of the property market.

Net income from the Bank´s investment property in the year ended 31 December 2017 totalled EUR 13,077 thousand (EUR 9,466 thousand for the year ended 31 December 2016) (see Note 32).

(15) Intangible assets - Other intangible assets

The detail of this caption in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Cost		
Computer software	1,023,275	919,822
Balances at the end of the year	**1,023,275**	**919,822**
Accumulated amortisation	(880,606)	(798,009)
Total	**142,669**	**121,813**

El net changes in this item on the accompanying balance sheet during the years ended 31 December 2017 and 2016 were as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Accounting balance at the beginning of the year	**121,813**	**101,866**
Other additions	103,453	89,106
Impairment losses charged to income (Note 36)	(82,597)	(69,159)
Balance at 31 December	**142,669**	**121,813**

(16) Other assets

The detail of the most significant items under this heading in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Insurance contracts linked to pensions (Note 34.2)	432,981	398,404
Other items	476,840	362,097
Total	**909,821**	**760,501**

"Other assets "contains Includes, inter alia, transactions in transit, accruals associated with operating income, and unaccrued prepayments.

(17) Non-current assets and disposal groups classified as held for sale

Breakdown

The breakdown of this heading of the asset side of the accompanying balance sheet 31 December 2017 and 2016:

31 December 2017

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Tangible asset for own use	401,669	(168,938)	232,731
Other equity instruments [(1)]	239,770	-	239,770
Investments in subsidiaries, joint ventures and associates	123,849	(82,152)	41,697
Foreclosed tangible assets	4,056,490	(1,452,883)	2,603,607
Total	**4,821,778**	**(1,703,973)**	**3,117,805**

(1) Includes EUR 236,066 thousand from the business combination (Note 1.16)

31 December 2016

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Tangible asset for own use	272,603	(134,025)	138,578
Other equity instruments	4,444	-	4,444
Investments in subsidiaries, joint ventures and associates	80,085	(60,793)	19,292
Foreclosed tangible assets	2,800,988	(911,362)	1,889,626
Total	**3,158,120**	**(1,106,180)**	**2,051,940**

Non-current assets and disposal groups classified as held for sale. Tangible asset for own use

At 31 December 2017, this item basically comprises certain buildings for the Bank's own use which have ceased to form part of its branch network and which, pursuant to current regulations, satisfy the requirements for recognition as non-current assets held for sale given the existence of a detailed plan for their immediate sale.

As described in Note 2.21, the Bank recognises these assets at the lower of their carrying amount and fair value less cost to sell. Having recognized an impairment in 2017 for an amount of EUR 5,025 thousand (EUR 25,083 thousand in 2016) (See note 42).

As a result of the sale of buildings by the Bank in previous periods, at 31 December 2017 it was a party to operating lease contracts with the purchasers of the buildings (investors). These contracts have mandatory durations between 20 and 25 years, extendable for additional periods of 5 years. The present value of the minimum future payments to be made by the Bank throughout the mandatory duration is EUR 29,871 thousand within one year, EUR 99,262 thousand within two to five years and EUR 170,387 thousand more than five years.

Other significant features common to all the operating leases referred to above include the following:

- Rent was agreed on an arm's-length basis (similar to comparable transactions).
- The leases include update clauses for rents. Therefore, in accordance with Bank of Spain Circular 4/2004, it was concluded that an embedded derivative separable from the host contract did not exist, as the economic characteristics and risks of the theoretical embedded derivative are closely related to the economic characteristics and risks of the host contract.
- For the purposes of analysing the accounting treatment of these transactions, it was at no point assumed that the transfer of ownership of the properties to the Bank was reasonably assured.
- Each lease carries an option whereby the Bank may, on expiry of each lease, purchase the property at fair value as determined by independent appraisers at that expiry date.

The Bank has given no undertaking to assure or redress the purchasers for any gain or loss arising from fluctuations in the residual fair value of the properties.

Non-current assets and disposal groups classified as held for sale. Tangible asset foreclosed. Breakdown

The breakdown of assets foreclosed in settlement of debts recognised on the Bank's accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Property assets		
Finished dwellings	1,842,747	1,439,100
Managed rural property and offices, commercial and industrial premises	517,480	371,273
Building plots, plots and other property assets	243,380	79,253
Total	**2,603,607**	**1,889,626**

Significant changes

The changes recognised in foreclosed assets in the years ended 31 December 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	2017	2016
Accounting balance at the beginning of the year	**1,889,626**	**2,258,537**
Additions during the year	293,704	316,421
Disposals during the year	(386,375)	(411,201)
Net impairment losses (Note 42)	(114,748)	(194,831)
Other changes	(25,976)	(79,300)
Additions due to business combination	947,376	-
Accounting balance at the end of the year	**2,603,607**	**1,889,626**

Sales of foreclosed assets are made on an arm's length basis. In 2017, financing was granted for an amount of approximately EUR 174 million. On average, 87.6% of the sales amount was financed (EUR 184 million and 87.6% in 2016).

Proceeds on disposals of foreclosed assets, by type, in the years ended 31 December 2017 and 2016 were as follows:

(Thousands of euros)

	31/12/2017		31/12/2016	
ITEM	Disposal of assets at carrying amount	Gain/(loss) recognised on disposal (*)	Disposal of assets at carrying amount	Gain/(loss) recognised on disposal (*)
Finished dwellings	331,388	(4,304)	341,370	(27,997)
Managed rural property and offices, commercial and industrial premises	42,381	15,618	62,842	17,387
Building plots, plots and other property assets	12,606	3,744	6,989	19,913
Total	**386,375**	**15,058**	**411,201**	**9,303**

(*) Excludes fees paid to intermediaries.

Appendix VIII provides further details on the Bank's property assets at 31 December 2017 and 2016, including the foreclosed assets referred to in the preceding paragraph.

The table below shows the net value of the foreclosed assets at 31 December 2017 and 2016, by their estimated ages as of the date of acquisition:

(Thousands of euros)

Age of foreclosed assets	31/12/2017	31/12/2016
Less than 12 months	389,793	219,298
12 months to 24 months	347,298	330,521
More than 24 months	1,866,516	1,339,807
TOTAL	**2,603,607**	**1,889,626**

Non-current assets and disposal groups classified as held for sale. Other equity instruments and Investments in subsidiaries, joint ventures and associates

The detail of this heading in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

31 December 2017

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Other equity instruments	239,770	-	239,770
Investments in subsidiaries	2,895	(2,808)	87
Investments in joint ventures	57,915	(35,555)	22,360
Investments in associates	63,039	(43,789)	19,250
Total	**363,619**	**(82,152)**	**281,467**

31 December 2016

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Other equity instruments	4,444	-	4,444
Investments in subsidiaries	2,485	-	2,485
Investments in joint ventures	17,111	(17,111)	-
Investments in associates	60,489	(43,682)	16,807
Total	**84,529**	**(60,793)**	**23,736**

The table below shows the Investments in subsidiaries, joint ventures and associates:

Investments in subsidiaries, joint ventures and associates – group entities:

(Thousands of euros)

ITEM	2017	2016
Accounting balance at the beginning of the year	**2,485**	**2,485**
Acquisitions	75	**-**
Net change in impairment losses	(2,560)	**-**
Additions due to business combination	87	-
Total	**87**	**2,485**

Investments in subsidiaries, joint ventures and associates – jointly-controlled entities:

(Thousands of euros)

ITEM	2017	2016
Accounting balance at the beginning of the year	**-**	**-**
Additions	-	11
Disposals	(2,865)	-
Transfers (1)	(17,111)	
Net impairment losses	17,111	(11)
Additions due to business combination	25,225	-
Total	**22,360**	**-**

(1) Investment transferred to “Available-for-sale financial assets”

Investments in subsidiaries, joint ventures and associates – associates:

(Thousands of euros)

ITEM	2017	2016
Accounting balance at the beginning of the year	**16,807**	**18,430**
Additions	-	7
Disposals	-	(7,066)
Transfers (Note 13)	(29,578)	-
Net impairment losses	29,291	5,436
Additions due to business combination	2,730	
Total	**19,250**	**16,807**

Changes in the impairment of investments in joint ventures were as follows, in the years ended 31 December 2017 and 2016:

31 December 2017

(Thousands of euros)

ITEM	Group Entities	Jointly-controlled entities	Associates	TOTAL
Accounting balance at the beginning of the year	**-**	**17,111**	**43,682**	**60,793**
Amortisation recognised in income	2,864	-	287	3,151
Net provision (Note 42)	**2,864**	**-**	**287**	**3,151**
Amounts used due to losses on sales	-	(4,087)	-	(4,087)
Transfers between portfolios	-	(17,111)	(29,578)	(46,689)
Others changes	-	6,072	(79)	5,993
Exchange differences	(304)	-	-	(304)
Additions due to business combination	248	33,570	29,477	63,295
Total	**2,808**	**35,555**	**43,789**	**82,152**

31 December 2016

(Thousands of euros)

ITEM	Group Entities	Jointly-controlled entities	Associates	TOTAL
Accounting balance at the beginning of the year	**-**	**17,100**	**49,118**	**66,218**
Amortisation recognised in income	-	11	1,630	1,641
Net provision (Note 42)	**-**	**11**	**1,630**	**1,641**
Amounts used due to losses on sales	-	-	(7,066)	(7,066)
Total	**-**	**17,111**	**43,682**	**60,793**

(18) Financial liabilities at amortised cost

Breakdown

The detail of this item in the accompanying balance sheets, based on the nature of the related financial instruments, is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Financial liabilities at amortised cost		
Deposits from central banks	15,355,970	14,966,970
Deposits from credit institutions	22,205,205	23,868,457
Customer deposits	131,736,239	107,277,089
Debt securities issued	17,971,594	16,544,252
Other financial liabilities	1,090,428	740,806
Sum	**188,359,436**	**163,397,574**
Valuation adjustments	2,557,075	3,009,786
Total	**190,916,511**	**166,407,360**

Financial liabilities at amortised cost - Deposits from central banks

The breakdown of assets under this heading in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Bank of Spain / European Central Bank	15,355,970	14,966,970
Sum	**15,355,970**	**14,966,970**
Valuation adjustments	-	1,789
Total	**15,355,970**	**14,968,759**

These deposits from central banks are taken using the credit policy with a securities pledge Bankia has set up in the ECB, which enables it to raise immediate liquidity (see Note 3.2).

This line item in the accompanying balance sheet taken under the framework of the programmes designed by the ECB (T-LTRO) to improve its long-term funding, which includes EUR 1,500,000 thousand from T-LTRO I program, with an average maturity of 9 months and EUR13,855,970 thousand by T-LTRO II with an average maturity of 2 years and 7 months, both cases at 31 December 2017 (EUR 3,651,000 thousand from T-LTRO I program, with an average maturity of 1 year and 8 months and EUR 11,315,970 thousand by T-LTRO II with an average maturity of 3 years and 6 months, both cases at 31 December 2016).

Regarding finance raised under the framework of the T-LTRO II programme, the Group considers that, based on the growth in eligible loans up to 31 December 2017, it will meet the requirements to receive the incentive included in the terms of the programme. As a result, recognised EUR 46,931 thousand in the year ended 31 December 2017 (EUR 23,553 in 2016) under “Interest income” in the income statement (Note 26).

Financial liabilities at amortised cost – Deposits from credit institutions

The detail, by type of transaction, of "Deposits from credit institutions" in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Mutual accounts	1	-
Time deposits	3,403,428	3,674,683
Repos	15,557,780	16,678,499
Other accounts	3,243,996	3,515,275
Sum	**22,205,205**	**23,868,457**
Valuation adjustments	7,079	12,967
Total	**22,212,284**	**23,881,424**

This balance sheet items includes one-off non-marketable mortgage-backed securities issued by the Bank amounting to EUR 2,000 thousand at 31 December 2017 (EUR 72,000 thousand at 31 December 2016) (see Appendix VII).

The average effective annual interest rate on deposits from central banks and other credit institutions at 31 December 2017 was 0.13% (0.18% at 31 December 2016).

Financial liabilities at amortised cost - Customer deposits

The detail, by type of transaction, of "Customer deposits " in the accompanying balance sheet at 31 December 2017 and 2016 is as follows

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Public sector	5,677,761	5,029,040
Current accounts	4,488,059	3,570,005
Term deposits	1,189,702	1,459,035
Other financial corporations	21,656,537	19,514,165
Current accounts	6,125,966	5,256,531
Term deposits	12,862,915	13,052,642
Repos	2,667,656	1,204,992
Non-financial corporations	16,606,744	12,402,888
Current accounts	12,611,130	8,690,952
Term deposits	3,995,614	3,711,896
Repos	-	40
Households	89,028,559	71,674,599
Current accounts	53,677,080	37,874,057
Term deposits	35,351,479	33,796,732
Repos	-	3,810
Total	**132,969,601**	**108,620,692**

This balance sheet item includes one-off non-marketable mortgage-backed securities issued by the Bank amounting to EUR 7,499,242 thousand at 31 December 2017 (EUR 5,206,970 thousand at 31 December 2016) (see Appendix VII).

The average effective annual interest rate of these instruments at 31 December 2017 increased up to 0.17% (0.32% at 31 December 2016).

Liabilities at amortised cost – Issued marketable debt securities

The detail of issues recognised under this heading in the balance sheet at 31 December 2017 and 2016 is set out in Appendix V.

This heading includes subordinated issues which, in terms of payment priority, rank junior to all general creditors of the Bank´s issuers.

Interest accrued on subordinated liabilities in the year ended 31 December 2017 amounted to EUR 56,721 thousand (EUR 40,799 thousand at 31 December 2016), recognised under "Interest expense" in the income statement for the year.

The average effective annual interest rate of these instruments at 31 December 2017 has been 0.89% (0.69% at 31 December 2016).

The coupons accrued on the issuance of contingent convertible bonds (convertible into ordinary shares of Bankia) have been recognised in Bank equity as they are payable at the Entity's discretion. Specifically, at 31 December 2017, a negative balance of EUR 14,295 thousand after tax (year-end 2016: EUR 0) was recognised in this respect.

Issuances, repurchases and repayments of debt securities and subordinated liabilities

The table below shows information on the total issuances, repurchases and repayments of debt securities and subordinated liabilities in the years ended 31 December 2017 and 2016:

31 December 2017

(Thousands of euros)

TYPE OF ISSUE	31/12/2016	Issues	Repurchases or repayments	Exchange rate adjustments and others	Additions due to bussines combination	31/12/2017
Debt securities issued in an EU Member State requiring a prospectus to be registered	18,195,679	2,590,740	(2,295,371)	6,064	791,116	19,288,228
Debt securities issued in an EU Member State not requiring a prospectus to be registered	-	-	-	-	-	-
Other debt securities issued outside the EU	-	-	-	-	-	-
Total	**18,195,679**	2,590,740	(2,295,371)	6,064	791,116	19,288,228

31 December 2016

(Thousands of euros)

TYPE OF ISSUE	31/12/2015	Issues	Repurchases or repayments	Exchange rate adjustments and others	31/12/2016
Debt securities issued in an EU Member State requiring a prospectus to be registered	19,805,855	3,385,500	(8,240,256)	3,244,580	18,195,679
Debt securities issued in an EU Member State not requiring a prospectus to be registered	-	-	-	-	-
Other debt securities issued outside the EU	-	-	-	-	-
Total	**19,805,855**	**3,385,500**	**(8,240,256)**	**3,244,580**	**18,195,679**

The main issues and repurchases or redemptions in 2017 were as follows:

– On 14 February 2017 it proceeded to the redemption at maturity of the Bond issue of Bancaja 14/02/2017 for EUR 500 million.

– On 15 March 2017 it was the issue of subordinated bond Bankia 2017-1 to qualified investors to term 10 years for EUR 500 million.

– EUR 750 million of perpetual contingent convertible bonds (convertible into new-issue ordinary shares of Bankia) were issued on 18 July 2017.

– The *Bankia 2015-1* bonds were redeemed at maturity in the amount of EUR 125 million on 9 October 2017.

– The *Bankia 2015-2* bonds were redeemed at maturity in the amount of EUR 159 million on 10 November 2017.

– The *CH BMN 3rd* covered bonds were redeemed at maturity in the amount of EUR 400 million on 19 December 2017.

Appendices V and VI provide a detail of issues comprising the balance sheet item “Debt securities issued” , along with issuances, repurchases or repayments of debt securities in 2017 and 2016 by the Bank.

Other information

For credit seniority purposes, issues of subordinated bonds rank junior to the claims of all the general creditors of the issuers.

The subordinated bond issue recognised under “Financial liabilities at amortised cost” at 31 December 2017 includes an option for the issuer to proceed on early repayment of the securities after (at least) five years from the date of payment, subject to prior authorisation by the Bank of Spain or, as appropriate, the competent authority, as long as it meets the requirements of Regulation (EU) No. 575/2013 and Directive 2013/36/EU. In addition, in compliance with regulatory requirements, authorisation may be given to the Group for the full early redemption at any time in the following circumstances: i) in the event that there is a significant and unforeseen change in the applicable tax treatment and instruments, and ii) in the event that there is an unforeseen change, and with sufficient certainty, in the regulatory classification of the instruments that would likely result in their exclusion as capital.

The contingent convertible bonds, convertible into Bankia shares, targeted solely at professional investors, carry remuneration, payment of which is subject to certain terms and is discretionary. They are perpetual securities, although they can be repaid at Bankia's option in the circumstances contemplated in the associated terms and conditions. Regardless, they will convert into ordinary new-issue Bankia shares if Bankia or the Group presents a common equity tier 1 capital ratio, calculated as required in Regulation (EU) 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms, of less than 5.125%.

Issues of medium term notes are guaranteed by the issuing Group entities or are secured by restricted deposits.

Mortgage-backed securities were issued in accordance with Mortgage Market Law 2/1981, of 25 March, of the mortgage market regulation and the disposition built.

The Bank has various registration documents on record in the Official Registers of the Spanish Securities Market Commission (CNMV) for non-participating securities, to be instrumented in mortgage-backed bonds, territorial bonds, non-convertible bonds and debentures, subordinated bonds and debentures, and special perpetual subordinated debentures.

Similarly, the Bank has registration documents on record in the Official Registers of the CNMV for the issuance of promissory notes.

A detail, by maturity, of the balances of the Bank's main debt securites included in this heading is provided in Note 3.2.

Financial liabilities at amortised cost - Other financial liabilities

The detail, by type of transaction, of "Other financial liabilities" in the accompanying balance sheet in the years ended 31 December 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Obligations payable	95,980	41,284
Collateral received	6,819	1,654
Tax collection accounts	231,562	106,001
Special accounts and other items (*)	708,637	543,082
Financial guarantees	47,430	48,785
Total	**1,090,428**	**740,806**

(*) The balances at 31 December 2017 and 2016 include EUR 132,708 thousand and EUR 179,149 thousand, respectively, corresponding to the amount received from SAREB for the assets transferred by the subsidiaries of the Bank to be settled (see Note 1.15).

(19) Provisions

The detail of this heading in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Pensions and other post-employment defined benefit obligations	442,407	401,664
Pending legal issues and tax litigation	352,324	395,161
Commitments and guarantees given	380,422	398,469
Other provisions	778,714	91,914
Total	**1,953,867**	**1,287,208**

The changes in the provisions recognised in the balance sheet in the years ended 31 December 2017 and 2016 and the purposes thereof are as follows:

(Thousands of euros)

ITEM	Pensions and other post-employment defined benefit obligations	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balances at 31 December 2015	**364,368**	**1,883,987**	**387,179**	**97,153**	**2,732,687**
Provisions charged to the income statement	-	127,591	250,510	-	378,101
Reversals credited to the income statement	-	-	(242,985)	(15,000)	(257,985)
Net provisions/(reversals) charged to profit recognised for the year (Note 37)	**-**	**127,591**	**7,525**	**(15,000)**	**120,116**
Amounts used	(19,913)	(1,754,629)	-	(17,908)	(1,792,450)
Other movements	57,209	(1) 138,212	3,765	27,669	226,855
Balances at 31 December 2016	**401,664**	**395,161**	**398,469**	**91,914**	**1,287,208**
Provisions charged to the income statement	1,830	125,284	78,548	446,182	651,844
Reversals credited to the income statement	(3,052)	(61)	(105,800)	(4,000)	(112,913)
Net provisions/(reversals) charged to profit recognised for the year (Note 34 and 37)	**(1,222)**	**125,223**	**(27,252)**	**442,182**	**538,931**
Amounts used	(13,135)	(201,825)	-	(152,938)	(367,898)
Other movements	45,599	(3,717)	(6,837)	14,073	49,118
Additions due to business combination	9,501	37,482	16,042	383,483	446,508
Balances at 31 December 2017	**442,407**	**352,324**	**380,422**	**778,714**	**1,953,867**

(1) Includes provisions set aside for the cost arising from reimbursements of shares related to claims resolved and settled, and those arising from the restitution process related to Bankia's IPO.

Provisions for taxes and other legal contingencies

The balance of "Pending legal issues and tax litigation "includes, inter alia, provisions for tax and legal proceedings, was estimated applying prudent calculations in line with the uncertainty inherent in the contingencies covered and taking into account the estimating timing of the outflow of resources from the Group.

As indicated in Note 2.20 the Group is involved in various legal pr oceedings related to Bankia's IPO.

Criminal procedure in the National Court

Both Bankia's IPO and its 2011 financial statements were investigated in preliminary proceedings no. 59/2012 in Central Court of Instruction 4 of the National Court (Audiencia Nacional). This proceeding was initiated, among others, by Unión Progreso y Democracia ("UPyD") against Bankia, BFA and their respective management bodies, accusing them of (i) fraud; (ii) misappropriation; (iii) falsification of financial statements; (iv) fraudulent or disloyal administration, and (v) price rigging.

The presiding judge of Central Court of Instruction No. 4 of the National Court (Audiencia Nacional) has concluded the pre-trial stage, continuing with the proceedings in an abbreviated procedure, through a fast-track ruling of 11 May 2017. In its ruling, the judge defined the punishable acts, classified them (as two alleged offences: (i) falsifying balance sheets and annual accounts, as set out in article 290 of the Spanish Penal Code, and (ii) misleading investors, as set out in article 282 bis therein) and determined the guilty parties. Accordingly, the ruling determines the prosecution of the Bank's former chairman, Rodrigo De Rato Figaredo, the former deputy chairman, José Luis Olivas Martínez, and 32 other individuals (directors and senior executives of Bankia and the external auditor of the 2011 financial statements), as well as Banco Financiero y de Ahorros (BFA) and Bankia.

An appeal for amendment may be filed along with a subsequent appeal to the criminal chamber of the National Court. Appeals have been filed by private prosecutors and individual cases, as well as by the FROB and the persons indicted.

Meanwhile, the fast-track ruling has been referred to the Tax Ministry, along with the accusations submitted, seeking either the commencement of a trial or an acquittal.

The Tax Ministry filed a prosecution report on 12 June 2017, accusing exclusively Rodrigo De Rato Figaredo, José Luis Olivas Martínez, José Manuel Fernández Norniella and Francisco Verdú Pons of misleading investors, as provided for in article 282 bis of the Spanish Penal Code, seeking to hold Bankia vicariously liable with respect to the amount of indemnity payable to the retail investors party to the proceedings who have not already been indemnified by Bankia. The prosecution report also expressly seeks dismissal of the criminal case against BFA and Bankia based on (i) their culture of corporate ethics, (ii) the change of management team, (iii) their cooperation throughout the legal investigation despite their status as victim, (iv) their behaviour throughout the process for initiating an investigation to clarify the distribution and use of credit cards, and, lastly, (v) the fact that they reimbursed all retail investors participating in the IPO on 20 July 2011 for their initial investment.

Prosecution reports have also been submitted by private prosecutors (CIC, 15M Pa Rato, ADICAE, etc.), as well as by the FROB and the various individual accusations, which have been forward to the parties for the related allegations.

On 19 June 2017, the FROB filed a prosecution report, in line with the case presented in the Tax Ministry's report, against Rodrigo De Rato Figaredo, José Luis Olivas Martínez, José Manuel Fernández Norniella and Francisco Verdú Pons for misleading investors, as provided for in article 282 bis of the Spanish Penal Code, without seeking to hold Bankia vicariously liable, stating that the defendants should be held directly liable, jointly and severally, and as such, should indemnify the FROB for the decrease in BFA's and Bankia's assets caused by the civil proceedings initiated by the investors who took part in Bankia's IPO.

On 26 June 2017, the Court issued a ruling rejecting the appeals for amendment filed against the fast-track, having resolved to refer to the appellate court.

On 15, 18 and 26 September 2017, the Criminal Chamber of the National High Court ruled on the appeals lodged against the transformation ruling, dismissing all of the appeals presented, other than that presented by the *Confederación Intersindical de Crédito* (the savings banks' employees' union or CIC for its acronym in Spanish) with respect to the dismissal of the criminal liability charges against the external auditor at the IPO time, which was ruled admissible, such that this process is ongoing.

On 17 November 2017, Central Examining Court No. 4 of the National High Court ordered the start of the hearings. Specifically, the court has ordered the start of the hearings for the crimes of financial statement forgery (categorised in article 290 of Spain's Criminal Code) and investor fraud (article 282 *bis* of the Criminal Code) against certain former directors and executives of Bankia and BFA, the external auditor at the IPO time and against BFA and Bankia as legal persons.

In light of the foregoing, the Bank has treated this contingency, in keeping with the criterion outlined in Note 2.20.1, as a contingent liability whose outcome is uncertain as of the reporting date.

Civil proceedings by individual investors

In the years since Bankia's IPO, the Bank has received a large number of civil lawsuits from individual (individual and collective) and institutional investors, as well as out-of-court claims.

As of 31 December 2015, the Bank estimated for a total EUR 1,840 million contingency as a result of those procedures, included EUR 1,040 million related to the cost of reimbursing shares pursuant to the enforcement of rulings and EUR 800 million to cover the related court costs and, as appropriate, any late-payment interest. At 31 December 2015, the estimates and assumptions were considered by an independent expert.

In execution of the Transactional Agreement - Convenio Transaccional - over the sharing between BFA, Tenedora de Acciones, S.A.U. and Bankia of the costs arising from the civil lawsuits brought by retail investors against the entities for the placement on the primary market of shares of Bankia and its addendum, provisions have been recognised in the amounts of EUR 416 million and EUR 320 million, respectively (EUR 736 million in total).

At 31 December 2017, there are a total of 2,094 civil proceedings ongoing with respect to shares purchased in the IPO and subsequently.

At 31 December 2017, and as a result of the developments described above, the Group had utilised provisions in the amount of EUR 1,847 million, EUR 743 million of which corresponded to Bankia (EUR 541 million in respect of nullity of the share purchase contract and EUR 202 million in respect of damages, interest and expenses) and EUR 1,104 million of which corresponded to BFA pursuant to the agreement reached between the two parties under which Bankia assumed a first-tranche loss of 40% of the estimated cost, the remaining 60% therefore corresponding BFA, which is why the contingency associated with the retail shareholders who bought shares in the IPO is considered virtually closed.

Civil proceedings by institutional investors

Elsewhere, as of 31 December 2017, 84 sentences have been handed down to institutional investors (14 natural persons and 70 legal persons), of which 11 were favourable at first instance (10 legal persons and 1 natural person), 51 were unfavourable and 38 have been appealed. In addition, three favourable rulings were obtained in second instance, various provincial courts have handed down favourable verdicts in cases involving three legal persons and unfavourable rulings in cases involving 4 natural persons and 15 legal.

Five appeals have been lodged (two by high-profile investors, which have been duly contested by Bankia in due time and form, and three have been lodged by Bankia, given the high profile of the investors).

The Bank's directors consider, at 31 December 2017, that the provision is sufficient to cover the amounts that the Bank would have to pay as a result of the civil proceedings and restitution process described above. The key assumptions and, therefore, those whose changes could have the greatest impact on the amount of this provision are the number of claims to be received, and expectations regarding the outcome and the profile of the claimants, given the inherent uncertainty. The effects of these changes would be recognised in accordance with the criteria described in Note 1.4, unless expressly indicated otherwise.

Regarding the other legal and claims proceedings underway, other than those related to the Bankia IPO, which are detailed in Note 2.20.2, the Bank has recognised the provisions it estimates will be necessary as of the reporting date.

The change in provisions in 2017 relates to provisions set aside to cover the aforementioned lawsuits and litigation, including those related to floor clauses.

Other provisions

"Other provisions" mainly includes provisions for contingencies deriving from the business combination (see Note 1.16) and the EUR 445,000 thousand provision recognised to cover the headcount restructuring the enlarged Bank has to undertake (see Note 2.15.2.6).

(20) Other liabilities

The detail of this heading in the balance sheet at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Transactions in transit	73,156	67,715
Other items	794,430	844,802
Total	**867,586**	**912,517**

"Other items" includes mainly transactions in transit, accruals associated with other operating expenses, and interest receivable and unaccrued prepayments.

(21) Equity - Share capital and share premium, treasury share transactions, reserves and other information

(21.1) Capital

At 31 December 2016, the Bank's share capital amount to EUR 9,213,863 thousand, represented by 11,517,328,544 fully subscribed and paid up registered shares with a par value of EUR 0.8 each of the same class and series.

The resolutions adopted on 24 March at the General Meeting of Shareholders were placed on file at the Valencia Mercantile Register on 1 June 2017. These included the resolution adopted, with the majority required by the Capital Enterprises Act and the Bylaws, to reduce capital, and amend the Bylaws accordingly, as follows:

- Reduction of share capital by an amount of EUR 6,334,531 thousand to increase the voluntary reserves, by reducing the par value of all shares by EUR 0.55 to EUR 0.25 per share based on the balance sheet closed at 31 December 2016.

- Reverse split by combining every four shares with a par value of EUR 0.25, per the value resulting from the aforementioned reduction of capital, into one new share of EUR 1 par value. The number of shares after the reverse split will be 2,879,332,136 shares, with no change to the Company's share capital figure.

The deeds to the merger between Banco Mare Nostrum, S.A. and Bankia, S.A., placed on public record on 29 December 2017, in keeping with the common draft terms of merger dated 26 June 2017 and as ratified at the Extraordinary General Meetings held by both companies on 14 September 2017, and the issuance by Bankia of 205,630,814 new shares with a unit par value of EUR 1 for the purposes of the exchange offer with BMN, subscription to which was reserved to BMN shareholders, there being no pre-emptive subscription rights, as provided in article 304.2 of Spain's Corporate Enterprises Act (Note 1.16), were registered with the Valencia Companies Register on 8 January 2018 (see Note 1.16).

During 2017 and 2016, no transaction costs were recognised for the issuance or acquisition of own equity instruments.

Bankia, S.A.'s main shareholders at 31 December 2017 were as follows:

	Number of shares		% Ownership interest	
Shareholder	31/12/2017	31/12/2016	31/12/2017	31/12/2016
BFA, Tenedora de Acciones, S.A.U.	1,881,195,830	7,590,372,430	60.980%	65.904%

(1) Updated in accordance with the resolutions adopted at the General Meeting of Shareholders regarding capital reduction and "reverse split

As explained in Note 1.2, on 27 June 2012, the FROB became the sole shareholder of BFA (the parent company of the BFA Group, of which Bankia forms part).

(21.2) Transactions with equity

In the years 2017 and 2016, changes to "Equity - Less: Treasury shares" on the balance sheet, showing the amount of Bankia's equity instruments held by the Bank, were as follows:

	31/12/2017		31/12/2016	
ITEM	No. Shares	Amount (thousands of euros)	No. Shares	Amount (thousands of euros)
Account balance at the beginning of the year	**52,059,789**	**44,758**	**39,867,346**	**46,473**
+ Purchases during the year	71,208,722	132,559	120,059,769	96,451
- Sales and other changes (1)	(103.245.353)	(97.480)	(107,867,326)	(98,166)
Account balance at 31 December	**20.023.158**	**79.837**	**52,059,789**	**44,758**
Net incomes on transactions with treasury shares (reserves)		8.645	-	(12,073)

(1) Includes the reverse split explained in Note 22.1 for 46,275 thousand shares.

In accordance with prevailing regulations, treasury share transactions are recognised directly in equity; no gain or loss may be recognised in respect of such transactions in the income statement.
Certain disclosures required by applicable regulations in connection with transactions involving treasury shares of Bankia, S.A. by the Bank in 2017 and 2016 follow:

Acquisitions of treasury shares

- Number of treasury shares acquired in 2017: 71,208,722 (120,059,769 shares at 31 December 2016).
- Par value of treasury shares acquired in 2017: EUR 41,232 thousand of EUR 0.80 par value and EUR 19,668 thousand of EUR 1 par value (EUR 96,048 thousand at 31 December 2016).
- Average price of treasury shares acquired in 2017: EUR 1.020 of EUR 0.80 par value and EUR 4.067 of EUR 1 par value (EUR 0.803 at 31 December 2016).
- Total amount charged to equity in 2017: EUR 132,559 thousand (EUR 96,451 thousand at 31 December 2016).

Disposals of treasury shares

- Number of treasury shares sold in 2017: 56,970,353 (107,867,326 shares at 31 December 2016).
- Par value of treasury shares sold in 2017: EUR 33,520 thousand of EUR 0.80 par value and EUR 15,070 thousand of EUR 1 par value (EUR 86,294 thousand of EUR 0.8 par value at 31 December 2016).
- Average selling price of treasury shares sold in 2017: EUR 1.044 of EUR 0.80 and EUR 4.139 of EUR 1 par value (EUR 0.798 on 31 December 2016).
- Amount charged to equity for sales in 2017: EUR 97,480 thousand (EUR 98,166 thousand at 31 December 2016).
- Gain/ (loss) recognised with a (debit)/credit to reserves for sales in 2017: EUR 8,645 thousand (loss of EUR 12,073 thousand at 31 December 2016).

Treasury shares held at 31 December 2017 and 2016:

- Number of treasury shares held: 20,023,158 (52,059,789 shares at 31 December 2016).
- Par value of treasury shares held: EUR 20,023 thousand of EUR 1 par value (EUR 41,648 thousand of EUR 0.8 par value at 31 December 2016).
- Average acquisition price of treasury shares held: EUR 3.987 (EUR 0.859 at 31 December 2016).
- Amount charged to equity for acquisition of treasury shares: EUR 79,837 thousand (EUR 44,758 thousand at 31 December 2016).

(21.3) Other reserves

The Bank's statement of changes in total equity ended 31 December 2017 and 2016 includes shows the changes to equity for this item in the period.

(21.3.1) Restricted reserves

The information on the Bank's restricted reserves is disclosed below:

Pursuant to the Consolidated Text of the Spanish Corporate Enterprises Act, companies must earmark an amount at least 10% of profit for the legal reserve until such reserve represents 20% of the capital. The legal reserve may be used to increase capital to the extent that it exceeds 10% of the increased capital figure. Other than for this purpose, the legal reserve may be used to set off losses if no other sufficient reserves are available for such purpose.

The Company's legal reserve after the distribution of 2016; i.e. EUR 1,087,338 thousand, represented 38% of the share capital resulting from this reduction of capital. Therefore, the excess legal reserve over the 20% of share capital resulting after this reduction was taken to unrestricted reserves.

The amount of this reserve recognised under "Equity - Reserves" of the company it is reduced on EUR 511,472 thousand, up to the figure EUR 575,866 thousand (EUR 1,015,393 thousand at 31 December 2016).

(21.4) Other information

(21.4.1) Other resolutions adopted at the Annual General Meeting regarding the issuance of shares and other securities

At the General Meeting of Shareholders held on 24 March 2017, resolutions were adopted to delegate to the Board of Directors of the Bank the following powers:

- The authority to increase the share capital by up to a maximum of 50% of the subscribed share capital, by means of one or more increases and at any time within a maximum of five years, by means of cash contributions, with authority, if applicable, to misapply preemptive subscription rights up to a maximum of 20% of share capital.
- The authority to issue, within a maximum term of five years, securities convertible into and/or exchangeable for shares of the Company, as well as warrants or other similar securities that may directly or indirectly entitle the holder to subscribe for or acquire shares of the Company, for an aggregate amount of up to one billion five hundred million (EUR 1,500,000,000); as well as the authority to increase the share capital in the requisite amount, and the authority, if applicable, to misapply preemptive subscription rights up to a maximum of 20% of share capital.
- Authorisation for the derivative acquisition of own shares in accordance with the limits and requirements established in the Corporations Act.

(22) Other comprehensive accumulated income

Items that may be reclassified to profit or loss. Financial assets available for sale

This item in the accompanying balance sheet includes the net amount of the changes in fair value of available-for-sale financial assets which must be recognised in the Bank's equity. These changes are recognised in the income statement when the assets which gave rise to them are sold or become impaired.

The following table provides details of the gains and losses by financial instrument at 31 December 2017 and 2016:

31 December 2017

(Thousands of euros)

Total Gross	Gains	Losses	Amounts Net Of Tax Effect	Gains	Losses
Quoted debt securities	401,883	(23,816)	Quoted debt securities	281,318	(16,672)
Unquoted debt securities	457	(405)	Unquoted debt securities	320	(283)
Unquoted equity instruments	22,840	(336)	Unquoted equity instruments	15,990	(235)
Total	**425,180**	**(24,557)**	**Total**	**297,628**	**(17,190)**
Total Gains (Gross)	**400,623**		**Total Gains (Net)**	**280,438**	

31 December 2016

(Thousands of euros)

Total Gross	Gains	Losses	Amounts Net Of Tax Effect	Gains	Losses
Quoted debt securities	594,225	(23,820)	Quoted debt securities	415,959	(16,674)
Unquoted debt securities	101	(8)	Unquoted debt securities	70	(6)
Unquoted equity instruments	750	-	Unquoted equity instruments	525	-
Total	**595,076**	**(23,828)**	**Total**	**416,554**	**(16,680)**
Total Gains (Gross)	**571,248**		**Total Gains (Net)**	**399,874**	

Items that may be reclassified to profit or loss. Hedging derivatives. Cash flow hedges.

This item in the accompanying balance sheet includes the effective portion of the net gain or loss on financial derivatives designated as hedging instruments in cash flow hedges (see Note 2.6).

Items that will not be reclassified to profit or loss. Actuarial gains or (-) losses on defined benefit pension plans

This item on the balance sheet shows the defined benefit post-employment payments profit/(loss) which not recognised in the income and expense (see Notes 2.15.1 y 34.3).

The statement of recognised income and expense for 2017 and 2016 show the changes in this heading in the balance sheet for this year.

(23) Fair value

(23.1) Fair value of financial instruments

The fair value of a financial asset or liability on a specific date is the amount at which it could be delivered or settled, respectively, on that date between knowledgeable, willing parties acting freely and prudently in an arm's length transaction.

The Bank generally uses the following methods to estimate the fair value of financial instruments:

- When the market publishes closing prices, these prices are used to determine the fair value.
- When the market publishes both bid and asking prices for the same instrument, the market price for a purchased asset or a liability to be isued is the bid price (demand) and that for an asset to be purchased or an issued liability is the asking price (supply). If there is significant market-making activity or it can be demonstrated that the positions can be closed – settled or hedged – at the average price, the average price is used.
- If there is no market price for a given financial instrument or for scantly active markets, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques sufficiently used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with the instrument.
- The valuation techniques used to estimate the fair value of a financial instrument meet the following requirements:
    - The techniques used are based on the most consistent and appropriate economic and financial methods, which have been demonstrated to provide the most realistic estimate of the financial instrument's price.
    - They are those which are customarily used by market participants to measure this type of financial instrument, such as discounting of cash flows, condition-based or non-arbitrage option pricing models, etc.
    - They maximise the use of available information, in relation to both observable data and recent transactions of similar characteristics, and limit the use of non-observable data and estimates as far as possible.
    - They are sufficiently and amply documented, including the reasons why they were chosen in preference to other possible alternatives.
    - They are applied consistently over time so long as the reasons for choosing them do not change.
    - The validity of the models is examined periodically using recent transactions and current market data.
    - They take into account the following factors: the time value of money, credit risk, exchange rates, commodity prices, equity prices, volatility, liquidity, prepayment risk and servicing costs.
- For financial instruments with no market or with a scantily active market, on initial recognition, the fair value is obtained either on the basis of the most recent transaction price, unless another value can be demonstrated through comparison with other recent market transactions in the same instrument, or by using a valuation technique in which all the variables are taken solely from observable market data.
- The fair value of derivatives is determined as follows:
    - Financial derivatives included in the held-for-trading portfolios which are traded in organised, transparent and deep markets: the fair value is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.
    - OTC derivatives or derivatives traded in scantily deep or transparent organised markets: the fair value is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques accepted by the financial markets: "net present value" (NPV), option pricing models, etc. Derivatives not supported by a CSA (market standard) collateral agreement: an own or third party credit risk adjustment (CVA and DVA) differentiated based on the internal rating of the counterparty (see Note 3.1):

- counterparties rated CCC or higher: all components are taken directly from the market (risk factors that affect the value of the derivative) or indirectly from the inputs that reflect credit risk through quoted prices in markets that are closest to that of the counterparty and of Bankia.
- counterparties classified as "doubtful": internal expert criteria regarding recovery of the debt are used as there are no market indices to assess their credit risk due to the absence of a secondary market with prices and reasonable liquidity.

CVA and DVA are included in the valuation of derivatives, both assets and liabilities, to reflect the impact of counterparty and own credit risk, respectively, on fair value.

CVA is calculated taking into account potential exposure to each counterparty in each future period. The CVA for a specific counterparty is the sum of the CVAs for all periods. The adjustments are calculated by estimating exposure at default, probability of default and loss given default for all derivatives on any underlying at legal entity-level at which the Bankia is exposed.

DVA is a similar valuation adjustment to CVA, but arises from Bankia’s own risk assumed with OTC derivatives counterparties. Similarly, DVA is calculated by multiplying expected negative exposure by probability of default and multiplying the result by Bank's loss given default.

The credit risk valuation adjustments amounts registered in the balance sheet at 31 December 2017 was EUR 119 million for CVA (EUR 170 million at 31 December 2016), and EUR 7 million for DVA (EUR 5 million at 31 December 2016). The impact registered in the epigraph “Gains or (-) losses on financial assets and liabilities held for trading, net” of the income statement at the year-end 2017 corresponding to the adjustment is EUR 54 million profits (EUR (10) million losses at 31 December 2016).

Determination of fair value of financial instruments

The following table compares the amounts at which the Bank's financial assets and financial liabilities are recognised in the accompanying balance sheet and their related fair value:

(Thousands of euros)

ITEM	31/12/2017 Total balance sheet	31/12/2017 Fair value	31/12/2016 Total balance sheet	31/12/2016 Fair value
ASSETS				
Cash, cash balances at central banks and other demand deposits	3,755,070	3,755,070	2,081,771	2,081,771
Financial assets held for trading	6,719,052	6,719,052	8,278,722	8,278,722
Available-for-sale financial assets	22,725,897	22,725,897	25,420,776	25,420,776
Loans and receivables	126,674,121	138,265,329	108,984,992	118,476,656
Held-to-maturity investments	32,353,367	32.879.031	27,695,063	28,179,623
Non-current assets and disposal groups classified as held for sale – Other equity instruments	239,770	239,770	4,444	4,444
Derivatives – Hedge accounting	3,058,341	3,058,341	3,620,293	3,620,293
LIABILITIES				
Financial liabilities held for trading	7,449,989	7,449,989	9,008,035	9,008,035
Financial liabilities measured at amortised cost	190,916,511	192,662,203	166,407,360	168,230,522
Derivatives – Hedge accounting	377,469	377,469	723,034	723,034

For financial instruments whose carrying amount differs from their theoretical fair value, this latter value was calculated as follows:

- The fair value of “Cash, cash balances at central banks and other demand deposits” is measured at carrying amount, as the balances are short term.
- The fair value of “Held-to-maturity investments" is considered to be the quoted value of the investments in active markets, with the sole exception of SAREB bonds (see Note 1.15), whose fair value estimate was considered Level 2, which did not differ significantly from their carrying amount (the fair value was determined using comparable based on Spanish government debt with similar features).
- The fair value of the “Loans and receivables” and “Financial liabilities measured at amortised cost” is estimated using the discounted cash flow method based on market rates at the end of each year excluding the issuer's credit risk. The measurement is classified as Level 3 in the measurement hierarchy of approaches described below for financial instruments whose carrying amount coincides with their fair value.

Financial instruments whose carrying amount coincides with their fair value were measured as follows:

- Level 1: Financial instruments whose fair value was determined by reference to their quoted price in active markets, without making any change to these prices.
- Level 2: Financial instruments whose fair value was estimated by reference to quoted prices on organised markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- Level 3: Instruments whose fair value was estimated by using valuation techniques in which one or another significant input is not based on observable market data. An *input* is deemed to be significant when it is important for determining the fair value as a whole.

The Bank did not recognise any financial asset or financial liability whose fair value differed from the transaction price and that was not measured using the approaches and assumptions that allow them to be classified in Level 1 and Level 2. Therefore, no gain or loss was recognised to reflect changes in the inputs that market participants would take into account when pricing the asset or liability. If the transaction price differs from fair value, the gain or loss is recognised in profit or loss for financial instruments classified in Levels 1 and 2 of the fair value hierarchy.

The following table presents the main financial instruments measured at fair value in the accompanying balance sheet, by measurement method used to estimate fair value:

(Thousands of euros)

ITEM	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Financial assets held for trading	**9,782**	**6,622,103**	**87,167**	**14,424**	**8,169,481**	**94,817**
Debt securities	2,001	-	-	5,005	-	-
Equity instruments	4,324	-	-	7,062	-	-
Trading derivatives	3,457	6,622,103	87,167	2,357	8,169,481	94,817
Available-for-sale financial assets	**22,552,582**	**135,576**	**37,739**	**24,628,205**	**781,670**	**10,900**
Debt securities	22,552,582	116,125	-	24,628,205	766,463	-
Equity instruments	-	19,451	37,739	-	15,207	10,900
Non-current assets and disposal groups classified as held for sale – Other equity instruments	**31,773**	**-**	**207,997**	**2**	**-**	**4,442**
Derivatives- Hedging accounting	**-**	**3,058,341**	**-**	**-**	**3,620,293**	**-**
LIABILITIES						
Financial liabilities held for trading	**343,435**	**7,101,572**	**4,982**	**458,900**	**8,542,066**	**7,069**
Derivatives	6	7,101,572	4,982	63	8,542,066	7,069
Short positions	343,429	-	-	458,837	-	-
Derivatives- Hedging accounting	**-**	**377,469**	**-**	**-**	**723,034**	**-**

Below are the amounts recognised in the income statement for 2017 and 2016 due to changes in the fair value of the Bank's financial instruments. The changes relate to unrealised gains and losses, with a distinction made between financial instruments whose fair value is estimated using valuation techniques whose variables are obtained from observable market inputs (Level 2) and those for which one or more significant variables are not based on observable market inputs (Level 3). Also shown are the cumulative unrealised changes in value at 31 December 2017 and 2016:

At 31 December 2017

(Thousands of euros)

	Unrealized gains or losses registered in the income statement at 31 December 2017			Accumulated fair value variation registered in the balance sheet at 31 December 2017		
	Level 2	Level 3	Total	Level 2	Level 3	Total
ASSETS						
Financial assets held for trading	**(3,897,151)**	**12,673**	**(3,884,478)**	**5,947,988**	**78,260**	**6,026,248**
Debt securities	-	-	-	-	-	-
Trading derivatives	(3,897,151)	12,673	(3,884,478)	5,947,988	78,260	6,026,248
Financial assets held for trading	**-**	**-**	**-**	**44,620**	**-**	**44,620**
Debt securities	-	-	-	44,620	-	44,620
Derivatives – Hedge accounting	**(821,940)**	**-**	**(821,940)**	**2,674,646**	**-**	**2,674,646**
TOTAL ASSETS	**(4,719,091)**	**12,673**	**(4,706,418)**	**8,667,254**	**78,260**	**8,745,514**
LIABILITIES						
Financial liabilities held for trading	**4,002,346**	**810**	**4,003,156**	**7,256,188**	**(5,975)**	**7,250,213**
Trading derivatives	4,002,346	810	4,003,156	7,256,188	(5,975)	7,250,213
Derivatives – Hedge accounting	**245,626**	**-**	**245,626**	**207,127**	**-**	**207,127**
TOTAL LIABILITIES	**4,247,972**	**810**	**4,248,782**	**7,463,315**	**(5,975)**	**7,457,340**

At 31 December 2016

(Thousands of euros)

	Unrealized gains or losses registered in the income statement at 31 December 2016			Accumulated fair value variation registered in the balance sheet at 31 December 2016		
	Level 2	Level 3	Total	Level 2	Level 3	Total
ASSETS						
Financial assets held for trading	**2,001**	**15,836**	**17,837**	**7,291,404**	**83,028**	**7,374,432**
Debt securities	-	-	-	(1)	-	(1)
Trading derivatives	2,001	15,836	17,837	7,291,405	83,028	7,374,433
Financial assets held for trading	**-**	**-**	**-**	**23,394**	**-**	**23,394**
Debt securities	-	-	-	23,394	-	23,394
Derivatives – Hedge accounting	**(326,075)**	**-**	**(326,075)**	**3,178,089**	**-**	**3,178,089**
TOTAL ASSETS	**(324,074)**	**15,836**	**(308,238)**	**10,492,887**	**83,028**	**10,575,915**
LIABILITIES						
Financial liabilities held for trading	**344,750**	**913**	**345,663**	**8,200,877**	**(4,820)**	**8,196,057**
Trading derivatives	344,750	913	345,663	8,200,877	(4,820)	8,196,057
Derivatives – Hedge accounting	**78,236**	**-**	**78,236**	**610,536**	**-**	**610,536**
TOTAL LIABILITIES	**422,986**	**913**	**423,899**	**8,811,413**	**(4,820)**	**8,806,593**

The following table presents the main methods, assumptions and inputs used to measure the fair value of Level 2 and 3 financial instruments and the related balances at 31 December 2017:

<table>
<tr><td colspan="5">(Millions of euros)</td></tr>
<tr><th>Level 2 financial instruments</th><th>Valuation techniques</th><th>Main assumptions</th><th>Inputs</th><th>Fair Value</th></tr>
<tr><td>Debt securities</td><td>Present value method (discounted cash flows or DCF) (LMM)</td><td>Calculation of the present value of financial instruments as the present value of the future cash flows (discounted at market interest rates), bearing in mind: Estimation of prepayment rates, issuer credit risk and current market interest rates.
Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.</td><td>• Yield Curves
• Credit spreads
• Correlation</td><td>Debt securities: 116</td></tr>
<tr><td>Equity instruments</td><td>Present value method</td><td>Calculation of the present value of future cash flows. Considering
• Issuer credit spreads
• Prepayment Rates
• Yield Curves
• Risk Neutrality, non-arbitrage</td><td>• Yield Curves
• Credit spreads</td><td>Equity instruments: 19</td></tr>
<tr><td rowspan="5">Derivatives</td><td>Interest rate derivatives: Black and Libor Market Model (LMM)</td><td>For measurement of widely traded instruments, e.g. caps, floors, European swaptions, etc.</td><td rowspan="5">For equity, inflation, currency or commodity derivatives:
• Forward structure of the underlying
• Option Volatily
• Observable correlations among underlyings

For interest rate derivatives:
• Term structure of interest rates.
• Volatility of the underlying

For credit derivatives:
• Quoted Credit Default Swaps (CDS) prices</td><td rowspan="5">Trading Derivatives:

Assets: 6,622

Liabilities: 7,102

Hedging Derivatives:

Assets: 3,058

Liabilities: 377</td></tr>
<tr><td>For equity, currency or commodity derivatives: Black Scholes, Skew Model</td><td>For measurement of widely traded instruments, e.g. call, put, straddle, etc.</td></tr>
<tr><td rowspan="2">For inflation derivatives: analytical formula</td><td>Absence of correlation between interest rates and inflation.</td></tr>
<tr><td>Risk neutrality, absence of arbitrage opportunities</td></tr>
<tr><td>For credit derivatives: analytical formula</td><td>Calculation of probability of default (PD) levels to ensure compliance with the risk neutrality and non-arbitrage assumptions</td></tr>
</table>

(Millions of euros)

Level 3 financial instruments	Valuation techniques	Main assumptions	Inputs	Fair Value
Debt securities	Present value method. The Gaussian Copula Model Libor Market model. (LMM)	Calculation of the present value of financial instruments as the present value of the future cash flows (discounted at market interest rates), bearing in mind: Estimation of prepayment rates, issuer credit risk and current market interest rates. To measure asset backed securities (ABS), future prepayments are calculated based on conditional prepayment rates provided by the issuers. The "time-to-default" model is used to measure the probability of default. One of the main variables used is the correlation of defaults extrapolated from several index tranches (ITRAXX and CDX) with the underlying portfolio of our CDOs. Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.	• Prepayment rates • Credit spread • Default correlation • Interest rate correlation	Debt securities: (*)
Equity instruments	Present value method	Net asset value (NAV) for hedge funds and for equity instruments listed in thin or less active markets	• Credit spread; • NAV provided by the fund manager or the issuer of the securities	Equity instruments: 246
Derivatives	For interest rate derivatives: the Libor Market, Hull and White model	Both methods are based on modelling of future interest rate performance, replicating the yield curve and volatility surface. The HW model is used provided the volatility smile does not affect the value of the derivative. The inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area, making the LMM model the most widely used to measure exotic derivatives.	• Correlation • Term structure of volatilities based on the underlying	Trading Derivatives: Assets: 87 Liabilities: 5
	For equity and currency derivatives: Dupire, Heston, Black, solved by numerical methods	The options are measured using generally accepted valuation models and include implied volatility observed	• Correlation • Term structure of volatilities • Dividends	
	Inflation derivatives: Jarrow y Yildrim	The Jarrow and Yildirim model is used for modelling inflation and nominal rates. This model is based on the analogy between the inflation index and foreign exchange rates.	• Correlation • Inflation curve • Nominal rates	
	Credit baskets: Gaussian Copula	The Gaussian Copula measurement method, which is widely accepted in financial markets for its simplicity.	• Correlation between defaults • Historical CDS volatility	

(*) There were no outstanding transactions at 31 December 2017.

Any reasonably possible changes in one or more variable or other assumptions would not result in a significant change in the fair value of Level 3 financial instruments relative to the total portfolio of financial instruments.

The Bank has a formal policy that sets out the procedure for assigning fair value levels and potential changes therein.

According to this procedure, a Level is assigned to financial instruments measured at fair value, determined based on the quality and availability of the various inputs, models, market information etc. at the date of purchase of the position. These parameters are subsequently reviewed periodically in accordance with their trends.

This procedure is carried out by analysing the information available to the Bank to set the valuation price, studying the necessary inputs, the sources and quality of the information, or the need to use more complex models.

Transfers of financial instruments not classified as non-current assets held for sale between fair value hierarchy levels at 31 December 2017 and 2016 were as follows:

At 31 December 2017

(Thousands of euros)

Transfers between levels	FROM:	Level 1		Level 2		Level 3	
	TO:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets							
Financial assets held for trading - Derivatives		-	-	-	12,709	-	7,918
Available-for-sale financial assets		-	-	-	-	-	-
Liabilities							
Financial liabilities held for trading - Derivatives		-	-	-	21	-	3

At 31 December 2016

(Thousands of euros)

Transfers between levels	FROM:	Level 1		Level 2		Level 3	
	TO:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets							
Financial assets held for trading - Derivatives		-	-	-	207	-	2,956
Available-for-sale financial assets		-	-	4,995	-	-	-
Liabilities							
Financial liabilities held for trading - Derivatives		-	-	-	148	-	-

The amount of financial instruments transferred between measurement levels in 2017 is immaterial relative to the total value of the portfolios and relates mainly to changes in one or more characteristics of the assets. Specifically:

- Transfer from Level 2 to Level 3 for EUR 13 million: As relevant inputs that represent key assumptions (credit risk) used in the valuation technique to measure certain derivatives have become unobservable.
- Transfer from Level 3 to Level 2 for EUR 8 million: As relevant observable inputs that represent key assumptions (credit risk) used in the valuation technique to measure certain derivatives have been found.

The movement in balances financial assets and financial liabilities categorised within Level 3 excluding those classified as "Non-current assets and disposal groups classified as held for sale", shown in the accompanying balance sheets at 31 December 2017 and 2016 follow:

(Thousands of euros)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Opening balance	**105,717**	**7,069**	**130,979**	**4,240**
Gains (losses)	28,116	(4,917)	40,895	(4,252)
To profit and loss	12,904	(4,917)	40,895	(4,252)
To valuation adjustments of equity	15,212	-	-	-
Purchases, sales and settlements	(33,303)	2,824	(64,436)	6,322
Net inflows/(outflows) in Level 3	11,846	6	(1,721)	759
Busines combination	12,530	-	-	-
Closing balance	**124,906**	**4,982**	**105,717**	**7,069**

Gains and losses in 2017 and 2016 on disposals of financial instruments categorised within Level 3 recognised in the accompanying income statement were not significant.

Changes in the fair value of equity instruments classified as “Non-current assets and disposal groups classified as held for sale” included in Level 3 in the fair value hierarchy recognised in the accompanying balance sheets at 31 December 2017 and 2016 are as follows:

(thousands of euros)

	2017	2016
Opening balance	**4,442**	**24,534**
Gains (losses)	7,982	(4,000)
To profit and loss	7,982	(4,000)
Other net variations	(12,235)	(16,092)
Additions due to business combination	207,808	-
Closing balance	**207,997**	**4,442**

(23.2) Fair value of other assets

(23.2.1) Real estate assets

The table below shows, for measurements of the fair value of certain tangible assets in the fair value hierarchy, recognised on the balance sheet, a reconciliation of balances recognised at 31 December 2017 and 2016:

(Thousands of euros)

	31/12/2017		31/12/2016	
ITEM	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets	2,099,415	2,494,561	1,388,633	1,629,071
Property, plant and equipment for own use - Buildings and other structures	1,442,382	1,594,457	1,133,467	1,271,772
Investment property	657,033	900,104	255,166	357,299

The fair value of the tangible assets in the preceding table was estimated based on recoverable amount, which is the higher of the asset’s fair value less costs of disposal and its value in use (derived from the present value of the estimated future cash flows from the assets). In the specific case of tangible assets for own use, fair value is obtained from market inputs or, failing this, valuation techniques that consider the yields, flows or replacement cost of the asset. For investment property, the best evidence of fair value is the current price on an active market for similar assets, adjusted as appropriate in accordance with the peculiarities of each asset or, as appropriate, recent prices on less active markets and discounted cash flow projections of rents of similar properties.

The amortizations of property, plant and equipment amount recognized in the 2017 and 2016 income statements were EUR 89,958 thousand and EUR 85,296 thousand. And reversions amounts were EUR 38 thousand and EUR 3,651 thousand, recognized in the “Impairment or (-) reversal of impairment on non-financial assets – tangible assets”.

Better and greater use of non-financial assets does not mean a different use, except for the real estate assets owned by the Bank, where the building and facilities are considered as assets for the purpose of measuring land.

(23.2.2) Real estate assets classified as non-current assets held for sale

The fair values at 31 December 2017 and 2016 of the Bank’s property, plant and equipment for own use classified under “Non-current assets held for sale” at those dates were EUR 265,765 thousand and EUR 164,300 thousand respectively.

The carrying amount of the Bank's foreclosed real estate assets classified under "non-current assets and disposal groups that are classified as held for sale" is the same as the estimated fair value based on the latest available appraisals of the assets, adjusted where appropriate to reflect the estimated impact of trends in the real estate market.

As set out in Ministerial Order ECO/805/2003 or statistics appraisals, the fair value is based mainly on independent expert appraisals, adjusted, where appropriate, to factor in the estimated impact from the appraisal date of certain real estate-related variables. These variables consider mainly the age of the appraisals available, as well as the sale experience (see Note 2.21).

During 2017 and 2016, the companies or agencies that preformed the appraisals are as follows:

(% appraised) (Thousands of euros) Appraiser companies or agencies	2017	2016
Gesvalt	8.65%	4.65%
Tecnitasa	12.07%	9.23%
Tinsa	56.42%	86.12%
UVE	8.27%	-
Arco Valoraciones	13.95%	-
Others	0.64%	-
Total	**100.00%**	**100.00%**

These valuations are considered Level 3 inputs according to the approaches described in the financial statements.

The reconciliation of the fair value of foreclosed assets whose measurements are included in Level 3 of the fair value hierarchy is detailed in Note 17.

(23.2.3) Investments in joint ventures and associates classified as Non-current assets and disposal groups classified as held for sale

The following table details the fair value hierarchy for investments in group entities, joint ventures and associates classified as Non-current assets at 31 December 2017 and 2016:

(Thousands of euros)	31/12/2017			31/12/2016		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Accounting balance at the end of the year	-	41,697	**41,697**	-	19,292	19,292

The valuation techniques and inputs used were as follows:

Level 2: fair value determine using as inputs quoted prices in active markets, less estimated costs of disposal by reference to the discount generally required by the market for the block sale of significant shareholdings in quoted companies.

Level 3: fair value was estimated mainly using present value techniques based on net asset value (NAV).

The reconciliation of the opening balances to the closing balances of fair value measurements categorised within Level 3 of the fair value hierarchy is as follows:

(Thousands of euros)	31/12/2017	31/12/2016
Balances at the begginig of the year	**19,292**	**20,915**
Gains (losses)	(3,151)	(1,641)
To impairment losses or gains (see Note 42)	(3,151)	(1,641)
Purchases	75	18
Settlements/Sales	(2,866)	-
Business combination	28,347	-
Balances at the ending of the year	**41,697**	**19,292**

(24) Tax matters

(24.1) Consolidated tax group

The Company is the parent of Tax Consolidation Group number 559/11 created on 1 January 2011, comprising in 2017, the following Group subsidiaries:

ABITARIA CONSULTORÍA Y GESTIÓN, S.A.
ARRENDADORA DE EQUIPAMIENTOS FERROVIARIOS, S.A.
BANCAJA EMISIONES, S.A.U.
BANKIA FONDOS, S.G.I.I.C., S.A.
BANKIA HABITAT, S.L.U.
BANKIA INVERSIONES FINANCIERAS, S.A.U.
BANKIA MEDIACIÓN, OPERADOR DE BANCA SEGUROS VINCULADO, S.A.U.
BANKIA PENSIONES, S.A., ENTIDAD GESTORA DE FONDOS DE PENSIONES
CENTRO DE SERVICIOS OPERATIVOS E INGENIERIA DE PROCESOS, S.L.U.
CORPORACIÓN INDUSTRIAL BANKIA, S.A.U.
GARANAIR, S.L.
INMOGESTIÓN Y PATRIMONIOS, S.A.
MEDIACIÓN Y DIAGNÓSTICOS, S.A.
NAVIERA CATA, S.A.
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.
SECTOR DE PARTICIPACIONES INTEGRALES, S.L.
SEGURBANKIA, S.A. CORREDURÍA DE SEGUROS DEL GRUPO BANKIA
VALENCIANA DE INVERSIONES MOBILIARIAS, S.L.U.
VALORACIÓN Y CONTROL, S.L.

(24.2) Years open for review by the tax authorities and provisions recognised

At 31 December 2017, the Bank had the last four years open to review by the tax inspection authorities for all the taxes applicable to it.

On 13 October and 20 October 2014, tax inspections began of the Bank to verify compliance with tax obligations and duties for the following taxes and tax periods:

ITEM	PERIOD
Income tax	2011 to 2012
Value added tax	2011 to 2012
Withholdings / Payments on account of earned income	2011 to 2012
Withholdings / Payments on account for investment income	2011 to 2012
Withholdings / Payments on account for leases	2011 to 2012
Withholdings on account on non-resident income	2011 to 2012
Annual statement of operations	2011 to 2012
Special tax for non-resident real estate	2011 to 2012
Value added tax	11/2013 to 12/2013

These tax inspections are still ongoing at present. No matter worthy of disclosure has arisen in this respect.

The scope of the value added tax inspections was expanded on 26 October 2017 (November and December 2013).

Inspections performed at the "Cajas de Ahorros"

In relation to the "Cajas de Ahorros" which transferred their financial business on 16 May 2011, firstly to BFA and subsequently to the Bank, the information is as follows:

- On 11 March 2014, inspections were performed at Caja de Ahorros y Monte de Piedad de Madrid in order to ascertain compliance with tax obligations and duties in respect of the following items and periods:

ITEM	PERIOD
Income tax	2008 to 2010
Value added tax	2010
Withholdings / Payments on account of earned income	2010
Withholdings / Payments on account for investment income	2010
Withholdings / Payments on account for leases	2010
Withholdings on account on non-resident income	2010
Annual statement of operations	2010
Special tax for non-resident real estate	2010

Assessments were signed on 26 January 2017 in respect of value added tax and withholdings/payments on account of earned income and on 26 October 2017 assessments were signed in respect of withholdings/payments on account of investment income in the following amounts:

ITEM	Thousands of euros
Income tax	5,295
Withholdings / Payments on account of earned income	1,424
Withholdings / Payments on account for investment income	1,186

These debts were settled on 24 February 2017, with the exception of the amounts owed in respect of withholdings/payments on account of investment income, which were paid on 29 November 2017.

In light of the outcome of the tax inspections outlined above, disciplinary proceedings were initiated in respect of the revised amounts of value added tax, withholdings/payments on account of earned income and withholdings/payments on account of investment income based on the consideration that they constitute tax offences, seeking EUR 98, 217 and 9.5 thousand, respectively. Following issuance of the penalty agreement, the corresponding debts were settled on 24 February 2017, with the exception of the amounts owed in respect of withholdings/payments on account of investment income, which were paid on 29 November 2017.

At the reporting date, the corporate income tax verification and inspection remained ongoing.

Elsewhere, on 3 June 2014, the tax authorities began an inspection of Caja Insular de Ahorros de Canarias with the aim of verifying compliance with its tax obligations and duties in respect of the following taxes and tax periods:

ITEM	PERIOD
Income tax	2009 to 2010
Value added tax	05/2010 to 12/2010
Withholdings / Payments on account of earned income	05/2010 to 12/2010
Withholdings / Payments on account for leases	05/2010 to 12/2010
Withholdings on account on non-resident income	05/2010 to 12/2010
Withholdings / Payments on account for investment income	05/2010 to 12/2010

Verification and inspection activities are still ongoing to date, and no noteworthy aspects have been singled out.

- On 12 June 2012, inspections were performed at Caja de Ahorros y Monte de Piedad de Avila in order to ascertain compliance with tax obligations and duties in respect of the following items and periods:

ITEM	PERIOD
Income tax	2008 to 2010
Value added tax	05/2008 to 12/2010
Withholdings / Payments on account for leases	05/2008 to 12/2010
Withholdings on account on non-resident income	05/2008 to 12/2010
Withholdings / Payments on account of earned income	02/2009 to 12/2011
Withholdings / Payments on account for investment income	05/2008 to 12/2010

Assessments were signed on 26 September 2017 in respect of the following taxes and amounts:

ITEM	Thousands of euros
Income tax	3,903
Value added tax	965
Withholdings / Payments on account for real estate	113
Withholdings / Payments on account for investment income	648
Withholdings / Payments on account of earned income	210

These debts were paid on 6 November 2017.

In light of the outcome of the tax inspections outlined above, disciplinary proceedings were initiated in respect of the revised amounts of corporate income tax, value added tax and withholdings/payments on account of investment income based on the consideration that they constitute tax offences, seeking EUR 27, 210 and 769 thousand, respectively. Following issuance of the corresponding penalty agreement, these amounts were paid on 6 November 2017.

Tax inspections at BMN

- On 21 October 2014, the tax authorities of the regional government of Andalusia notified the Bank of the start of verification and inspection proceedings aimed at determining due compliance with its tax obligations and duties in respect of 'tax on customer deposits at credit institutions in Andalusia in 2011 and 2012.

  The investigation encompassing 2011 ended on 11 November 2015 and no discrepancies were detected with respect to the amounts declared. With respect to 2012, on 5 October 2016, the Andalusian tax authorities handed down an assessment of EUR 14,998 thousand, which was signed by the Group under protest; on that same date it was notified of the start of disciplinary proceedings, which contain a fine proposal of EUR 6,546 thousand; the Andalusian tax authority having confirmed the content of the assessment, including the proposed settlement, and the settlement proposed in the disciplinary proceedings, on 16 January 2017, the Group lodged the corresponding appeals. The Group filed its pleadings in writing along with all the corresponding documentation on 23 June 2017.

- In 2015, the Supreme Court ruled on the tax assessments handed down to Caixa Penedès (currently Fundación Pinnae); that sentence left a balance pending payment of EUR 741 thousand, mainly in respect of corporate income tax from 2001 to 2004. The Group had yet to receive notification of enforcement of the sentence at the reporting date.

(24.3) Reconciliation of accounting and tax profit

As detailed in Note 1.16, in keeping with applicable accounting rules, the Bankia - BMN merger (which closed in January 2018) is deemed to have taken place on 1 December 2017 for accounting purposes (retroactive transaction accounting). As a result, all of the transactions performed by BMN since that date have been deemed performed by Bankia, S.A.

This retroactive accounting for the transaction has effects for corporate income tax purposes, as stipulated in article 10.3 of Spain's Corporate Income Tax Act, such that the reconciliation of accounting and tax profit for this period is performed in respect of the individual tax return of Bankia.

The detail of income tax expense in the accompanying consolidated income statements for 2017 and 2016 to the consolidated profit/ (loss) before tax for the years, each other the breakdown of the significant losses (gains) for the income tax. These figures include the adjustments made by Bankia as a result of the above-mentioned retroactive transaction accounting:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Accounting profit/(loss) before tax	**549,401**	**914,214**
Adjustment to profit	**(171,409)**	**(253,134)**
Return on equity instruments	(61,632)	(29,126)
Permanent differences and other ajustments	(109,777)	(224,008)
Profit before adjusted tax	**377,992**	**661,080**
Tax expense (Taxed income * 30%)	**(113,398)**	**(198,324)**
Deductions	**40,469**	**-**
Income tax expense	**(72,929)**	**(198,324)**
Income tax adjustments (1)	**(67,047)**	**(74,000)**
Profit or (-) loss of the tax rates of gains or (-) losses on the continuing operations	**(80,649)**	**(194,759)**
Income tax for the year (income/(expense))	(139,976)	(272,324)
Effective rate	25.48%	29.79%
Income tax for previous years (income/(expense))	(453)	121
Other movements of deferred tax (2)	59,780	77,444

(1) Corresponds to the financial contribution (see Note 24.5).

(2) In 2017 this heading includes tax gains deriving from temporary differences not recognised in prior years.

In 2016 corresponds to the cancellation of deferred tax assets under the framework of the new income tax regulation (see Note 26.6) of EUR (132,613) thousand and tax assets of EUR 210,057 thousand arising on unrecognised temporary differences in prior years, related mainly to the sale of equity investments in 2016.

(24.4) Tax recognised directly in equity

In addition to the income tax recognised in the income statement for 2017 and 2016, the Bank recognises in equity the taxes relating basically to “Accumulated other comprehensive income" (which includes available-for-sale financial assets, cash flow hedges, hedges of net investments in foreign operations, and exchange differences) and to “Own funds – Other reserves” in the accompanying balance sheet.

The amount of income tax related to each component of "Other comprehensive income" in 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Items that will not be reclassified	**(2,632)**	**(5,298)**
Actuarial gains or (-) losses on defined benefit pension plans	(2,632)	(5,298)
Items that may be reclassified to profit or (-) loss	**57,054**	**87,692**
Currency conversion	525	(219)
Available-for-sale financial assets	51,187	88,264
Hedging derivatives. Cash flow hedges	3,948	(370)
Non-current assets and disposal groups held for sale	1,394	17
Total	**54,422**	**82,394**

In addition, income tax recognised by the Bank directly in "Equity - Other reserves" in the accompanying balance sheet is detailed in the movement of deferred tax assets and liabilities (see Note 24.5).

(24.5) Deferred tax assets and liabilities

Royal Decree 14/2013, of 29 December

On 30 November 2013, Royal Decree-Law 14/2013, of 29 December, on urgent measures to adapt Spanish law to European legislation on the supervision and solvency of financial institutions was published in the Official State Gazette (Boletín Oficial del Estado). With effect for tax periods commencing on or after 1 January 2014, this Royal Decree-Laws added a twenty-second additional provision to the TRLIS, enacted by Royal Decree-Law 4/2004, of 5 March "Conversion of deferred tax assets into credits that give rise to a receivable from the tax authorities".

In light of this article, deferred tax assets related to credit loss allowances or other assets for potential debtor insolvency not related to the taxpayer, provided that article 12.2.a) of the TRLIS is not applicable, as well as those related to the application of articles 13.1.b) and 14.1.f) of the same law regarding contributions to employee welfare systems or pensions schemes and, as applicable, provisions for pre-retirement schemes, convert into credits that give rise to a receivable from the tax authorities when any of the following circumstances arise:

a) That the taxpayer recognises accounting losses in its annual accounts (audited and approved by the corresponding body). In this case, the amount of deferred tax assets to be converted will be determined by applying the ratio of accounting losses to the sum of capital and reserves to these deferred tax assets.

b) That the entity is in liquidation or has been legally declared insolvent.

For this conversion of deferred tax assets into a credit that gives rise to a receivable from the tax authorities, the taxpayer may request a credit from the tax authorities or offset the credit with other tax liabilities which the taxpayer itself generates as of the time of conversion.

In addition, these deferred tax assets may be exchanged for Spanish government debt once the legal offset period for tax losses has elapsed (currently 18 years), to be computed as from the accounting recognition of these tax assets.

A new section 13 of article 19 of TRLIS, Timing differences, has been added for determining taxable income/(tax loss) for income tax purposes, with retroactive effect from tax periods commencing on or after 1 January 2011.

In light of the new section 13 of article 19 of the TRLIS, provisions for impairment of loans or other insolvency-related assets vis-à-vis unrelated debtors to which the deductibility limitation provided for in article 12.2.a) of the TRLIS does not apply, as well as allowances or contributions to welfare of early retirement schemes to which the limitations on deductibility provided for in articles 13.1.b) and 14.1.f) of the same law apply, have generated deferred tax assets will be included in the tax base up to the limit of the positive tax base of the year before their inclusion and the offset of tax losses.

As a result of the new timing criteria, the Bank calculated a different tax base for 2011 and 2012 than declared, which it was reported to the tax authorities in due time and form.

Law 27/2014, of 27 November

Law 27/2014, of 27 November on Corporate Income Tax (the CIT law or "LIS") was enacted on 27 November 2014 and came into force on 1 January 2015, repealing the Revised Text of the Income Tax Law (TRLIS) approved by Royal Legislative Decree 4/2004, of 5 March. Article 11.12 of the new LIS includes the text of the repealed Article 19.13 of the TRLIS, with effect from 1 January 2015, although the new LIS introduced, *inter alia*, certain restrictions and the application of Article 11.12.

Meanwhile, Article 130 of the Corporate Income Tax Law (LIS) included in the new law additional provision twenty-two of the Revised Text of the TRLIS, stating that the aforementioned deferred tax assets may be exchanged for public debt securities after a period of 18 years from the last date of the tax period in which the assets were recognised. For assets recognised before the enactment of the law, the calculation period begins from the date of entry into force.

The new LIS included a change in the corporate income tax rate, setting this rate at 28% for 2015 and 25% from 2016. However, accordingly to section 5 of Article 58 of the LIS, consolidated tax groups that include at least one credit institution will be subject to a 30% tax rate. As Bankia is the parent of its tax group, the tax group continued to pay a CIT rate of 30% in 2015 and will maintain this rate in 2016 and beyond.

Meanwhile Article 26 of the LIS does not pose a time limit on the carryforward of unused tax losses existing in the period beginning on or after the law takes effect on 1 January 2015. In addition, transitional provision twenty-three does not include any time limit on availing of deductions to avoid double taxation established in Articles 30, 31 and 32 of the TRLIS that had not been used as of the period beginning on or after the new law becomes effective.

Law 48/2015, of 29 October, on the General State Budgets for 2016

Law 48/2015, of 29 October, on the General State Budgets for 2016 was enacted on 30 October 2015. Effective for tax periods beginning on or after 1 January 2016, this law modifies the tax regime to establish the aforementioned conversion, sets new conditions for eligibility for the regime and introduces certain reporting obligations with respect to the deferred tax assets affected by the regulation. It also provides for a transitional regime applicable to deferred tax assets generated before 1 January 2016, whereby unless certain conditions are met, the right to conversion may be retained, although to do so a financial contribution must be paid, which is regulated by the new additional provision 13 of the LIS.

The equity amount at the year-end 2017 was EUR 67,047 thousand (EUR 74,000 thounsand at 2016) and recognized in the epigraph "Tax expense or income related to profit or loss from continuing operations" of the income statement.

Royal Decree Law 3/2016, of 2 December

Lastly, Royal Decree Law 3/2016 of 2 December, adopting certain tax measures to consolidate public finances and other urgent social measures must be considered. According to this law, impairment losses on investments that were tax deductible for tax periods up to 2013 but not thereafter must be reversed at a minimum annual amount on a straight-line basis over a 5-year period.

This legislation regarding tax periods commencing on or after 1 January 2016 places a limit on the offset of prior year tax losses and tax loss carryforwards of 25% for companies with net revenue of EUR 60 million or more. The same restrictions apply to the reversal of deferred tax assets provided for in article 12.11 of the Corporate Income Tax law. In addition, this Royal Decree places a new limit on the use of double taxation tax credits of 50% of the full income tax charge, and any unused portion may be taken in future tax periods under the same terms and conditions and with no time limit.

In addition, for tax periods commencing on or after 1 January 2017, article 3.2 of Royal Decree-Law 3/2016 stipulates that losses arising on transfers of shareholdings are not deductible provided that they are eligible for exemption or a tax credit on gains, in respect of dividends or capital gains arising on the transfer of the shares.

Deferred tax assets and liabilities

Pursuant to the tax legislation, certain temporary differences arose that must be taken into account when quantifying the related income tax expense.

The sources of deferred taxes recognised in the balance sheets at 31 December 2017 and 2016, bearing in mind the impact of the retroactive application of article 11.12 of the TRLIS, are as follows:

(Thousands of euros)

DEFERRED TAX ASSETS ARISING FROM:	31/12/2017	31/12/2016
Monetisable:	**6,924,030**	**4,909,695**
Allowances for credit impairment	5,406,140	3,961,253
Impairment losses on foreclosed assets	1,237,079	779,065
Additions to provisions for pensions	280,811	169,377
Non-monetisable:	**2,994,216**	**2,444,687**
Allowances for credit impairment	68,731	48,854
Additions to provisions for pensions	9,751	-
Impairment losses recognised on financial assets	89,448	67,490
Others provisions	386,859	95,500
Tax assets relating to unused tax credits and tax relief	88,334	-
From loss on available-for-sale financial assets	43,578	10,731
Recognised unused tax losses	2,307,515	2,222,112
Total of deferred tax assets	**9,918,246**	**7,354,382**

(Thousands of euros)

DEFERRED TAX ASSETS ARISING FROM:	31/12/2017	31/12/2016
Unrealised gains on financial assets	493,451	514,336
Unrealised gains on properties	151,879	87,553
Other items	39,441	40,579
Total of deferred tax liabilities	**684,771**	**642,468**

The movement in 2017 was as follows:

(Thousands of euros)

	Balances at 31/12/2016	(Charged)/credited to the income statement	(Charged)/credited to equity	Other movements	Additions due to business combination	Balances at 31/12/2017
Deferred tax assets (Assets)	7,354,382	(105,734)	14,367	2,734	2,652,497	9,918,246
Deferred tax liabilities (Liabilities)	(642,468)	37,987	46,182	-	(126,472)	(684,771)
	6,711,914	**(67,747)**	**60,549**	**2,734**	**2,526,025**	**9,233,475**

31 December 2016

(Thousands of euros)

	Balances at 31/12/2015	Charged)/credited to the income statement	(Charged)/credited to equity	Other movements	Balances at 31/12/2016
Deferred tax assets (Assets)	7,466,942	(114,859)	(8,718)	11,017	7,354,382
Deferred tax liabilities (Liabilities)	(810,803)	77,271	91,114	(50)	(642,468)
	6,656,139	**(37,588)**	**82,396**	**10,967**	**6,711,914**

The detail of both recognised tax loss carryforwards of the Bank at 31 December 2017 of the Bank's tax loss carryforwards, including the year in which they arose:

Year giving rise to the tax loss	Amount of the tax credits or tax relief available for offset	Amount of the deferred tax asset recognised (tax credit)
Year 2010	736,333	120,747
Year 2011 (*)	1,229,403	362,423
Year 2012 (*)	8,702,554	1,738,941
Subtotal	**10,668,290**	**2,222,111**
Otras Bases Imponibles Negativas con origen en el proceso de fusión de BMN		
Year 2010	143,201	42,960
Year 2011 (*)	8,892	2,668
Year 2016	33,686	10,106
Year 2017	98,903	29,671
Subtotal	**284,682**	**85,405**
TOTAL	**10.952.972**	**2.307.516**

(*) As indicated above, the tax losses for 2011 and 2012 were calculated estimating the impact of article 19.13 of the TRLIS approved by Royal Decree-Law 14/2013, of 29 December, on urgent measures to adapt Spanish law to European legislation on the supervision and solvency of financial institutions.

The detail of recognised unused deductions and deductions available for offset by the Bank at 31 December 2017, including their year of origin, is as follows:

(Thousands of euros)

Year giving rise to the tax credits	Amount of the tax credits or tax relief available for offset	Amount of the deferred tax asset recognised
2005-Other deductions	103	-
2008-Deduction for reinvestment	64,824	-
2008- Deduction for R&D&I	246	-
2009- Deduction for reinvestment	67,239	-
2009- Deduction for R&D&I	2,319	-
2009- Other deductions	2,015	-
2009-Deductions for donations (Law 49/2002)	419	-
2010- Deduction for reinvestment	35,426	-
2010- Deduction for R&D&I	1,872	-
2010- Other deductions	1,589	-
2010- Deductions for donations (Law 49/2002)	459	-
2011- Deduction for international double taxation	1,748	-
2011- Deduction for R&D&I	1,202	-
2011- Other deductions	450	-
2011- Deductions for donations (Law 49/2002)	140	-
2012- Deduction for internal double taxation	2,917	-
2012- Deduction for international double taxation	1,012	-
2012- Deduction for R&D&I	1,502	-
2013-Deduction for internal double taxation	3,042	-
2013- Deduction for international double taxation	1,143	-
2013- Deduction for R&D&I	3,536	-
2013- Deductions for donations (Law 49/2002)	212	-
2014- Deduction for internal double taxation	82,397	-
2014- Deduction for international double taxation	1,764	-
2014- Deduction for R&D&I	4,367	-
2014- Other deductions	150	-
2015- Deduction for internal double taxation	1,681	-
2015- Deduction for R&D&I	4,748	-

2015- Other deductions	801	-
2016- Deduction for international doublé taxation	1,921	-
2016- Deduction for R&D&I	4,903	-
2016- Deduction for donations (Law 49/2002)	1,651	-
SUBTOTAL	**297,798**	**-**
Other deduction for merger whit BMN		
2004 - Deduction for reinvestment	9	9
2005 - Deduction for reinvestment	3	3
2006 - Deduction for reinvestment	20	20
2007 - Deduction for reinvestment	43	43
2007 - Deduction for R&D&I	2	2
2008 - Deduction for reinvestment	9	9
2008 - Deduction for R&D&I	1,079	1,079
2009 - Deduction for reinvestment	7,472	7,472
2009 - Deduction for R&D&I	797	797
2009 - Other deductions	301	301
2010 - Deduction for reinvestment	1,757	1,757
2010 - Deduction for R&D&I	1,086	1,086
2010 - Other deductions	287	287
2010 - Deductions for donations (Law 49/2002)	90	90
2011 - Deduction for reinvestment	3,949	3,949
2011 - Deduction for R&D&I	770	770
2011 - Other deductions	186	186
2011 - Deductions for donations (Law 49/2002)	11	11
2012 - Deduction for reinvestment	1,347	1,347
2012 - Other deductions	35	35
2012 - Deductions for donations (Law 49/2002)	1	1
2012 - Deduction for internal double taxation	9,598	9,598
2012 - Deduction for international double taxation	33	33
2013 - Deduction for reinvestment	175	175
2013 - Deduction for R&D&I	4,368	4,368
2013 - Other deductions	36	36
2013 - Deductions for donations (Law 49/2002)	3	3
2013 - Deduction for internal double taxation	21,323	21,323
2013 - Deduction for international double taxation	11	11
2014 - Deduction for reinvestment	606	606
2014 - Deduction for R&D&I	1,091	1,091
2014 - Deductions for donations (Law 49/2002)	283	283
2014 - Deduction for internal double taxation	24,370	24,370
2014 - Deduction for international double taxation	10	10
2015 - Deduction for reinvestment	842	842
2015 - Deduction for R&D&I	2,375	2,375
2015 - Deduction for international double taxation	39	39
2016 - Deduction for R&D&I	2,463	2,463
2016 - Deduction for international double taxation	86	86
2016 - Deduction for R&D&I	1,344	1,344
2016 - Deduction for international double taxation	17	17
SUBTOTAL	**88,327**	**88,327**

(24.6) Other tax information

In accordance with prevailing law, Bankia's individual financial statements for 2017 and prior years provide the following additional tax information: includes additional tax information related to Transactions carried out in previous years pursuant to Chapter VIII of Title VII of the Revised Tax of the Corporate Income Tax Law approved by Royal Legislative Decree 4/2004 of 5 March.

(24.7) Information regarding the assessment of the recoverability of tax assets

To assess the recoverability of the net deferred tax assets recognised by the Bank at 31 December 2017, amounting to EUR 9,233,475 thousand (EUR 6,711,914 thousand at 31 December 2016), the directors analysed, based on the nature of the assets, the ability to generate sufficient taxable profit against which the deferred tax assets can be utilised. This analysis was based on the assumptions, conditions and estimates in forecasts for the period 2018 to 2020. Assuming constant growth thereafter for future periods estimated according to forecast inflation in the long term, full recovery of the net tax assets would be enabled within a period of no more than 20 years. As with any estimates subject to assumptions, future events may make it necessary to change them, which could lead to a prospective change in the net tax assets recognised by the Bank, pursuant to the accounting principle explained in Note 1.4.

In addition, regarding the assessment of the recoverability of deferred tax assets, it should be noted that, in accordance with Royal Decree-Law 14/2013, of 29 December, on urgent measures to adapt Spanish law to European legislation on the supervision and solvency of financial institutions, and articles 11.12 and 130 of Law 27/2014, of 27 November, on Corporate Income Tax -LIS- (see Note 24.5), at 31 December 2017, the Bank had deferred tax assets amounting to EUR 6,924,030 thousand (EUR 4,909,695 thousand at 31 December 2016) that meet the requirements under this regulation. Accordingly, their future recovery is guaranteed through the monetisation mechanisms established in the aforementioned RDL 14/2013 and article 130 of the LIS, although this recovery is not expected to be through the offset of future profit, bearing in mind the amendments made for tax periods beginning on or after 1 January 2016 by Law 48/2015, of 29 October, on the General State Budgets for 2016, although for it must be faced to a financial nature regulated by the new Thirteenth Additional Provision of the LIS.

(25) Other significant disclosures

(25.1) Asset transfers

(25.1.1) Securitization

Bank entities performed various securitization transactions whereby they transferred loans and credits in their portfolio to several securitization special-purpose vehicles. These assets were derecognised when substantially all the associated risks and rewards were transferred. The securitised assets are recognised in the balance sheet when all the associated risks were not substantially transferred.

"Loans and advances - customers" includes, inter alia, loans transferred to third parties through securitization for which risk is retained, if only partially, which in accordance with applicable accounting standards cannot be derecognised from the balance sheet. The detail of securitised loans by nature of the underlying financial instrument and the securitised loans that meet the requirements for derecognition from the balance sheet (see Note 2.5.2) are shown in the table below.

(Thousands of euros)

	31/12/2017	31/12/2016
Derecognised out balance sheet (Note 10)	**341,778**	**552,254**
Of which mortgage assets securitised through:	341,728	552,204
Mortgage participations	150,735	333,779
Mortgage transfer certificates	190,993	218,425
Other securitised assets	50	50
Keep on balance sheet (Note 10)	**11,946,922**	**12,812,386**
Of which mortgage assets securitised through	11,603,686	12,474,745
Mortgage participations	447,582	5,703
Mortgage transfer certificates	11,156,104	12,469,042
Other securitised assets	727	5,755
Foreclosed assets from securitised mortgage assets	342,509	331,886

Appendix IV to these financial statements shows detail of securitization transactions at 31 December 2017 and 2016.

(25.1.2) Repurchase and resale agreements

At 31 December 2017 and 2016, the Bank had sold financial assets under outstanding repurchase agreements amounting to EUR 13,654,501 thousand and EUR 18,346,178 thousand at 31 December 2016, and had purchased financial assets under outstanding resale agreements amounting to EUR 738,062 thousand and EUR 1,364,848 thousand at 31 December 2016, as follows:

(Thousands of euros)

ITEM	31/12/2017		31/12/2016	
	Repurchase agreement	Resale agreement	Repurchase agreement	Resale agreement
Spanish debt securities	5,408,230	238,062	9,107,236	699,735
Other debt securities	8,246,271	500,000	9,238,942	665,113
Total	**13,654,501**	**738,062**	**18,346,178**	**1,364,848**

The sale of financial assets under a repurchase agreement inherently includes the delivery or pledge of these assets in guarantee of the transaction. At 31 December 2017, the average term of these repurchases and, accordingly, of the assets provided as collateral was 4 months (7 months at 31 December 2016).

(25.1.3) Assets assigned to other own and third-party obligations

At 31 December 2017 and 2016, the Bank had significant assets guaranteeing their own obligations amounting to EUR 87,780 million and EUR 74,839 million, respectively. These amounts corresponded mainly to loans linked to the issue of long-term mortgage covered bonds (see Note 10 and Appendix VII) which, pursuant to the Mortgage Market Law are considered eligible to guarantee the issue of long-term mortgage covered bonds.

(25.2) Guarantees provided and drawable by third parties

Guarantees provided

Financial guarantees are amounts the Bank would be obliged pay on account of third parties if the original debtors were to default on payments pursuant to commitments assumed by those entities in the course of their ordinary business activities.

The detail of these financial and non-financial guarantees provided at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Financial guarantees	**414,912**	**459,863**
Others given commitments	**8,515,242**	**7,223,587**
Other guarantees and indemnities and other contingent risks	8,062,117	6,900,416
Addition to obligations due to new commitments	17,003	-
Irrevocable documentary credits issued	386,787	307,007
Irrevocable documentary credits confirmed	49,335	16,164
Total	**8,930,154**	**7,683,450**

Note 3.1.2 shows the maximum credit risk assumed by the Bank in relation to these instruments at 31 December 2017 and 2016, and contains other information relating to the credit risk assumed by the Bank in this connection.

A significant portion of these guarantees will expire without any payment obligation materialising for the Bank. Therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Bank to third parties.

The income generated on guarantee instruments is recognised in the income statement under “Fee and commission income” and "Interest income" (in amounts corresponding to the present value of the fees), calculated by applying the interest rate on the underlying contract to the face value of the guarantee.

The provisions established to cover these guarantees, which are calculated by applying similar criteria to those used to calculate the impairment of financial assets at amortised cost, are recognised in the balance sheet as “Provisions - Commitments and guarantees given” (see Note 19).

Drawable by third parties

At 31 December 2017 and 2016, the limits of the financing contracts granted and the amounts drawn down thereon in relation to which the Bank had assumed a credit commitment which was higher than the amount recognised on the asset side of the balance sheet at that date were as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Drawable by third parties	**18,699,632**	**19,169,615**
Immediately drawable	14,598,822	15,429,383
Conditionally drawable	4,100,810	3,740,232
Others given commitments (1)	**4,285,784**	**5,912,388**
Total	**22,985,416**	**25,082,003**

(1) Includes mainly commitments to purchase financial assets and documents presented for collection in the various clearing systems.

The maximum exposure to credit risk; i.e. the amount payable if the guarantees and commitments extended are called, is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Commitments and given loan	18,699,632	19,169,615
Of which, classified as doubtful	429,073	406,208
Recognized as liabilities in the balance sheet	25,477	27,763
Total commitments and given loans	**18,699,632**	**19,169,615**
Financial guarantees	414,912	459,863
Of which, classified as doubtful	108,302	108,529
Recognized as liabilities in the balance sheet (1)	28,533	25,526
Total commitments and given guarantees	**414,912**	**459,863**
Other guarantees and given loans	12,801,026	13,135,975
Of which, classified as doubtful	687,109	642,589
Recognized as liabilities in the balance sheet (1)	326.412	345,180
Total other commitments	**12,801,026**	**13,135,975**
Total guarantees issued provided by the third party	**31,915,570**	**32,765,453**

(1) Amount related to "Provision - Commitments and guarantees given" (Note 19).

(25.3) Third party funds managed and marketed by the Group

The breakdown of off-balance sheet funds managed and commercialized by the Group at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Investment companies and funds	15,726,404	13,617,386
Pension funds	6,737,809	6,478,260
Discretionally managed customer portfolios	58,745	109,848
Total	**22,522,958**	**20,205,494**

In addition, the Group markets off-balance-sheet customer funds managed by third parties outside the Group. These amounted to EUR 13,473,188 thousand at 31 December 2017 (EUR 7,316,656 thousand at 31 December 2016).

(25.4) Leases

(25.4.1) Finance leases

In the normal course of its business the Bank acts as lessor in transactions which, pursuant to the provisions of the regulations applicable, are classified as finance leases, Arrangements drawn up in this regard are performed in accordance with general market practices for such transactions.

Finance leases granted by the Bank amounted to EUR 1,122,888 thousand at 31 December 2017 (EUR 1,118,588 thousand at 31 December 2016), recognised under "Loans and receivables - Loans and advances - Customers" in the balance sheet at that date, Impairment losses recognised on these transactions amounted to EUR 82,466 thousand at 31 December 2017 (EUR 123,250 thousand at 31 December 2016).

The gross investment in the lease is the sum of: the minimum payments receivable from the finance lease plus any unsecured residual value corresponding to the lessor. It should be remembered that the assets leased under finance leases are recognised at the present value of the lease payments payable by the lessee, plus the guaranteed and non-guaranteed residual value, excluding interest expenses and value-added tax.

The breakdown of these items is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Present value of minimum lease payments receivable (1)	972,699	987,193
Residual values not guaranteed	150,189	131,395
Total gross investment in finance leases	**1,122,888**	**1,118,588**

(1) Includes the value of the purchase option whose collection is guaranteed for the Bank.

Unearned finance income from the Bank’s finance leases amounted to EUR 65,503 thousand at 31 December 2017 (EUR 68,228 thousand at 31 December 2016).

Meanwhile, the breakdown by maturity of the gross investment and the current value of the minimum payments to be received is presented below:

31 December 2017

(Thousands of euros)

MATURITY	Gross investment	Present value of minimum payments receivable
Up to 1 year	291,088	284,635
1 to 5 years	556,679	480,561
More than 5 years	275,121	207,503
Total	**1,122,888**	**972,699**

31 December 2016

(Thousands of euros)

MATURITY	Gross investment	Present value of minimum payments receivable
Up to 1 year	326,280	315,107
1 to 5 years	431,829	399,854
More than 5 years	360,479	272,232
Total	**1,118,588**	**987,193**

The Bank does not act as lessee in finance lease transactions.

(25.4.2) Operating leases

In relation to lease transactions which, pursuant to the provisions of prevailing regulations, must be considered as operating leases and in which the Bank acts as the lessee, the amount of leases and subleases recognised as an expense in the income statement amounted to EUR 60,404 thousand for the year ended 31 December 2017 (EUR 61,566 thousand at 31 December 2016).

(25.5) Exchanges of assets

In the years ended 31 December 2017 and 2016, the Bank did not carry out any significant exchanges of assets. In this regard, the acquisition by any means of tangible assets in payment of debts arising with the Bank's debtors is not considered an exchange of assets. Information concerning this type of transaction is shown in Note 2.11 above.

(26) Interest income

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
By counterparty		
Debt securities	607,763	980,673
Public sector	466,283	667,270
Credit institutions	86,114	178,985
Other financial corporations	34,320	117,278
Non-financial corporations	21,046	17,140
Loans and advances (1)	1,741,825	1,834,885
Public sector	70,293	78,391
Credit institutions	45,828	35,881
Other financial corporations	16,356	32,638
Non-financial corporations	643,592	551,948
Households	965,756	1,136,027
Other assets (2)	107,109	59,623
Derivatives – Hedge accounting, interest rate risk	(140,868)	(247,920)
Total	**2,315,829**	**2,627,261**

(1) Of which interest income from, the doubtful assets profit at 31 December 2017 was EUR 133,334 thousand (EUR 123,212 thousand at 31 December 2016).

(2) At 31 December 2017, includes EUR 46,931 thousand of interest accrued on deposits taken under the framework of the TLTRO II programme (EUR 23,553 thousand at 31 December 2016). See Note 18.

(27) Interest expense

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
By counterparty		
Deposit	(429,239)	(663,905)
Central Banks	(405)	(5,476)
Public sector	(3,263)	(10,209)
Credit institutions	(48,481)	(72,390)
Other financial corporations	(289,450)	(364,581)
Non-financial corporations	(26,184)	(41,059)
Households	(61,456)	(170,190)
Debt securities issued	(574,848)	(674,365)
Other financial liabilities	(14)	(20)
Derivatives – Hedge accounting, interest rate risk	618,628	763,620
Other assets	(6,420)	(6,996)
Total	**(391,893)**	**(581,666)**

(28) Equity income

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income 31/12/2017	31/12/2016
Financial assets held for trading	230	268
Financial assets held for sale	9,136	3,961
Investments in subsidiaries, joint ventures and associates	52,266	24,897
Total	**61,632**	**29,126**

(29) Fee and commission income

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income 31/12/2017	31/12/2016
Contingent liabilities	62,090	61,246
Contingent commitments	27,152	24,059
Collection and payment services	295,203	282,951
Securities services	56,543	52,912
Non-banking financial product sales	220,947	205,772
Other fees	204,132	198,994
Total	**866,067**	**825,934**

(30) Fee and commission expense

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	(Expenses) 31/12/2017	31/12/2016
Fees and commissions assigned to other entities and correspondents	(34,835)	(32,991)
Brokerage fees on asset and liability transactions	(19,527)	(19,857)
Other commissions	(20,929)	(18,143)
Total	**(75,291)**	**(70,991)**

(31) Gains and losses on financial assets and liabilities

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 by financial instrument portfolio, is as follows:

(Thousands of euros)	Income / (Expenses)	
ITEM	31/12/2017	31/12/2016
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	309,811	253,414
Financial assets held for trading	176,545	199,336
Loans and receivables	41,236	74
Held-to-maturity investments	16,322	4,433
Financial liabilities measured at amortised cost	75,708	49,571
Gains or (-) losses on financial assets and liabilities held for trading, net	95,613	51,153
Gains or (-) losses from hedge accounting, net	(29,627)	(53,785)
Total	**375,797**	**250,782**

The most significant gains and losses were in 2017, EUR 174 million from the sale of available-for-sale financial assets related to public and private debt (EUR 199 million in 2016).

(32) Other operating income

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income 31/12/2017	Income 31/12/2016
Income from investment property (Note 14.2)	13,077	9,466
Financial fees and commissions offsetting direct costs	21,602	22,677
Other items (*)	17,899	84,231
Total	**52,578**	**116,374**

(*) At 31 December 2016 included EUR 57,795 thousand from the sale of VISA Europe Sales profit/(loss).

(33) Other operating expenses

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	(Expenses) 31/12/2017	(Expenses) 31/12/2016
Contribution to deposit guarantee fund and Resolution Fund (Note 1.10)	(179,070)	(165,874)
Other items	(61,834)	(57,012)
Total	**(240,904)**	**(222,886)**

(34) Administrative expenses – Staff costs

The breakdown of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	Income / (Expenses) 31/12/2016
Wages and salaries	(675,786)	(689,215)
Social security costs	(179,503)	(166,261)
Contributions to defined contribution pension plans (Note 34.3)	(44,006)	(14,403)
Contributions to defined benefit pension plans	(2,166)	-
Termination benefits	(6,556)	(5,501)
Training costs	(7,339)	(8,270)
Other staff costs (1)	(458,593)	(8,429)
Total	**(1,373,949)**	**(892,079)**

(1) Includes EUR 445,000 thousand for the estimated cost of implementing the restructuring arising from the merger by absorption of BMN (see Note 2.15.2.6 and 19).

(34.1) Composition and distribution by gender of employees

The numbers of Bank employees, by gender and professional category (including executive directors and senior executives at the Bank), at 31 December 2017 and 2016, and the average headcount for the years ended 31 December 2017 and 2016 are as follows:

REMUNERATION LEVELS	Headcount at 31 December 2017			Average headcount for 2017	Average headcount with disabilities >= 33% 2017 (2)
	Men (1)	Women(1)	Year-end headcount(1)		
Directors	**3**	**-**	**3**	**3**	**-**
Senior executives	**3**	**1**	**4**	**4**	**-**
Other employees by remuneration level	**7,895**	**9,315**	**17,210**	**13,395**	**159**
Level I	135	13	148	128	1
Level II	548	132	680	621	3
Level III	942	332	1,274	1,106	12
Level IV	1,195	792	1,987	1,641	17
Level V	1,035	903	1,938	1,334	14
Level VI	1,277	1,718	2,995	2,823	39
Level VII	461	653	1,114	629	7
Level VIII	634	1,408	2,042	1,393	19
Level IX	360	715	1,075	684	9
Level X	519	1,151	1,670	1,268	4
Level XI	751	1,460	2,211	1,719	32
Level XII	16	24	40	32	-
Level XIII	-	2	2	2	-
Level XIV	9	11	20	9	-
Group 2 and others	13	1	14	6	2
Total Bankia, S.A.	**7,901**	**9,316**	**17,217**	**13,402**	**159**

(1) Includes the final headcount data for BMN (see Note 1.1.6).
(2) Bankia has adopted alternative measures for complying with the reserve quota for employees with disabilities.

REMUNERATION LEVELS	Headcount at 31 December 2016			Average headcount for 2016	Average headcount with disabilities >= 33% 2016 (1)
	Men	Women	Year-end headcount		
Directors	**3**	**-**	**3**	**3**	**-**
Senior executives	**3**	**1**	**4**	**4**	**-**
Other employees by remuneration level	**5,967**	**7,185**	**13,152**	**13,136**	**145**
Level I	108	10	118	124	1
Level II	453	97	550	555	3
Level III	830	282	1,112	1,121	10
Level IV	901	652	1,553	1,556	15
Level V	699	727	1,426	1,435	12
Level VI	1,034	1,455	2,489	2,490	33
Level VII	252	444	696	698	9
Level VIII	370	849	1,219	1,221	17
Level IX	256	479	735	713	5
Level X	228	592	820	814	7
Level XI	821	1,572	2,393	2,381	31
Level XII	1	7	8	6	-
Level XIII	10	16	26	17	-
Level XIV	-	2	2	-	-
Group 2 and others	4	1	5	5	2
Total Bankia, S.A.	**5,973**	**7,186**	**13,159**	**13,143**	**145**

(1) Bankia has adopted alternative measures for complying with the reserve quota for employees with disabilities.

(34.2) Provisions for pensions and similar obligations (obligations to employees) and insurance contracts linked to pensions

As described in Note 2.15, the Bank has defined post-employment benefit obligations with certain employees. Following is a detail of these pension obligations and long-term commitments, which are recognised in the Bank's balance sheet:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Post-employment benefits	**819,736**	**673,849**
Other long-term employee benefits	**43,798**	**58,857**
Obligations assumed from the labour agreement entered into as a result of the incorporation of the BFA Group (see Note 2.15)	32,422	54,313
Other long-term benefits	11,376	4,544
(Less) – Plan assets to commitments	**(475,688)**	**(352,178)**
Total obligations net of associated assets	**387,846**	**380,528**
Other obligations	**-**	**-**
Total obligations for pensions funds and similar obligations	**387,846**	**380,528**
of which:		
Debit balances - Assets (1)	(54,561)	(21,136)
Credit balances - Liabilities (2)	442,407	401,664
Insurance contracts linked to pensions (defined-benefit)	423,937	381,029
Insurance contracts linked to other long-term obligations	9,044	17,375
Total insurance contracts (3)	**432,981**	**398,404**

(1) Included in "Assets - Other assets" in the accompanying balance sheet
(2) Recognised under "Provisions - Provisions for pensions and similar obligations" in the accompanying balance sheet (Note 19).
(3) The Bank has a range of insurance policies covering the portion of the aforementioned obligations that do not satisfy the conditions for classification as plan assets, irrespective of the provisions included in the balance sheet in accordance with current legislation, which were recognised under "Insurance contracts linked to pensions" on the asset side of the balance sheet (Note 16).

The tables below provide a breakdown at 31 December 2017 and 2016 of total obligations for qualifying assets, distinguishing between those that exceed the value of plan assets and are therefore recognised under "Provisions - Pensions and other post-employment defined benefit obligations" in the balance sheet, and those for which the obligations covered by plan assets exceeds the present value of the obligation which, under current regulations, are recognised at their net amount in "Other assets - Other" in the balance sheet:

31 December 2017

(Thousands of euros)

	Post-employment benefits			Pre-retirement and other long-term commitments			
ITEM	Value of the obligation (I)	Value of plan assets (II)	Total (III = I – II)	Value of the obligation (IV)	Value of plan assets (V)	Total (VI = IV – V)	Total (III + VI)
Commitments for which the value of the obligations exceeds the value of the plan assets recognised under "Provisions – Pensions and other post employment defined benefit obligations"	487,488	62,947	424,541	43,798	25,932	17,866	442,407
Commitments for which the value of the obligations is less than the value of the plan assets recognised under "Other assets – Other"	332,248	380,782	(48,534)	-	6,027	(6,027)	(54,561)
Total at 31 December 2017	**819,736**	**443,729**	**376,007**	**43,798**	**31,959**	**11,839**	**387,846**

31 December 2016

(Thousands of euros)

ITEM	Post-employment benefits			Pre-retirement and other long-term commitments			
	Value of the obligation (I)	Value of plan assets (II)	Total (III = I – II)	Value of the obligation (IV)	Value of plan assets (V)	Total (VI = IV – V)	Total (III + VI)
Commitments for which the value of the obligations exceeds the value of the plan assets recognised under "Provisions – Pensions and other post employment defined benefit obligations"	575,317	191,585	383,732	58,857	40,925	17,932	401,664
Commitments for which the value of the obligations is less than the value of the plan assets recognised under "Other assets – Other"	98,532	113,443	(14,911)	-	6,225	(6,225)	(21,136)
Total at 31 December 2016	**673,849**	**305,028**	**368,821**	**58,857**	**47,150**	**11,707**	**380,528**

(34.3) Post-employment benefits

Details of the various post-employment benefit obligations, under both defined benefit and defined contribution plans, assumed by the Bank are as follows:

Defined-contribution plans

As indicated in Note 2.15 above, the Bank have assumed the obligation of making certain contributions to their employees' external pension schemes that qualify as "defined-contribution" plans under applicable law.

The Bank made contributions to external pension funds in the amount of EUR 44,006 thousand in 2017 (EUR 43,944 thousand in 2016, of which EUR 29,541 thousand were covered by the employee pension plan and EUR 14,403 thousand were recognised under "Administrative expenses - Staff expenses" in the consolidated income statement), which are recognised under "Administrative expenses" – Staff expenses" in the 2017 consolidated income statement.

Defined-benefit plans

The table below shows the reconciliation between the present value of defined-benefit pension obligations assumed by the Bank with its employees at 31 December 2017 and 2016, the fair value of plan assets and the fair value of reimbursement rights that do not qualify as plan assets, in all cases within Spain, along with the amounts recognised on the balance sheet at those dates:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Present value of the obligations	**819,736**	**673,849**
Obligations covered by plan assets	364,878	296,868
Obligations covered by non-qualifying assets	454,858	376,981
Less - Fair value of plan assets	**(443,729)**	**(305,028)**
Recognised under "Provisions – Provisions for pensions and similar obligations" on the balance sheet	**424,541**	**383,732**
Recognised under "Other Assets - Other" on the balance sheet	**(48,534)**	**(14,911)**
Fair value of non-qualifying assets	**423,937**	**381,029**

"Fair value of non-qualifying assets" in the above table includes the fair value of insurance policies arranged with Bankia Mapfre Vida (EUR 423,937 thousand) to cover employee obligations arising at Caja Madrid, Madrid Leasing and Bancaja. The fair value of these insurance policies was calculated in accordance with the provisions applicable in section 13 of Rule Thirty-Five of Bank of Spain Circular 4/2004 and 6/2008 and paragraph 115 of IAS 19, the fair value of the insurance was taken to be the present value of the insured pensions. The expected return on these policies was calculated using a 1.50% interest rate, established in accordance with IAS 19 and the actuarial assumptions specified in Spanish legislation as they entail obligations with employees subject to Spanish labour laws covered with funds set up in accordance with Royal Decree 1588/1999, of 15 October, as required by rule 35, indent 11 c) of Bank of Spain Circular 5/2013.

The fair value of plan assets stated in the above table is presented on the balance sheet as a reduction of the present value of the Bank's obligations.

The present value of the obligations was determined by qualified actuaries using the following techniques:

- Valuation method: "projected unit credit method", which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.
- The estimated retirement age of each employee is the earliest at which the employee is entitled to retire.
- Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

Actuarial assumptions	2017	2016
Technical interest rate (1)	1.50%	0.80%
Mortality tables-	PERMF-2000	PERMF-2000
Estimated return on reimbursement rights recognised as assets	1.50%	0.80%
Expected return on plan assets	1.50%	0.80%
Social security pensions costs growth rate	1%	1%
Rate of pension increase according to the Savings Bank collective wage agreement	1%	1%
Rate of pension increase according to the CPI	2%	2%
Cumulative inflation	2%	2%
Annual salary increases (2)	Not applicable	Not applicable

(1) Assumptions based on the duration of the post-employment obligations, which for this group is approximately 10.6 years, and in line with the yield on AA and AAA rated corporate bonds in the euro area.

(2) The assumption regarding the annual wage increase does not apply, since at the date of the actuarial measurement, 31/12/2017, no active employee had a defined-benefit scheme.

The reconciliation of the balances recognised at 31 December 2017 and 2016 for the present value of the Bank's defined-benefit obligations is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Balance at 1 January	**673,849**	**606,194**
Expected interest on obligation	5,441	12,269
Gains and losses recognised immediately in equity (*):	(79,839)	84,063
(a) (Gain)/loss arising from changes in financial assumptions	*(56,702)*	*94,841*
(b) Others (Gain)/loss arising from changes	*(23,137)*	*(10,778)*
Benefits paid	(33,802)	(28,677)
Additions to obligation due to new commitments	404	-
Adittions to obligation - business combination	257,090	-
Curtailments	(3,407)	-
Balance at 31 December	**819,736**	**673,849**

(*) These amounts are recognised directly in "Accumulated Other Comprehensive Income" in equity in the balance sheet (see Note 2.15)

The reconciliation of the fair value at 31 December 2017 and 2016 of plan assets in defined-benefit obligations is as follows:

(Thousands of euros)

ITEM	[illegible]	[illegible]
Fair value at 1 January	**305,028**	**278,888**
Expected interest on Fund	2,581	5,625
Gains and losses recognised immediately in equity (*):	(29,210)	36,925
a) Expected return on plan assets, excluding interest on the plan	*(29,210)*	*36,925*
Contributions by entity [(1)]	(967)	(602)
Benefits paid	(18,132)	(15,808)
Adittions to obligation - business combination	184,429	-
Fair value at 31 December	**443,729**	**305,028**

(*) These amounts are recognised directly in “Accumulated Other Comprehensive Income” in equity in the balance sheet (see Note 2.15).
(1) Contributions / (reimbursements) imply a change in the fair value of "Insurance contracts linked to pensions" and, therefore, do not have any impact on the income statement.

The reconciliation of the fair value at 31 December 2017 and 2016 of reimbursement rights recognised on the balance sheet as assets under “Other assets - Insurance contracts linked to pensions is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Fair value at 1 January	**381,029**	**330,357**
Expected interest on insurance contracts linked to pensions	2,985	6,710
Gains and losses recognised immediately in equity (*):	(35,606)	64,798
a) Expected return on insurance contracts, excluding interest on insurance contracts linked to pensions	*(35,606)*	*64,798*
Net contributions/(reimbursements) (1)	(3,943)	(7,966)
Benefits paid	(15,485)	(12,870)
Adittions to obligation - business combination	94,957	-
Fair value at 31 December	**423,937**	**381,029**

(*) These amounts are recognised directly in “Accumulated Other Comprehensive Income” in equity in the balance sheets (see Note 2.15).
(1) Contributions/(reimbursements) imply a change in the fair value of "Other assets - Insurance contracts linked to pensions" and, therefore, do not have any impact on the income statement.

The detail of the fair values of the main plan assets at 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Insurance policies	124,624	35,433
Other assets(*)	319,105	269,595

(*) The fair value of plan assets classified as "Other assets", quantified at EUR 319 million, included assets covered by employee pension plans or insured by insurance policies that do not fit into the categories set out in paragraph H) of Bank of Spain Circular 4/2004.

The criteria used to determine the total expected return on plan assets are based on the duration of the post-employment obligations, which for this group is approximately 10.6 years (11.7 years in 2016), and in line with the yield on AA and AAA rated corporate bonds in the euro area.

(34.4) Pre-retirement commitments and other long-term commitments

The table below shows the reconciliation between the present value of pre-retirement commitments and other long-term obligations assumed by the Bank with its employees at 31 December 2017 and 2016, the fair value of plan assets and the fair value of reimbursement rights that do not qualify as plan assets, in all cases within Spain, along with the amounts recognised on the balance sheet at those dates:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Present value of the obligations	**43,798**	**58,857**
Obligations covered by plan assets	25,993	42,298
Obligations covered by non-qualifying assets	9,014	16,559
Internal fund	8,791	-
Less - Fair value of plan assets	**(31,959)**	**(47,150)**
Recognised under "Provisions – Pensions and other post employment defined benefit obligations" of the balance sheet	**17,866**	**17,932**
Recognised under "Other assets – Other" of the balance sheet	**(6,027)**	**(6,225)**
Fair value of hedge assets for pre-retirement commitments and other long-term commitments	**9,044**	**17,375**

The present value of the obligations was determined by qualified actuaries using the following techniques:

- Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.
- The estimated retirement age of each employee is the earliest at which the employee is entitled to retire.
- Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

Actuarial assumptions	Exercise 2017	Exercise 2016
Technical interest rate (1)	0.10%	0.00%
Mortality tables	PERMF-2000	PERMF-2000
Estimated return on reimbursement rights recognised as assets	0.10%	0.00%
Expected return on plan assets	0.10%	0.00%
Social security costs growth rate after 2018	2%	2%
Rate of pension increase according to the Savings Bank collective wage agreement	1%	1%
Cumulative inflation	2%	2%
Annual salary increases	2%	2%
Healthcare variation cost increase	-	2%

(1) Assumptions based on the duration of other long-term commitments, which for this group is approximately 2.1 years (2 years in 2016), and in line with the yield on AA and AAA rated corporate bonds in the euro area.

Reconciliation of the balances recognised at 31 December 2017 and 2016 for the present value of obligations relating to pre-retirements and other long-term obligations assumed by the Bank is as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Balance at 1 January	**58,857**	**96,538**
Expected interest on the obligation	1	432
Gains and losses recognised immediately	(10,568)	(19,833)
a) (Gains)/losses arising on changes in financial assumptions	*(210)*	*1,278*
b) (Gains)/losses arising from other changes (data, experience, etc.)	*(10,358)*	*(21,111)*
Benefit paid	(14,025)	(18,280)
Additions to obligation due to new commitments	32	-
Addition due to business combination	9,501	-
Fair value at 31 December	**43,798**	**58,857**

The table below shows the reconciliation of the fair value at 31 December 2017 and 2016 of plan assets in pre-retirement commitments and similar defined-benefit obligations (all for Spanish companies):

(Thousands of euros)

	Plan assets	
ITEM	31/12/2017	31/12/2016
Fair value at 1 January	**47,150**	**67,186**
Expected interest on the plan	-	306
Gains and loss recognised immediately	3,809	(1,755)
a) *Expected return on plan assets, excluding interest on the plan*	*3,809*	*(1,755)*
Net contributions/(reimbursements) (1)	(10,545)	(8,932)
Benefits paid	(8,455)	(9,655)
Fair value at 31 December	**31,959**	**47,150**

(1) Contributions/(reimbursements) imply a change in the fair value of plan assets and, therefore, do not have any impact on the income statement.

The table below shows the reconciliation between 31 December 2017 and 2016 of the fair value of reimbursement rights recognised as assets under "Other assets - Insurance contracts linked to pensions" on the balance sheet for pre-retirement and other long-term obligations (all corresponding to the Bank's Spanish entities):

(Thousands of euros)

	Insurance contracts	
ITEM	31/12/2017	31/12/2016
Fair value at 1 January	**17,375**	**28,271**
Expected interest on insurance contracts linked to pensions	-	122
Gains and losses recognised immediately	(288)	830
a) *Expected return on insurance contracts, excluding interest on insurance contracts linked to pensions*	*(288)*	*830*
Net contributions/(reimbursements) (1)	(2,046)	(1,860)
Benefits paid	(5,997)	(9,988)
Fair value at 31 December	**9,044**	**17,375**

(1) Contributions/(reimbursements) imply a change in the fair value of plan assets and, therefore, do not have any impact on the income statement.

The table below shows the fair values of the main plan assets at 31 December 2017 and 2016 for early-retirement and similar obligations:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Insurance policies	31,959	47,150

(34.5) Estimate of future payments for defined-benefit obligations

The following table shows the estimate of payments for defined-benefit obligations over the next 10 years:

(Thousands of euros)

FUTURE PAYMENTS	2018	2019	2020	2021	2022	2023-2027
Pension commitments	41,345	40,770	40,199	39,148	38,388	178,273
Other long-term commitments	19,631	14,496	6,324	186	15	16

The best actuarial estimate used by the Bank indicates that the amount of contributions to be made in respect of the pension and similar obligations assumed by the Bank in 2017 will not be material with respect to the profit and equity estimated for the Bank at the end of the year.

(34.6) Sensitivity analysis

The table below shows an analysis of the sensitivity of defined-benefit obligations at 31 December 2017 corresponding to pension commitments and other long-term commitments (pre-retirements) to changes in the main actuarial assumptions:

(Thousands of euros)

	Pension commitments	Pre-retirement commitments
Technical interest rate		
50bp increase	774,372	43,551
50bp decrease (*)	869,983	43,861
Annual salary increase (**)		
50bp increase	Not applicable	Not applicable
50bp decrease	Not applicable	Not applicable
Annual pension increase		
50bp increase	868,193	44,344
50bp decrease	777,560	43,273
Cumulative inflation		
50bp increase	841,861	43,798
50bp decrease	799,765	43,798

(*) As the interest rate for pre-retired employees was 0.10%, the measurement with the 0.5% decrease was made the 0%.
(**) Annual salary increases only affect assets. As there were no defined-benefit assets at 31 December 2017, this change is not applicable.

These changes in actuarial assumptions would not have a significant impact, as 99.95% of the obligations are guaranteed.

(34.7) Remuneration in kind

The Bank's remuneration policy includes certain remuneration in kind, mainly financial assistance and life and health insurance policies, taxed, as appropriate, in accordance with prevailing regulations.

(34.8) Share-based payment schemes

The direct remuneration policy in accordance with the best corporate governance practices and pursuant to European regulations concerning remuneration policies at credit institutions and RDL 2/2012 of 3 February, Order ECC/1762/2012 of 3 August and Law 10/2014 of 26 June.

The system sets out a specific scheme for settling variable compensation for directors who, in keeping with the principle of proportionality, perform control functions or whose activity has a significant impact on the risk profile:

Management Committee:

- At least 50% of variable remuneration must be paid in Bankia shares.
- At least 100% of variable remuneration, in either shares or cash, must be deferred.

Rest of the identified collective:

- At least 50% of variable remuneration must be paid in Bankia shares.
- At least 40% of variable remuneration, in either shares or cash, must be deferred over a period of three years.

Accordingly, for members of the Management Committee, 25% of the annual variable remuneration shall be settled in shares once three years have elapsed from the assessment of the objectives, with deferral of another 25% to be settled in shares in two equal deliveries in the two following years.

For the rest of the identified collective, 30% of annual variable remuneration will be paid in shares following assessment of the year's objectives. In addition, 20% of annual variable remuneration will be deferred in portions of one third over a period of three years.

The share price will be the average quoted price over the three months prior to the accrual date.

All shares delivered to directors as part of their annual variable remuneration will be unavailable during the year immediately following the date on which they are delivered.

(35) Administrative expenses - Other general administrative expenses

The detail, by nature, of this item in the accompanying income statement for the financial years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	(Expenses) 31/12/2017	31/12/2016
From property, fixtures and supplies	(109,392)	(107,118)
IT and communications	(158,614)	(152,576)
Advertising and publicity	(44,932)	(41,297)
Technical reports	(24,444)	(35,319)
Surveillance and security courier services	(14,451)	(14,369)
Insurance and self-insurance premiums	(3,600)	(3,610)
Contributions and other tax issues	(22,691)	(30,452)
Other expenses	(81,041)	(89,573)
Total	**(459,165)**	**(474,314)**

The detail of the fees paid by the various Bankia, S.A. to firms belonging to the worldwide organisation of Ernst & Young (the auditor of the Bank) in 2017 is as follows:

- For the audit of the annual financial statements of Bankia, S.A. and of the consolidated interim and annual financial statements of the Bankia Group for 2017: EUR 1,764 thousand (2016: EUR 1,566 thousand)
- For other assurance and services similar to auditing required by regulations or supervisory authorities 2017: EUR 145 thousand (2016: EUR 115 thousand).
- For other professional services rendered: EUR 1,184 thousand, none related tax advice (EUR 221 thousand 2016 of which none related to tax advice).

The services engaged by the Bankia, S.A. meet the requirements of independence stipulated in Royal Legislative-Decree 22/2015 of 20 July approving the Consolidated Tax of the Accounting Law and do not include any work that is incompatible with the auditing function.

(36) Amortisation

The detail of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	(Expenses) 31/12/2017	31/12/2016
Depreciation of tangible assets (Note 14)	(89,958)	(85,296)
Amortisation of intangible assets (Note 15)	(82,597)	(69,159)
Total	**(172,555)**	**(154,455)**

(37) Provisions or reversal of provisions

The detail of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows (see note 19):

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
Commitments and guarantees given	27,252	(7,525)
pensions and other post-employment defined benefit obligations	1,222	-
Pending legal issues and tax litigation	(125,223)	(127,591)
Other provisions	2,818	15,000
Total	**(93,931)**	**(120,116)**

(38) Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

The net provision recognised for this item of the income statement for the years ended 31 December 2017 and 2016 relates to the following financial instruments, by category:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
Loans and Receivables (Note 10)	(273,581)	(198,151)
Held-to-maturity investments (Note 11)	3,729	12,109
Available-for-sale financial assets (Note 9)	2,188	(18,576)
Total	**(267,664)**	**(204,618)**

(39) Impairment or reversal of impairment on investments in subsidiaries, joint ventures and associates

The detail by nature of the amount recognised for this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
Aditions	59,134	163,354
Reversals	(127,263)	(190,863)
Total (Note 13)	**(68,129)**	**(27,509)**

(40) Impairment or reversal of impairment on non-financial assets

The detail by nature of the amount recognised for this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
Property, plant and equipment for own use (Note 14)	(220)	(6)
Aditions	(220)	-
Reversals	-	(6)
Investment property (Note 14)	182	(3,645)
Aditions	(2,422)	1,889
Reversals	2,604	(5,534)
Other	-	1,657
Aditions	-	1,657
Total	**(38)**	**(1,994)**

(41) Gains or (-) losses on the derecognition in nonfinancial assets accounts and investments, net

The detail of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
Gain/(loss) on disposal of tangible assets	8,532	1,866
Gain/(loss) on disposal of investments in subsidiaries, joint ventures and associates	774	(962)
Other items	19	-
Total	**9,325**	**904**

(42) Gains (losses) on non-current assets held for sale not classified as discontinued operations

The detail of this item in the accompanying income statement for the years ended 31 December 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2017	31/12/2016
Impairment losses	(122,924)	(221,555)
Foreclosed tangible assets (Note 17)	(114,748)	(194,831)
Non-current assets - Property, plant and equipment for own use (Note 17)	(5,025)	(25,083)
Non-current assets - Investments in subsidiaries, joint ventures and associates (Note 17)	(3,151)	(1,641)
Other gains (losses)	(11,382)	(36,602)
Total	**(134,306)**	**(258,157)**

(43) Related parties

In addition to the disclosures made in Note 5 regarding the remuneration earned by members of the Board of Directors and senior executives of the Bank, following is a detail of the balances recognised in the balance sheet at 31 December 2017 and the gains and losses recognised in the income statement for the year ended 31 December 2017 arising from transactions with related parties:

(Thousands of euros)

ITEM	Subsidiaries	Associates	Jointly-controlled entities	Significant shareholders (1)	Board of Directors and senior executives	Other related parties
ASSETS						
Loans and advances – Customers	406,230	262,640	323,614	48,340	984	472
Impairment of financial assets	(5,200)	(116,873)	(229,894)	-	-	-
Other assets	2	7	-	739	-	-
Total	**401,032**	**145,774**	**93,720**	**49,979**	**984**	**472**
LIABILITIES						
Credit Institutions	-	-	12,740	-	-	-
Deposits – Customers	789,326	91,803	31,282	8,123	1,398	44,858
Debt securities issued	1,351,519	-	-	-	-	-
Other liabilities	132,713	275	1,220	-	-	-
Total	**2,273,558**	**92,078**	**45,242**	**8,123**	**1,398**	**44,858**
OTHER						
Collaterals granted	37,810	11,882	-	2,401	9	3
Contingent commitments granted	87,584	773	-	-	128	120
Total	**125,394**	**12,655**	**-**	**2,401**	**137**	**123**
PROFIT OR LOSS						
Interest income (2)	13,584	2,646	-	1.995	2	1
(Interest expense) (2)	(12,189)	(1,451)	(57)	(504)	(4)	(43)
Dividens income	29,123	15,504	7,639	-	-	-
Commission income/expense	832	306	(3)	6,153	89	44
Financial assets impairment	26,016	(481)	-	-	-	-

(1) Transactions between Bankia and shareholder BFA only.

(2) Finance income and expense are presented gross.

The detail of balances recognised in the Bank's balance sheet at 31 December 2016 and the gains and losses recognised in the income statement arising from transactions with related parties is as follows:

(Thousands of euros)

ITEM	Subsidiaries	Associates	Jointly-controlled entities	Significant shareholders	Board of Directors and senior executives	Other related parties
ASSETS						
Loans and advances - Customers	319,451	258,736	31,585	124,990	1,295	433
Impairment of financial assets	(23,693)	(115,767)	(31,585)	-	-	-
Other assets	177,522	-	-	4,016	-	-
Total	**473,280**	**142,969**	**-**	**129,006**	**1,295**	**433**
LIABILITIES						
Deposits - Customers	984,128	51,367	1,500	127,819	1,512	66,392
Debt securities issued	1,121,217	-	-	-	199	-
Other liabilities	179,149	-	-	-	-	-
Total	**2,284,494**	**51,367**	**1,500**	**127,819**	**1,711**	**66,392**
OTHER						
Collaterals granted	364,179	11,814	-	5,766	9	3
Contingent commitments granted	74,454	12	-	-	241	90
Total	**438,633**	**11,826**	**-**	**5,766**	**250**	**93**
PROFIT OR LOSS						
Interest income [(2)]	18,695	2,822	-	69,202	13	4
(Interest expense) [(2)]	(12,284)	(5)	-	(20,584)	(12)	(166)
Dividens income	21,783	-	-	-	-	-
Commission income/expense	958	44	-	15,714	62	113
Financial assets impairment	(23,628)	(1,300)	-	-	-	-

(1) Transactions between Bankia and shareholder BFA only.

(2) Finance income and expense are presented gross.

Appendices I, II and III to these financial statements show the details of subsidiaries, associates and jointly-controlled entities, "Other related parties" includes balances held by close family relations of Bank directors (inter alia, directors' spouses and their own and their spouses' ancestors, descendants and siblings) other related parties to them, as well as the Employee Pension Fund, to the best of the Bank's knowledge.

All the transactions between the Bank and its related parties were performed on an arm's-length basis.

At 31 December 2017, the FROB, through BFA, held a 60.98% (61.38% taking into account the effect of treasury shares) stake in Bankia, S. A. The FROB carries on its activity in accordance with Law 9/2012, of 14 November 2012. It is wholly owned by the Spanish government and its purpose is to oversee the restructuring and resolution of credit institutions. Given the indirect stake held by the FROB in Bankia, S.A., the Spanish government is a related party under prevailing regulations.

Balances with public administrations at 31 December 2017 are disclosed in the following notes to the financial statements:

- Note 10 Loans to the Spanish public sector.
- Notes 8, 9 and 11 Investments in Spanish government debt securities.
- Note 18 Spanish public sector deposits.

The income and expense recognised in the income statements for 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
Spanish government agencies interest incomes [(*)]	55,219	74,257
(Spanish government agencies interest expenses) [(*)]	(3,199)	(10,209)

(*) Finance Interest rate income and expenses shown at their gross amounts.

There were no significant individual transactions with the Spanish public sector outside the ordinary course of the Bank and Group's business.

Transactions carried out, balances held and contracts entered into with BFA

The main balances held by the Bank with BFA (significant shareholder) at 31 December 2017 include:

- "Loans and advances -customers" on the asset side of the balance sheet to the balance payable on the mutual account held with BFA of EUR 1 million. The balance relates to reverse repurchase agreements entered into with BFA for EUR 47 million;
- "Deposits-customers" on the liability side of the balance sheet includes a demand deneposit (interest-bearing) made by BFA for EUR 8 million;
- "Other assets" includes the balance related to the accrual of fees and commissions explained below**;**
- **"**Collaterals granted" includes the amounts drawn on the line of guarantees granted by Bankia to BFA;
- "Interest income/ expense " in the income statement includes income from services rendered by the Bank to recover BFA assets completely deteriorated and assets written off, calculated in accordance with the total;
- The table above showing related-party figures includes finance costs and income for interest, respectively, in connection with the loan and deposit transactions mentioned under the above headings.

Bankia and BFA have also entered into the following contracts and agreements:

- A framework agreement governing relations between the two institutions.
- A Service Level Agreement that enables BFA to correctly perform its activity by using Bankia's human and material resources, while avoiding redundancies.
- A CMOF "(Contrato Marco de Operaciones Financieras)" Master Agreement on derivatives trading between the two institutions.
- A Global Master Repurchase Agreement (GMRA) and a Collateral Assignment Agreement linked to fixed-income asset sale and repurchase transactions.
- A European Master Financial Transactions Agreement (EMFTA) covering securities loans and fixed-income repo agreements.
- A cost-sharing agreement for lawsuits related to preferred participating securities and subordinated bonds.
- An agreement establishing an access mechanism allowing BFA, through the Bank, to avail of the liquidity and funding mechanisms set up by the ECB for credit institutions, as well as private deals inherent in the business of credit institutions.
- An agreement to apportion the cost of civil proceedings and claims filed in relation to Bankia's IPO.
- BFA/Bankia cooperation protocol. Article 11(2) CRR, designed to regulate relations between BFA and Bankia with respect to defining and implementing the necessary mechanisms and procedures to comply with the obligations imposed by article 11.2 of Regulation (EU) No 575/2013 and, in particular, to verify that BFA complies with the capital requirements imposed by applicable legislation**.**

All transactions between the two entities are carried out on normal market terms.

(44) Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Bank (see Note 1.3). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDICES

Appendix I - Subsidiaries

The key details on subsidiaries, including those classified under "Non-current assets held for sale" at 31 December 2017 are as follows:

			% Ownership interest owned by the Group		
			% Current interest		
Company	Business activity	Location	Direct	Direct	Total ownership interest
ABITARIA CONSULTORÍA Y GESTIÓN, S.A.	Other independent services	Madrid - Spain	-	100.00	100.00
ARRENDADORA AERONÁUTICA, AIE	Purchase and lease of aircraft	Madrid - Spain	68.17	-	68.17
ARRENDADORA DE EQUIPAMIENTOS FERROVIARIOS, S.A.	Purchase and lease of trains	Barcelona - Spain	85.00	-	85.00
BANKIA FONDOS, S.G.I.I.C., S.A.	Manager of collective investment undertakings	Madrid - Spain	100.00	-	100.00
BANKIA HABITAT, S.L.U.	Real Estate	Valencia - Spain	100.00	-	100.00
BANKIA INVERSIONES FINANCIERAS, S.A.U.	Corporate management	Madrid - Spain	100.00	-	100.00
BANKIA MEDIACIÓN, OPERADOR DE BANCA SEGUROS VINCULADO, S.A.U.	Insurance intermediary-Bancassurance operator	Madrid - Spain	100.00	-	100.00
BANKIA PENSIONES, S.A., ENTIDAD GESTORA DE FONDOS DE PENSIONES	Pension fund manager	Madrid - Spain	35.74	64.26	100.00
BEIMAD INVESTMENT SERVICES COMPANY LIMITED	Business management advisory services	Beijing - People's Republic of China	100.00	-	100.00
BMN BROKERS CORREDURIA DE SEGUROS, S.A.U.	Insurance intermediary	Madrid – Spain	100.00	-	100.00
BMN MEDIACIÓN OPERADOR DE BANCA-SEGUROS VINCULADO, S.L.U.	Insurance intermediary-Bancassurance operator	Madrid – Spain	100.00	-	100.00
CENTRO DE SERVICIOS OPERATIVOS E INGENIERIA DE PROCESOS, S.L.	Other independent services	Madrid – Spain	100.00	-	100.00
CORPORACIÓN EMPRESARIAL MARE NOSTRUM, S.L.U.	Corporate management	Madrid – Spain	100.00	-	100.00
CORPORACIÓN FINANCIERA HABANA, S.A. (1)	Industry, commerce and services financing	La Habana - Republic of Cuba	60.00	-	60.00
CORPORACIÓN INDUSTRIAL BANKIA, S.A.U.	Corporate management	Madrid – Spain	100.00	-	100.00
COSTA EBORIS, S.L.U.	Real Estate	Valencia – Spain	-	100.00	100.00
ENCINA LOS MONTEROS, S.L.U.	Real Estate	Valencia – Spain	-	100.00	100.00
GARANAIR, S.L.	Other independent services	Madrid – Spain	87.00	-	87.00
GEOPORTUGAL - IMOBILIARIA, LDA.	Real Estate development	Povoa du Varzim - Portugal	-	100.00	100.00
GESMARE SOCIEDAD GESTORA, S.L.U.	Consultinng and managment services	Madrid – Spain	100.00	-	100.00
GESNOSTRUM SOCIEDAD GESTORA, S.L.U.	Consultinng and managment services	Madrid - Spain	100.00	-	100.00
GESTION Y RECAUDACION LOCAL, S.L. (1)	Tax managment.	Granada - Spain	-	99.74	99.74
GRAMA DESARROLLOS COMERCIALES, S.L. EN LIQUIDACIÓN (1) (2)	Real Estate development	Madrid - Spain	100.00	-	100.00
INMOGESTIÓN Y PATRIMONIOS, S.A.	Corporate management	Madrid - Spain	0.10	99.90	100.00
INNOSTRUM DIVISION INMOBILIARIA, S.L.U.	Real Estate development	Madrid - Spain	100.00	-	100.00

Company	Business activity	Location	% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
			Direct	Direct	
INVERSION GENERAL DE GRANADA 2 , S.L. EN LIQUIDACION (1) (2)	Real Estate development	Granada - Spain	75.00	-	75.00
INVERSIONES PROGRANADA, S.A.U.	Corporate management	Granada - Spain	-	100.00	100.00
INVERSIONES Y DESARROLLOS 2069 MADRID, S.L.U., EN LIQUIDACIÓN (2)	Real Estate	Madrid - Spain	100.00	-	100.00
KEVIR INVERSIONES, S.L.U. (1)	Real Estate development	Madrid - Spain	-	100.00	100.00
MEDIACIÓN Y DIAGNÓSTICOS, S.A.	Corporate management	Madrid - Spain	100.00	-	100.00
NAVICOAS ASTURIAS, S.L. (1)	Real Estate	Madrid - Spain	-	95.00	95.00
NAVIERA CATA, S.A.	Acquisition, leases and operation of ships	Las Palmas de Gran Canarias - Spain	100.00	-	100.00
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	Corporate management	Madrid - Spain	0.01	99.99	100.00
PUERTAS DE LORCA DESARROLLOS EMPRESARIALES, S.L.U.	Real Estate development	Madrid - Spain	100.00	-	100.00
SECTOR DE PARTICIPACIONES INTEGRALES, S.L.	Corporate management	Madrid - Spain	100.00	-	100.00
SEGURBANKIA, S.A. CORREDURÍA DE SEGUROS DEL GRUPO BANKIA	Insurance intermediary	Madrid - Spain	0.02	99.98	100.00
SUMMA SEGURIDAD, S.L.U. (1)	Private secutity	Murcia - Spain	-	100.00	100.00
VALENCIANA DE INVERSIONES MOBILIARIAS, S.L.U.	Corporate management	Valencia - Spain	100.00	-	100.00
VALORACIÓN Y CONTROL, S.L.	Corporate management	Madrid - Spain	0.01	99.99	100.00
VECTOR CAPITAL, S.L.U.	Consultinng and managment services	Madrid - Spain	100.00	-	100.00
VIAJES BMN, S.L.U. EN LIQUIDACIÓN (1) (2)	Travel agency	Granada - Spain	100.00	-	100.00

(1) Classified under “Non current assets and disposal group classified as held for sale”.
(2) Companies in the process of liquidation.

Appendix II - Associates

The key details on jointly-controlled entities at 31 December 2017 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group			Thousands of euros Investee information (*) 2017		
			% Current interest		Total ownership interest			
			Direct	Indirect		Asset	Liabilities	Profit/(loss)
Associates								
AVALMADRID, S.G.R.	SEMs funding	Madrid - SPAIN	25.65	-	25.65	106,583	64,469	-
BANKIA MAPFRE VIDA, S.A., DE SEGUROS Y REASEGUROS	Life insurance	Madrid - SPAIN	19.39	29.61	49.00	8,358,761	7,885,865	79,190
NETTIT COLABORATIVE PAYMENT, S.L.	Other services	Madrid - SPAIN	30.00	-	30.00	10,035	625	(400)
REDSYS SERVICIOS DE PROCESAMIENTO, S.L.	Payment methods	Madrid - SPAIN	15.94	-	15.94	131,674	82,435	7,800
Joint-controlled entities								
CAJAGRANADA VIDA, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A.	Life insurance	Granada - SPAIN	50.00	-	50.00	276,926	237,747	10,929
CAJAMURCIA VIDA Y PENSIONES DE SEGUROS Y REASEGUROS, S.A.	Life insurance	Murcia - SPAIN	50.00	-	50.00	168,466	145,920	9,495

(*) Latest available data unaudited.

Appendix III - Jointly-controlled entities and associates classified under Non-current assets held for sale

The key details on jointly-controlled entities and associates classified under "Non-current assets held for sale" at 31 December 2017 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group			Thousands of euros Investee information(*) 2017		
			% Current interest		Total ownership interest			
			Direct	Indirect		Asset	Liabilities	Profit/(loss)
Joint ventures								
BANCO EUROPEO DE FINANZAS, S.A.	Bank	Málaga España	19.76	-	19.76	95,223	93	125
BIG BANG SERVICIOS AVANZADOS, S.L EN LIQUIDACIÓN	Real estate development	Jaén - España	-	50.00	50.00	-	1,854	-
CARTERA PERSEIDAS, S.L.	Corporate management	Madrid - España	11.82	-	11.82	862	606	(56)
IB OPCO HOLDING, S.L.	Other independent services	Madrid – España	-	43.59	43.59	2,521,597	2,690	(40)
INMACOR DESARROLLO, S.A. DE CV	Real estate development	Playa del Carmen, Quintana Roo, México	-	72.57	72.57	46,333	17,477	(2,050)
INMOBILIARIA PIEDRAS BOLAS, S.A. DE CV	Real estate development	Playa del Carmen, Quintana Roo, México	-	72.57	72.57	193,783	297,625	(48,892)
METRO HOUSE INVEST, S.L.	Real estate development	Palma Mallorca - España	-	50.00	50.00	-	6,902	(412)
O2 CENTRO WELLNESS GRANADA, S.L.	Sports	Granada - España	50.00	-	50.00	9,596	3,407	410
PLAYA PARAISO MAYA, S.A. DE CV	Real Estate	Playa del Carmen, Quintana Roo, México	-	72.57	72.57	179,064	187,098	(21,806)
PROMOCIONES Y PROYECTOS MURCILOR, S.L.	Real estate development	Murcia – España	50.00	-	50.00	46,228	46,810	(1,848)
PROYECTOS Y DESARROLLOS HISPANOMEXICANOS. S.A., DE CV	Real Estate	Playa del Carmen, Quintana Roo, México	-	72.57	72.57	58,848	24,246	53
QUIMANNA HORTAL, S.L. EN LIQUIDACIÓN	Real estate development	Barcelona - España	50.00	-	50.00	4,719	11,249	(237)
SOL EDIFICAT PONENT, S.L.	Real estate development	Barcelona - España	50.00	-	50.00	11,330	36,526	(4,093)
Associates								
ALAZOR INVERSIONES, S.A.	Other activities related to road transport	Villaviciosa de Odón (Madrid)- España	-	20.00	20.00	1,090,644	1,320,725	12,836
ARRENDADORA FERROVIARIA, S.A.	Purchase and lease of trains	Barcelona - España	29.07	-	29.07	305,762	306,347	1
CARTAGENA JOVEN, S.L.	Real estate development	Murcia - España	30.00	-	30.00	11,807	11,625	(906)
CASAS DEL MAR LEVANTE, S.L. EN LIQUIDACIÓN	Real estate development	Alicante - España	33.33	-	33.33	6,096	21,506	(145)
CIUTAT SAVALL, S.L. EN LIQUIDACIÓN	Real estate development	Baleares - España	-	45.00	45.00	4,378	10,502	(1)
COTTON SOUTH, S.L.	Manufacture of pulp	Granada - España	-	30.00	30.00	33,181	23,356	(207)
FALSTACEN, S.L.	Hotel development	Granada - España	24.10	-	24.10	17,996	15,933	(120)
FERROMOVIL 3000, S.L.	Purchase and lease of train equipment	Madrid - Esapaña	30.00	-	30.00	454,691	430,568	(757)
FERROMOVIL 9000, S.L.	Purchase and lease of train equipment	Madrid - España	30.00	-	30.00	294,060	275,652	(622)
GESTIO DE MITJANS DE PAGAMENT, S.L. EN LIQUIDACIÓN	Payments methods	Baleares - España	20.00	-	20.00	-	2	-
INFORMATION TECHNOLOGY NOSTRUM, S.L.	Tecnhology	Madrid - España	9.97	-	9.97	6,728	6,654	47
INVERSIONES INMOBILIARIAS SAGIB, S.L. EN LIQUIDACIÓN	Real Estate	Baleares - España	-	41.94	41.94	-	906	-
MONTEBLANCO DESARROLLO INMOBILIARIO, S.L.	Real estate development	Sevilla - España	35.00	-	35.00	5,823	13,896	(8,884)
MURCIA EMPRENDE, SOCIEDAD DE CAPITAL RIESGO DE REGIMEN SIMPLIFICADO, S.A.	Private equity	Murcia - España	28.68	-	28.68	4,175	26	(201)
NEWCOVAL, S.L.	Real Estate	Valencia - España	-	50.00	50.00	739	653	(7)
NUEVA VIVIENDA JOVEN DE MURCIA, S.L. EN LIQUIDACIÓN	Real estate development	Murcia - España	49.89	-	49.89	37	737	(22)
PARQUE TECNOLÓGICO FUENTE ÁLAMO, S.A.	Real estate development	Murcia - España	-	22.54	22.54	2,894	2,665	(2,204)
PLAN AZUL 07, S.L.	Purchase and lease of train equipment	Madrid España	31.60	-	31.60	310,220	285,449	4,377
RESIDENCIAL NAQUERA GOLF, S.A.	Real Estate	Valencia - España	-	23.75	23.75	7,501	9,224	(9)
RIVIERA 2012, S.L.	Real estate development	Madrid – España	33.00	-	33.00	-	23	(1)
ROYACTURA, S.L.	Real Estate	Las Rozas de Madrid (Madrid) - España	-	45.00	45.00	46,680	54,530	-
SERALICAN, S.L.	Foods	Ingenio (Las Palmas de Gran Canarias) – España	40.00	-	40.00	6,972	5,883	(479)
S'ESTEL NOU PALMA, S.L. EN LIQUIDACIÓN	Real Estate	Baleares – España	-	45.03	45.03	378	1,757	354
SHARE CAPITAL, S.L.	Real Estate	Paterna (Valencia) - España	-	43.02	43.02	15,379	87,152	(3,743)
URBANIZADORA FUENTE DE SAN LUIS, S.L.	Real Estate	Valencia – SPAIN	9.90	15.56	25.46	13,224	87,565	(61,853)
URBANIZADORA MARINA DE COPE, S.L. EN LIQUIDACIÓN	Real estate development	Madrid – SPAIN	20.00	-	20.00	46,847	7	28
URBANO DIVERTIA, S.L.	Real estate development	Murcia – SPAIN	25.00	-	25.00	11,827	11,453	1,212
VEHÍCULO DE TENENCIA Y GESTIÓN 9, S.L.	Real estate development	Madrid – SPAIN	22.87	19.79	42.66	1,048	1,048	11,328

(*) Latest available data unaudited.

Appendix IV - Securitization funds

(Thousands of euros)

ITEM	31/12/2017	31/12/2016
BANCAJA 3 loan securitization	-	60,915
BANCAJA 4 loan securitization	-	95,415
BANCAJA 5 loan securitization	98,014	115,068
BANCAJA 6 loan securitization	232,591	270,679
AyT HIPOTECARIO IV loan securitization	-	10,177
AyT.11 F.T.H	11,173	
Total derecognised	**341,778**	**552,254**

(Thousands of euros)

ITEM	31/12/2017		31/12/2016	
	Total	Maturity	Total	Maturity
RMBS I loan securitization	767,551	2049	817,798	2049
RMBS II loan securitization	676,669	2049	726,082	2049
RMBS III loan securitization	1,338,979	2050	1,406,437	2050
RMBS IV loan securitization	1,017,216	2050	1,089,033	2050
ICO-FTVPO I loan securitization	-	2050	125,684	2050
MADRID RESIDENCIAL I loan securitization	446,662	2051	471,283	2051
MADRID RESIDENCIAL II loan securitization	402,838	2049	423,783	2049
MBS BANCAJA 1 loan securitization	-	2033	47,953	2033
BANCAJA 7 loan securitization	304,094	2034	346,799	2034
FTPYME BANCAJA 3 loan securitization	-	2034	19,878	2034
BANCAJA 8 loan securitization	354,149	2034	395,942	2034
MBS BANCAJA 2 loan securitization	121,549	2035	141,587	2035
BANCAJA 9 loan securitization	538,871	2040	592,762	2040
MBS BANCAJA 3 loan securitization	185,580	2040	209,282	2040
PYME BANCAJA 5 loan securitization	-	2035	59,716	2035
BANCAJA 10 loan securitization	1,042,921	2046	1,124,435	2046
MBS BANCAJA 4 loan securitization	523,296	2050	586,240	2050
BANCAJA 11 loan securitization	897,592	2047	960,111	2047
BANCAJA 13 loan securitization	1,660,790	2048	1,756,276	2048
MBS BANCAJA 6 loan securitization	429,623	2048	474,635	2048
BANCAJA-BVA VPO 1 loan securitization	138,022	2047	160,957	2047
MBS BANCAJA 7 loan securitization	-	2059	572,725	2059
MBS BANCAJA 8 loan securitization	279,969	2060	295,102	2060
AYT HIPOTECARIO MIXTO II	26,921	2036	7,886	2036
AYT C.MURCIA Mortgage I	61,334	2035	-	-
AYT C.MURCIA Mortgage II	64,304	2036	-	-
AYT ICO-VPO C.MURCIA ASF	53,914	2036	-	-
AYT ICO FTVPO I	30,972	2049	-	-
AYT C. Colaterales I	40,512	2047	-	-
AYT Mortgage Mix V, ASF	71,034	2041	-	-
AYT Mortgage Mix I, ASF	13,903	2033	-	-
AYT Mortgage Mix III, ASF	37,411	2035	-	-
AYT C.GRANADA Collateral entities	107,987	2037	-	-
TDA 22 - MIX, ASF	14,965	2044	-	-
TDA 27, FTA	68,164	2047	-	-
CEP 1 TDA	2,940	2043	-	-
CEP 2 TDA	1,748	2045	-	-
CEP FTGENCAT 1 TDA	4,089	2049	-	-
CEP SEMs 1 TDA	6,163	2045	-	-
TDA 20 - MIX, ASF	144,548	2036	-	-
TDA SA NOSTRA Entities 1, ASF	15,373	2040	-	-
TDA SA NOSTRA Entities 2, ASF	54,269	2051	-	-
Total balance	**11,946,922**		**12,812,386**	

Appendix V - Financial liabilities at amortised cost - Debt securities issued

The breakdown of this item, as of 31 December 2017 and 2016 on the accompanying balance sheet is as follows:

(Thousands of euros)

			2017		2016		
TYPE OF DEBT SECURITY	Currency	Latest maturity	Nominal amount	Annual nominal interest rate	Nominal amount	Credit rating Issuer/Issue (1)	Type of guarantee extended (2)
Marketable debt securities							
Bancaja 14/02/17 bonds	euro	2017	-	4.38%	500,000	BBB (high)	Bankia Personal Guarantee
Bankia 2015-1 bonds	euro	2017	-	1.5%	125,300	BBB (high)	Bankia Personal Guarantee
Bankia 2015-2 bonds	euro	2017	-	1.5%	158,900	BBB (high)	Bankia Personal Guarantee
CM EMTN 2008-2 14/05/18 bonds	euro	2018	25,000	EUR 3M+0.98%	25,000	BBB (high)	Bankia Personal Guarantee
Bancaja 22/05/18 bonds	euro	2018	50,000	1.50%	50,000	BBB (high)	Bankia Personal Guarantee
Bankia 2014-2 ICO facility bonds	euro	2018	434	EUR 6M+3.50%	1,303	-	Bankia Personal Guarantee
Bankia 2014-4 ICO facility bonds	euro	2018	435	EUR 6M+ 2.75%	1,303	-	Bankia Personal Guarantee
Bankia 2014-5 ICO facility bonds	euro	2018	337	EUR 6M+3.00%	1,012	-	Bankia Personal Guarantee
Bankia 2014-7 ICO facility bonds	euro	2018	1,857	EUR 6M+ 2.75%	3,714	-	Bankia Personal Guarantee
Bankia 2014-8 ICO facility bonds	euro	2018	1,576	EUR 6M+ 2.75%	2,102	-	Bankia Personal Guarantee
Bankia 2014-14 ICO facility bonds	euro	2018	764	EUR 6M+ 2.35%	1,528	-	Bankia Personal Guarantee
Bankia 2014-17 ICO facility bonds	euro	2018	1,937	EUR 6M+ 2.35%	3,874	-	Bankia Personal Guarantee
Bankia 2014-19 ICO facility bonds	euro	2018	1,007	EUR 6M+ 2.35%	2,013	-	Bankia Personal Guarantee
Bankia 2014-1 bonds	euro	2019	1,000,000	3.50%	1,000,000	BBB (high)	Bankia Personal Guarantee
Bankia 2014-11 ICO facility bonds	euro	2020	863	EUR 6M+ 2.75%	1,727	-	Bankia Personal Guarantee
Bankia 2014-15 ICO facility bonds	euro	2020	3,782	EUR 6M+ 2.35% Se	5,042	-	Bankia Personal Guarantee
Bankia 2014-20 ICO facility bonds	euro	2020	1,635	EUR 6M+ 2.35%	2,180	-	Bankia Personal Guarantee
Granada Senior Bonds	euro	2022	30,000	Inflation-linked coupon	-	BBB (high)	Bankia Personal Guarantee
CM 16/06/23 bonds	euro	2023	172,000	5.75%	172,000	BBB (high)	Bankia Personal Guarantee
CM 29/12/28 bonds	euro	2028	65,000	4.76%	65,000	BBB (high)	Bankia Personal Guarantee
Caymadrid Bonds	euro	2032	5,740	Variable and zero coupon	-	BBB (high)	Bankia Personal Guarantee
CM 25/05/18 structured bond	euro	2018	2,060,000	4.25%	2,060,000	AAA	Mortgage Portfolio-Mortgage Law
CM 28/06/19 structured bond	euro	2019	1,600,000	5.00%	1,600,000	AAA	Mortgage Portfolio-Mortgage Law
BMN 4ª structured bond	euro	2019	1,300,000	EUR 12M + 5.00%	-	AAA	Mortgage Portfolio-Mortgage Law
BMN 5ª structured bond	euro	2019	500,000	3.125%	-	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2016-1 structured bond	euro	2021	1,000,000	0.88%	1,000,000	AAA	Mortgage Portfolio-Mortgage Law
CM 26/04/22 structured bond	euro	2022	1,500,000	4.50%	1,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2015-2 structured bond	euro	2022	1,250,000	1.125% annual	1,250,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-1 structured bond	euro	2023	2,500,000	EUR 1M+1.40%	2,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia2016-2 structured bond	euro	2023	1,000,000	1.00%	1,000,000	AAA	Mortgage Portfolio-Mortgage Law
CM 03/02/25 structured bond	euro	2025	2,000,000	4.00%	2,000,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2015-1 structured bond	euro	2025	1,285,500	1% annual	1,285,500	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-2 structured bond	euro	2027	2,500,000	EUR 1M+1.40%	2,500,000	R-1 (low)	Mortgage Portfolio-Mortgage Law
Bankia 2014-3 structured bond	euro	2028	2,500,000	EUR 1M+1.40%	2,500,000	BB+	Mortgage Portfolio-Mortgage Law

(Thousands of euros)

TYPE OF DEBT SECURITY	Currency	Latest maturity	2017 Nominal amount	Annual nominal interest rate	2016 Nominal amount	Credit rating Issuer/Issue (1)	Type of guarantee extended (2)
Marketable debt securities							
CM 24/03/36 structured bond	euro	2036	2,000,000	4.13%	2,000,000	AAA	Mortgage Portfolio-Mortgage Law
Pagarés de empresa	euro	2017	1,335,000	(3)	1,100,000	R-1 (low)	Bankia Personal Guarantee
Bankia 2014-1 subordinated bonds	euro	2024	1,000,000	4.00%	1,000,000	BB+	Bankia Personal Guarantee
Bankia 2017-1 subordinated bonds	euro	2027	500,000	3.38%	-	BB+	Bankia Personal Guarantee
Bankia AT1 Bonds	euro	PERP	750,000	6.00%	-	B+	Bankia Personal Guarantee
BMN Subordinated bonds	euro	2026	175,000	9.00%	-	BB+	Bankia Personal Guarantee
Sum			**28,117,867**		**25,417,498**		
Own shares			(9,903,795)		(8,629,296)		
Valuation adjustments and other			1,074,156		1,407,477		
Balances at the end of the year (amortised cost)			**19,288,228**		**18,195,679**		

(1) The ratings on the Bankia AT1 Bonds are those assigned by S&P Global Ratings on 30 June 2017.
The ratings for the Subordinated Bond Bankia 2014-1, Subodirnated Bond BMN and Subordinated Bond Bankia 2017-1 bonds were assigned by Fitch Ratings on 7 March 2017.
The ratings for all of the covered bonds were assigned by DBRS on 22 September 2017.
The rest of the ratings were assigned by DBRS on 5 July 2017.

(2) As a result of the liquidation of Caymadrid, Bankia has gone from being the guarantor on the CAYMADRID BOND to being the debtor.

(3) Promissory notes issued at a weighted average rate of +0.03% and term of 360 days.

Appendix VI – Movement in issues

Details of issues, repurchases and repayments of debt securities in 2017 and 2016 by the Bank:

(Millions of euros)

Issuer information				Data concerning issuances, repurchases and repayments in 2016								
Country of residence	Transaction	Credit rating Issuer/Issue(1)	ISIN code	Type of security	Transaction date	Maturity date	Market where listed	Issue currency	Amount of issue/repurchase or repayment	Balance outstanding	Coupon	Type of guarantee issued
Spain	Issue	BB+	ES0213307046	2017-1 Subordinated bond	15/03/17	15/03/27	AIAF	euro	500	500	3.38%	Bankia Personal Guarantee
Spain	Issue	B+	XS1645651909	BN BANKIA AT1	18/07/17	PERP	AIAF	euro	750	750	6.00%	Bankia Personal Guarantee
Spain	Issue	BBB (high)	XS0147547177	Caymadrid Bond	06/05/02	01/04/32	B.Luxemburgo	euro	6	6	Cero cupon and irregular	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	ES0214977144	12ª faciltty bonds	14/02/07	14/02/17	AIAF	euro	500	0	4.38%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307029	Bankia 2014-2 ICO facility bonds	10/05/14	10/05/18	AIAF	euro	1	0	EUR 6M+3.50%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307045	Bankia 2014-4 ICO facility bonds	10/06/14	10/06/18	AIAF	euro	1	0	EUR 6M+2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307052	Bankia 2014-5 ICO facility bonds	10/06/14	10/06/18	AIAF	euro	1	0	EUR 6M+3.00%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307078	Bankia 2014-7 ICO facility bonds	10/07/14	10/07/18	AIAF	euro	2	2	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307012	Bankia 2014-8 ICO facility bonds	10/07/14	10/07/20	AIAF	euro	1	2	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307102	Bankia 2014-11 ICO facility bonds	11/08/14	10/08/18	AIAF	euro	1	1	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307136	Bankia 2014-14 ICO facility bonds	10/10/14	10/10/18	AIAF	euro	1	1	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307020	Bankia 2014-15 ICO facility bonds	10/10/14	10/10/20	AIAF	euro	1	4	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307151	Bankia 2014-17 ICO facility bonds	10/11/14	10/11/18	AIAF	euro	2	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307177	Bankia 2014-19 ICO facility bonds	10/12/14	10/12/18	AIAF	euro	1	1	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307038	Bankia 2014-20 ICO facility bonds	10/12/14	10/12/20	AIAF	euro	1	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	ES0313307185	BN BANKIA 2015-1	09/10/15	09/10/17	AIAF	euro	125	-	1.5%	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	ES0313307193	BN BANKIA 2015-2	10/11/15	10/11/17	AIAF	euro	159	-	1.5%	Bankia Personal Guarantee
Spain	Repayment	BBB+ RWP	ES0413056021	CH BMN 3ª Emisión	19/12/17	19/12/17	AIAF	euro	400	-	EUR 12M + 4.50%	Mortgage Portfolio-Mortgage Law
Spain	Issue	R-1 (low)	Various	Promissory notes and ECPs	Various	Various	Various	euro	1.335	1.335	Varios	Bankia Personal Guarantee
Spain	Repayment	R-1 (low)	Various	Promissory notes and ECPs	Various	Various	Various	Varios	1.100	-	Varios	Bankia Personal Guarantee

(1) The ratings on the Bankia AT1 Bonds are those assigned by S&P Global Ratings on 30 June 2017.
The ratings for the Subordinated Bond BANKIA 2017-1, were assigned by Fitch Ratings on 7 March 2017.
The ratings for the MBS BMN 3. Issue were assigned by Fitch Ratings on 18 October 2017..
The rest of the ratings were assigned by DBRS on 5 July 2017
(2) As a result of the liquidation of Caymadrid, Bankia has gone from being the guarantor on the CAYMADRID BOND to being the debtor.

(Millions of euros)

Issuer information		Data concerning issuances, repurchases and repayments in 2016										
Country of residence	Transaction	Credit rating Issuer/Issue(1)	ISIN code	Type of security	Transaction date	Maturity date	Market where listed	Issue currency	Amount of issue/repurchase or repayment	Balance outstanding	Coupon	Type of guarantee issued
Spain	Issue	AA (high)	ES0413307119	CH Bankia 2016-1	21/01/16	21/01/21	AIAF	euro	1,000	1,000	0.88%	Mortgage Portfolio-Mortgage Law
Spain	Issue	AA (high)	ES0413307127	CH Bankia 2016-2	14/03/16	14/03/23	AIAF	euro	1,000	1,000	1.00%	Mortgage Portfolio-Mortgage Law
Spain	Issue	AA (high)	ES0413307093	First extension CH Bankia 2015-1	28/04/16	25/09/25	AIAF	euro	286	1,286	1.00%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	BBB (high)	ES0214977094	Fourth Bancaja standard bond issue	25/01/06	25/01/16	AIAF	euro	500	-	EUR 3M+0.20%	Bankia Personal Guarantee
Spain	Repayment	AA (high)	ES0414977407	CH 20ª Emisión Bancaja	10/05/11	10/01/19	AIAF	euro	1,500	-	EUR 1M+2.50%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	AA (high)	ES0414950560	CH 01-1 CM	29/06/01	29/06/16	AIAF	euro	1,000	-	5.75%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	BBB (high)	ES0214950232	CM 27/07/16 bonds	27/07/10	27/07/16	AIAF	euro	32	-	EUR 3M+0.20%	Bankia Personal Guarantee
Spain	Repayment	AA (high)	ES0414950669	CH 06-3 CM	05/07/06	05/07/16	AIAF	euro	2,644	-	4.25%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	AA (high)	ES0414950776	CH CM 05/10/16	05/10/09	05/10/16	AIAF	euro	1,750	-	3.63%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	-	ES0313307011	Bankia 2014-1 ICO facility bonds	10/05/14	10/05/16	AIAF	euro	2	-	EUR 6M+2.30%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307029	Bankia 2014-2 ICO facility bonds	10/05/14	10/05/18	AIAF	euro	1	1	EUR 6M+3.50%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307037	Bankia 2014-3 ICO facility bonds	10/06/14	10/06/16	AIAF	euro	2	-	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307045	Bankia 2014-4 ICO facility bonds	10/06/14	10/06/18	AIAF	euro	1	1	EUR 6M+2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307052	Bankia 2014-5 ICO facility bonds	10/06/14	10/06/18	AIAF	euro	1	1	EUR 6M+3.00%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307060	Bankia 2014-6 ICO facility bonds	10/07/14	10/07/16	AIAF	euro	7	-	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307078	Bankia 2014-7 ICO facility bonds	10/07/14	10/07/18	AIAF	euro	4	4	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307012	Bankia 2014-8 ICO facility bonds	10/07/14	10/07/20	AIAF	euro	1	2	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307086	Bankia 2014-9 ICO facility bonds	11/08/14	10/08/16	AIAF	euro	3	-	EUR 6M+2.24%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307094	Bankia 2014-10 ICO facility bonds	11/08/14	10/08/16	AIAF	euro	17	-	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307102	Bankia 2014-11 ICO facility bonds	11/08/14	10/08/18	AIAF	euro	1	2	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307110	Bankia 2014-12 ICO facility bonds	10/09/14	10/09/16	AIAF	euro	2	-	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307128	Bankia 2014-13 ICO facility bonds	10/10/14	10/10/16	AIAF	euro	2	-	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307136	Bankia 2014-14 ICO facility bonds	10/10/14	10/10/18	AIAF	euro	1	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307020	Bankia 2014-15 ICO facility bonds	10/10/14	10/10/20	AIAF	euro	1	5	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307144	Bankia 2014-16 ICO facility bonds	10/11/14	10/11/16	AIAF	euro	20	-	EUR 6M+1.55%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307151	Bankia 2014-17 ICO facility bonds	10/11/14	10/11/18	AIAF	euro	2	4	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307169	Bankia 2014-18 ICO facility bonds	10/12/14	10/12/16	AIAF	euro	1	-	EUR 6M+ 1.55%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307177	Bankia 2014-19 ICO facility bonds	10/12/14	10/12/18	AIAF	euro	1	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307038	Bankia 2014-20 ICO facility bonds	10/12/14	10/12/20	AIAF	euro	1	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Issue	R-1 (low)	Various	Promissory notes and ECPs	Various	Various	Various	euro	-	-	Various	Bankia Personal Guarantee
Spain	Repayment	R-1 (low)	Various	Promissory notes and ECPs	Various	Various	Various	Various	745	2	Various	Bankia Personal Guarantee

(1) Latest credit rating assigned by DBRS is from 23 September 2016.
Ratings of remaining issues by DBRS, dated 8 July 2016, for the long term debt and short term debt of the entity.

Appendix VII - Information on the mortgage market

Mortgage-backed securities bonds, marketable and non-marketable, issued by Bankia and outstanding at 31 December 2017 are recognised in the balance sheet under "Financial liabilities at amortised cost" (Note 18). Bankia has no mortgage-backed debentures in issue. These mortgage securities are governed chiefly by Mortgage Market Law 2/1981, of 25 March, as amended by Law 41/2007, of 7 December, and by Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law.

Declarations by the Board of Directors of Bankia, S.A. concerning the existence of policies and procedures required by applicable regulations

In compliance with the requirements of applicable regulations, Bankia's Board of Directors declares that the Entity has express policies and procedures in relation to its mortgage market business, and that the Board of Directors is responsible for compliance with mortgage market regulations applicable to this business. These policies and procedures include, inter alia, (i) the criteria applied concerning the relationship that must exist between the amount of the loan and the appraisal value of the mortgaged property, and the influence of the existence of other additional collateral and the criteria applied in the selection of the appraisers; (ii) the relationship between the debt and the income of the borrower and the existence of procedures aimed at assuring the information supplied by the borrower and the borrower's solvency; (iii) the prevention of imbalances between flows from the hedging portfolio and those arising from making the payments owed on the securities.

Regarding mortgage market laws and regulations, Bankia has in place suitable mortgage risk policies and procedures in the two major areas – assets and liabilities – to monitor and quantify the mortgage portfolio and the related borrowing limits.

In terms of assets, mortgage risk exposure policy takes the form of multilevel decision-making in the Bank by means of a system of authorities and delegated powers.

The Bank has a Credit Risk Policies Framework approved by the Bankia Board of Directors on 21 December 2017. This framework is composed of: i) a Credit Risk Policies, Methods and Procedures Manual, which sets out issues such as principles, scope of application, roles and responsibilities, organisation, delegation of specific criteria, approval process, monitoring and control over compliance, and dissemination, and ii) the General Credit Risk Policies, Methods and Procedures Statement, which sets out the general criteria and delegates in the Risk Committee the governance of the specific criteria by segment and product (including the specific criteria for portfolios related to the mortgage market) for authorisation and modification of transactions, documentation of transactions, monitoring, recoveries and valuation of eligible collateral and guarantees. It delegates the development of criteria for risk classification and allowances and provisions. The Credit Risk Policies Framework also includes the following documents: iii) the Credit Risk Policies, Methods and Procedures Specific Criteria document and the iv) Credit Risk Estimation and Allowance Specific Criteria document.

The governance regime of the Credit Risk Policy Framework stipulates that the Board of Directors approve a Credit Risk Policies, Methods and Procedures Manual and a General Declaration of Credit Risk Policies, Methods and Procedures (duly approved on 21 December 2017) and delegates the governance of the specific criteria established per segment and product (including those established for portfolios associated with the mortgage market) for the authorisation and modification, documentation, monitoring and recovery of transactions and the assessment of eligible collateral in the Risk Committee. It further delegates in the Provisions Committee the formulation of the specific criteria for classifying and provisioning for credit risk. This governance and delegation regime makes the Policies Framework more flexible in terms of defining and updating specific criteria, enhancing the ability to adapt to new developments and enabling the fine-tuning of the criteria governing the approval, monitoring and recovery of credit exposures.

General approval criteria include those associated with borrower risk, mainly the ability of the borrower to repay, with no reliance on guarantors or assets delivered as collateral, which are considered as alternative methods of collection.

Consideration is also given to criteria associated with the transaction, mainly the suitability of financing in accordance with the customer's risk profile and adaptation of the product to the intended purpose.

Specific policies for the mortgage portfolio establish considerations concerning the appraisal value associated with the loan as a cut-off point for the approval proposal.

Risk management of this portfolio is based on a mandatory scoring methodology approved by the Supervisor, with specific monitoring of the cut-off points associated with the decision-making structure.

Other basic criteria are the maximum timelines of the transactions and the type of products sold by the Bank.

The guidelines laid out in the credit risk policies acknowledge property-based collateral subject to certain requirements, such as a first-charge requirement, and compliance with measurement criteria in accordance with the stipulations of prevailing regulations.

Any imbalance between mortgage portfolio flows and issued securities is managed by a regular review of key portfolio parameters followed by a report to credit rating agencies for the purpose of monitoring issued securities.

IT systems are in place to record, monitor and quantify these elements and to assess the degree of compliance with mortgage market requirements for the purposes of portfolio eligibility for covering the Bank's related borrowings.

In terms of liabilities, in line with its financing strategy in place at each given time in the light of the outstanding mortgage portfolio, the Bank makes mortgage-backed security issuance decisions on the basis of records that enable it to keep its issued securities within the bounds of eligibility for covering borrowings in compliance with mortgage market laws and regulations.

Disclosures on the security and privileges enjoyed by holders of mortgage-backed instruments issued by Bankia

Pursuant to current legislation, the principal and interest of the mortgage-backed bonds issued by Bankia are specially secured (entry in the Property Register is not required) by mortgages on all the mortgage-backed bonds that are registered in the Bankia's name at any time, without prejudice to its unlimited liability. The mortgage-backed bonds entitle the holders not only to the aforementioned guaranteed financial claim but also to claim payment from the issuer after maturity, and confer on the holders the status of special preferential creditors vis-à-vis all other creditors in relation to all the mortgage loans and credits registered in the issuer's name.

In the event of insolvency, the holders of these bonds will enjoy the special privilege established in Article 90, Section 1, No. 1 of Insolvency Law 22/2003 of 9 July. Without prejudice to the foregoing, in accordance with Article 84, Section 2, No. 7 of Insolvency Law 22/2003, during the solvency proceedings the payments relating to the repayment of the principal and interest of the mortgage-backed securities issued and outstanding at the date of the insolvency filing will be settled, as preferred claims, up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the securities and from the cash flows generated by the financial instruments associated with the issues.

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the administrative receivers must settle them by realising the replacement assets, if any, identified to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed securities, and the finance provider must be subrogated to the position of the security-holders.

In the event that the measure indicated in Article 155, No. 3 of Insolvency Law 22/2003, of 9 June, is required, the payments to all holders of the mortgage-backed bonds issued would be made on a pro rata basis, irrespective of the issue dates of the bonds.

Disclosures on mortgage market security issues

Note 18 disclose the outstanding balances of non-marketable (one-off) mortgage-backed securities issued by the Bankia. In addition, Appendix V individually itemises the outstanding balances of marketable mortgage-backed securities issued by Bankia with their maturities, currencies and reference rates.

The following table itemises the aggregate nominal value of marketable and non-marketable mortgage-backed securities outstanding at 31 December 2017 and 2016 issued by the Bankia , regardless of whether or not they are recognised as liabilities of the Bank (in the latter case, due to the fact that they were not placed with third parties or because they were repurchased by the Bankia), based on their residual maturity period, with a distinction made, in the case of those recognised by the Bankia as debt securities, between those issued through a public offering and with no public offering, along with the aggregate nominal values of mortgage participation certificates and mortgage transfer certificates issued by the Bankia and outstanding at 31 December 2017 and 2016.

(Thousands of euros)

MORTGAGE SECURITIES	Nominal value	Average residual maturity period (months)	Nominal value	Average residual maturity period (months)
	31/12/2017		31/12/2016	
Mortgage bonds issued	-		-	
Of which: recognised on the liability side of the balance sheet	-		-	
Mortgage-backed securities issued	**30,496,742**		**26,474,290**	
Of which: recognised on the liability side of the balance sheet	20,585,292		17,862,840	
Debt securities. Issued through a public offering (1)	**14,095,500**		**13,595,500**	
Residual maturity up to one year	2,060,000		-	
Residual maturity over one year but not more than two years	2,000,000		2,060,000	
Residual maturity over two years but not more than three years	-		1,500,000	
Residual maturity over three years but not more than five years	3,750,000		1,000,000	
Residual maturity over five years but not more than ten years	4,285,500		7,035,500	
Residual maturity over ten years	2,000,000		2,000,000	
Debt securities. Other issues (1)	**8,900,000**		**7,600,000**	
Residual maturity up to one year	-		-	
Residual maturity over one year but not more than two years	1,400,000		-	
Residual maturity over two years but not more than three years	-		100,000	
Residual maturity over three years but not more than five years	-		-	
Residual maturity over five years but not more than ten years	5,000,000		2,500,000	
Residual maturity over ten years	2,500,000		5,000,000	
Deposits (2)	7,501,242		**5,278,790**	
Residual maturity up to one year	1,138,387		715,000	
Residual maturity over one year but not more than two years	1,012,830		538,387	
Residual maturity over two years but not more than three years	417,917		490,537	
Residual maturity over three years but not more than five years	1,610,186		611,875	
Residual maturity over five years but not more than ten years	2,331,922		1,327,991	
Residual maturity over ten years	990,000		1,595,000	
Mortgage participation certificates issued	**447,582**	**226**	**5,703**	**118**
Issued in a public offering	442,891	111	-	-
Other issues	4,691	115	5,703	118
Mortgage transfer certificates issued	**11,156,104**	**380**	**12,469,042**	**252**
Issued in a public offering	371,061	132	-	-
Other issues	10,785,043	248	12,469,042	252

(1) These securities are recognised under "Financial liabilities at amortised cost - Marketable debt securities" in the accompanying balance sheet at 31 December 2017 and 2016 (see Note 18).

(2) These securities are recognised under "Financial liabilities at amortised cost - Deposits from credit institutions" and "Financial liabilities at amortised cost - Customer deposits" in the accompanying balance sheet at 31 December 2017 and 2016 (see Note 18).

The nominal value at 31 December 2017 and 2016 of the amounts available (committed amounts not drawn down) of all mortgage loans and credits, with a distinction made between those potentially eligible and those that are not eligible, is shown in the table below:

(Thousands of euros)

ITEMS	Undrawn balances (nominal value) (2)	
	31/12/2017	31/12/2016
Mortgage loans that back the issuance of mortgage-backed securities (1)	**463,187**	**378,858**
Of which:		
Potentially eligible (3)	251,209	262,179
Not eligible	211,978	116,679

(1) At 31 December 2017 and 2016, Bankia had no mortgage bonds in issue.

(2) Committed amounts (limit) less amounts drawn down on all loans with mortgage collateral, irrespective of the percentage of total risk on the amount of the last appraisal (Loan to Value), not transferred to third parties or relating to financing received. Also includes balances that are only delivered to developers when the dwellings are sold.

(3) Loans potentially eligible for issuance of mortgage-backed securities under Article 3 of Royal Decree 716/2009.

With regard to lending operations, the table below shows the breakdown at 31 December 2017 and 2016 of the nominal value of mortgage loans and credit facilities that back the issue of mortgage-backed securities issued by Bankia (as already mentioned, as at the reporting date the Bankia had no mortgage bonds in issue), indicating the total eligible loans and credit facilities, without regard to the limits under Article 12 of Royal Decree 716/2009 of 24 April, and those that are eligible which, pursuant to the criteria of the aforementioned Article 12 of Royal Decree 716/2009, are eligible for issuance of mortgage securities.

This amount is presented, as required by applicable legislation, as the difference between the nominal value of the entire portfolio of loans and credits secured through mortgages registered in favour of the Bankia and pending collection (including, where applicable, those acquired through mortgage participation certificates and mortgage transfer certificates), even if they have been derecognised, irrespective of the proportion of the risk of the loan to the last available appraisal for purposes of the mortgage market, less the mortgage loans and credits transferred through mortgage participation certificates and mortgage transfer certificates, regardless of whether or not they were derecognised from the balance sheet, and those designated as security for financing received (the amount recognised on the asset side of the balance sheet is also indicated for mortgage loans and credits transferred):

(Thousands of euros)

ITEMS	Nominal value	
	31/12/2017	31/12/2016
Total loans	**86,829,591**	**74,100,105**
Mortgage certificates issued	**598,318**	**339,482**
Of which: loans maintained on the assets of the balance sheet	*447,582*	*5,703*
Mortgage transfer certificates issued	**11,347,071**	**12,687,487**
Of which: loans maintained on the assets of the balance sheet	*11,156,104*	*12,469,042*
Mortgage loans pledged as security for financing received	**-**	**-**
Loans that back the issue of mortgage bonds and mortgage-backed securities	**74,884,202**	**61,073,136**
Loans not eligible	17,201,071	14,297,406
Loans that meet the requirements to be eligible except for the limit established in Article 5.1 of Royal Decree 716/2009	8,958,092	6,525,254
Other	8,242,979	7,772,152
Eligible loans	57,683,131	46,775,730
Loans to cover mortgage bonds issues	-	-
Loans eligible to cover mortgage-backed securities issues	57,683,131	46,775,730
Ineligible amounts [(1)]	137,686	127,593
Eligible amounts	57,545,445	46,648,137

(1) Amount of the eligible loans which, pursuant to the criteria laid down in Article 12 of Royal Decree 716/2009, are not eligible to cover issuance of mortgage bonds and covered bonds.

The reconciliation of eligible loans to mortgage-backed securities issued, along with issuance capacity and percentage of overcollateralization, is as follows:

(Thousands of euros)	Nominal value	
ITEMS	31/12/2017	31/12/2016
Mortgage loans and credits which, pursuant to the criteria laid down in Article 12 of RD 716/2009, are eligible to cover issuance of covered bonds securities	57,545,445	46,648,137
Issue limit = 80% of eligible mortgage loans and credits	46,036,356	37,318,510
Mortgage-backed securities issued	30,496,742	26,474,290
Mortgage-backed securities issuance capacity (1) (Note 3.2)	15,539,614	10,844,220
Memorandum item:		
Percentage of overcollateralization of the portfolio	246%	231%
Percentage of overcollateralization of the eligible portfolio	189%	176%

(1) At 31 December 2017, EUR 9,911,450 thousand of mortgage-backed securities remained on the balance sheet. Therefore, the issuance capacity would be EUR 25,451,064 thousand (EUR 8,611,450 thousand at 31 December 2016, with a EUR 19,455,670 thousand issuance capacity).

The table below shows the detail at 31 December 2017 and 2016 of the nominal value of the loans and credits that back mortgage-backed securities issued by Bankia and of those loans and credits that are eligible, without taking into consideration the restrictions on their eligibility established in Article 12 of Royal Decree 716/2009, based on (i) if they arose from the Bankia or from creditor subrogations and other cases; (ii) if they are denominated in euros or in other currencies; (iii) if they have a normal payment situation and other cases; (iv) their average residual maturity; (v) if the interest rate is fixed, floating or mixed; (vi) if the transactions are aimed at legal entities or individuals that are to use the loan proceeds for the purpose of their business activity (with a disclosure of the portion related to property development) and transactions aimed at households; (vii) if the guarantee consists of assets/completed buildings (with a distinction made between those used for residential, commercial and other purposes), assets/buildings under construction (with a disclosure similar to that of the finished buildings) or land (with a distinction made between developed land and other land), indicating the transactions that are secured by government-subsidised housing, even that under development:

(Thousands of euros)

ITEMS	Loans that back mortgage bonds and covered bonds 31/12/2017	Loans that back mortgage bonds and covered bonds 31/12/2016	Of which: eligible loans 31/12/2017	Of which: eligible loans 31/12/2016
TOTAL	**74,884,202**	**61,073,136**	**57,683,131**	**46,775,730**
ORIGIN OF OPERATIONS	**74,884,202**	**61,073,136**	**57,683,131**	**46,775,730**
Originated by Entity	66,635,981	51,995,063	49,669,527	**37,980,377**
Subrogated to other entities	626,905	704,659	616,659	692,648
Other	7,621,316	8,373,414	7,396,945	8,102,705
CURRENCY	**74,884,202**	61,073,136	**57,683,131**	**46,775,730**
Euro	74,722,365	60,829,889	57,683,131	46,775,730
Other currencies	161,837	243,247	-	-
PAYMENT SITUATION	**74,884,202**	**61,073,136**	**57,683,131**	**46,775,730**
Normal payment situation	69,985,081	55,434,203	57,045,994	45,670,423
Other situations	4,899,121	5,638,933	637,137	1,105,307
AVERAGE RESIDUAL MATURITY	**74,884,202**	**61,073,136**	**57,683,131**	**46,775,730**
Up to ten years	11,471,291	8,698,993	8,105,231	6,085,122
More than ten years and up to 20 years	27,554,158	20,637,981	23,850,714	17,946,128
More than 20 years and up to 30 years	21,284,509	17,672,332	18,004,785	15,181,521
More than 30 years	14,574,244	14,063,830	7,722,401	7,562,959
INTEREST RATES	**74,884,202**	**61,073,136**	**57,683,131**	**46,775,730**
Fixed	3,555,730	815,835	2,502,093	335,780
Floating	64,411,079	52,811,236	50,026,518	40,975,686
Mixed	6,917,393	7,446,065	5,154,520	5,464,264
OWNERS	**74,884,202**	**61,073,136**	**57,683,131**	**46,775,730**
Legal entities and natural person entrepreneurs	19,875,776	17,933,731	12,340,187	11,415,304
Of which: construction and property developments (land included)	1,480,192	1,164,982	623,439	614,920
Other	55,008,426	43,139,405	45,342,944	35,360,426
TYPE OF COLLATERAL	**74,884,202**	**61,073,136**	**57,683,131**	**46,775,730**
Assets/completed buildings	74,408,813	60,707,931	57,664,447	46,775,410
Residential	62,764,150	51,896,738	51,999,393	42,798,276
Of which: government-subsidised housing	*1,730,175*	*1,303,577*	*1,355,300*	*895,408*
Commercial	2,674,505	48,600	1,679,725	19,375
Other buildings and constructions	8,970,158	8,762,593	3,985,329	3,957,759
Assets/buildings under construction	86,099	38,749	5,636	320
Residential	57,196	32,030	4,392	320
Of which: government-subsidised housing	-	76	-	-
Commercial	6,171	-	1,193	-
Other buildings and constructions	22,732	6,719	51	-
Land	389,290	326,456	13,048	-
Developed	46,210	2,715	8,794	-
Other	343,080	323,741	4,254	-

The nominal value of eligible mortgage loans and credits at 31 December 2017 and 2016, broken down by the ratios of the amount of the transactions to the last available appraisal of the mortgaged assets (Loan to Value), is shown in the table below:

31 December de 2017

(Thousands of euros)

ITEMS	Amount of the transactions to the last available appraisal ("Loan to value")				
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Loans eligible for issuance of mortgage-backed securities and mortgage bonds					**57,683,131**
Housing	14,736,178	20,837,728	16,429,879	-	52,003,785
Other assets	3,012,057	2,667,289			5,679,346

31 December de 2016

(Thousands of euros)

ITEMS	Amount of the transactions to the last available appraisal ("Loan to value")				
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Loans eligible for issuance of mortgage-backed securities and mortgage bonds					**46,775,730**
Housing	12,068,207	16,881,964	13,848,426	-	42,798,597
Other assets	2,316,101	1,661,032			3,977,133

Movements in the nominal amounts of mortgage loans backing the issuance of mortgage bonds and mortgage-backed securities are as follows:

(Thousands of euros)

MOVEMENTS	Eligible loans 31/12/2017	Non eligible loans 31/12/2017	Eligible loans 31/12/2016	Non eligible loans 31/12/2016
Opening balance	**46,775,730**	**14,297,406**	**49,677,136**	**17,202,196**
Disposals at the period	**(4,983,519)**	**(2,438,343)**	**(5,060,593)**	**(4,828,971)**
Principal due cashed	(129,053)	(418,089)	(22,856)	(6,047)
Prepayments	(1,250,337)	(836,309)	(1,284,676)	(1,061,747)
Subrogation by other entities	-	-	-	-
Others	(3,604,129)	(1,183,945)	(3,753,061)	(3,761,177)
Additions at the period	**3,444,271**	**1,811,290**	**2,159,187**	**1,924,181**
Originated by the entity	1,990,789	1,387,254	896,826	1,427,627
Subrogation of other entities	2,298	-	3,713	820
Others	1,451,184	424,036	1,258,648	495,734
Additions due to business combination	12,446,649	3,530,718		
Closing balance	**57,683,131**	**17,201,071**	**46,775,730**	**14,297,406**

Finally, at 31 December 2017 and 2016 there were no replacement assets backing the Bank's mortgaged-backed issues.

Appendix VIII - Exposure to property and construction risk (transactions in Spain)

1. Disclosures on exposure to property development and construction

The table below shows cumulative figures on the financing granted by the Bank at 31 December 2017 and 2016 for the purposes of construction and property development and the respective credit risk coverage in place at that date (1):

31 December 2017

(Thousands of euros)

ITEMS	Total gross	Excess over value of collateral (2)	Specific coverage
Loans recognised by construction and property development (transactions in Spain)	994,106	280,178	(319,507)
Of which: Doubtful	592,161	232,577	(300,932)
Memorandum item:			
Assets written off (4)	544,936		

Memorandum item:

(Thousands of euros)

Item	Carrying amount
1. Total loans and advances to customers, excluding the public sector (transactions in Spain) (5)	116,578,641
2. Total assets (all transactions)	215,043,906
3. Total general coverage (all transactions) (3)	(797,931)

(1) For the purposes of this table, credits are classified by purpose rather than the borrower's CNAE code. If the borrower is a property company but uses the financing received for a purpose other than construction or property development, the transaction is excluded from this table. Conversely, if the borrower is a company whose core business is not construction or property development-related but uses the financing received for property development purposes, the transaction is included in this table.

(2) The difference between the amount of exposures and the maximum amount of collateral and personal guarantees without appreciable risk that can be considered in calculating impairment.

(3) The excess of the gross amount of the financing over the value of any property rights received as collateral, calculated pursuant to Annex IX of Circular 4/2004, in accordance with the nature of the mortgaged asset (all transactions).

(4) Gross amount of the loan for the purpose of construction and property development granted by Bank credit institutions (transactions in Spain) and assets written off.

(5) The carrying amount is the value at which the assets are recognised on the balance sheet after deduction of any amount allocated to cover such assets.

31 December 2016

(Thousands of euros)

ITEMS	Total gross	Excess over value of collateral (2)	Specific coverage
Loans recognised by construction and property development (transactions in Spain)	781,366	294,594	(286,516)
Of which: Doubtful	462,900	235,669	(273,319)
Memorandum item:			
Assets written off (4)	357,933		

Memorandum item:

(Thousands of euros)

Item	Carrying amount
1. Total loans and advances to customers, excluding the public sector (transactions in Spain) (5)	98,869,230
2. Total assets (all transactions)	191,007,733
3. Total general coverage (all transactions) (3)	(677,668)

(1) For the purposes of this table, credits are classified by purpose rather than the borrower's CNAE code. If the borrower is a property company but uses the financing received for a purpose other than construction or property development, the transaction is excluded from this table. Conversely, if the borrower is a company whose core business is not construction or property development-related but uses the financing received for property development purposes, the transaction is included in this table.

(2) The difference between the amount of exposures and the maximum amount of collateral and personal guarantees without appreciable risk that can be considered in calculating impairment.

(3) The excess of the gross amount of the financing over the value of any property rights received as collateral, calculated pursuant to Annex IX of Circular 4/2004, in accordance with the nature of the mortgaged asset (all transactions).

(4) Gross amount of the loan for the purpose of construction and property development granted by Bank credit institutions (transactions in Spain) and assets written off.

(5) The carrying amount is the value at which the assets are recognised on the balance sheet after deduction of any amount allocated to cover such assets.

The table below breaks down construction and property development financing granted by Group credit entities at 31 December 2017 and 2016 registered by the Bank:

(Thousands of euros)

	Finance intended for construction and property development	
ITEMS	31/12/2017	31/12/2016
1. Not mortgage-secured	63,769	27,283
2. Mortgage-secured (1)	930,337	754,083
2.1. Finished buildings (2)	698,686	609,259
2.1.1. Housing	403,724	268,636
2.1.2. Other	294,962	340,623
2.2. Buildings under construction (2)	39,993	31,363
2.2.1. Housing	29,754	28,911
2.2.2. Other	10,239	2,452
2.3. Land	191,658	113,461
2.3.1. Urban land	111,742	89,129
2.3.2. Other land	79,916	24,332
Total	**994,106**	**781,366**

(1) Includes all mortgage-secured transactions regardless of ratio of outstanding amount to the latest appraised value.

(2) If a building is used for both residential (housing) and commercial (offices and/or premises) purposes, the related financing is classified under the category of the predominant purpose.

2. Loans to households for home purchases. Transactions recognised by credit institutions (transactions in Spain)

The table below presents the detail at 31 December 2017 and 2016 of financing granted by the credit institutions comprising the Bank for the purpose of home purchase (business in Spain):

(Thousands of euros)

ITEMS	Total gross	Of which: Doubtful	Total gross	Of which: Doubtful
	31/12/2017		31/12/2016	
Loans for home purchases	68,943,183	3,980,561	60,229,807	3,258,959
Non-mortgage-secured	619,923	23,739	572,566	2,449
Mortgage-secured	68,323,260	3,956,822	59,657,241	3,256,510

The table below presents the detail of mortgage-secured loans to households for home purchases mortgage-secured at 31 December 2017 and 31 December 2016, classified by the ratio of the outstanding amount to the latest available appraised value (LTV) in respect of transactions recognised by Group credit institutions (transactions in Spain):

31 December 2017

(Thousands of euros)

	LTV ranges					
ITEMS	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Total gross	14,356,158	21,357,353	20,087,604	6,316,183	6,205,962	68,323,260
Of which: doubtful	127,768	220,178	455,416	720,586	2,432,874	3,956,822

31 December 2016

(Thousands of euros)

	LTV ranges					
ITEMS	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Total gross	12,327,285	18,927,742	18,620,028	5,365,809	4,416,377	59,657,241
Of which: doubtful	127,475	196,187	368,776	529,993	2,034,079	3,256,510

3. Information concerning foreclosed property assets or received in payment of debts (transactions in Spain)

In order to dispose of its foreclosed assets with the smallest impact possible on the income statement, the Bank engaged HAYA Real Estate to manage, administer and sell its foreclosed assets under the supervision of the Corporate Investees Division.

In order to maintain assets in the best possible conditions for sale and ensure efficient control of the expenditure incurred in the process, technical maintenance procedures are deployed along with control and management of turnover arising from the assets remaining on the portfolio. Consideration is also given to maintaining lease contracts on assets in the portfolio and management of occupancy situations concerning the assets.

Attention is also paid to activities arising from the marketing process: customer care, review of the assets published and management of offers through various sales channels: branch network, brokers, web, events and trade fairs and direct strength of sale.

Progress was made in 2017 on a number of projects and initiatives, affording better and deeper knowledge of the portfolio. This, coupled with stronger sales efforts, led to the first net reduction in the stock of real estate assets.

The Bank's general policies for managing its foreclosed assets are summarised as follows:

- The volume of foreclosed assets, irrespective of the owner(on the balance sheets of entities, in companies created for this purpose, in vehicles etc.) makes it necessary at the outset to address the necessary measures for management purposes with the single aim of disposal of assets at the least possible detriment to the income statement.
- To unlock the value of foreclosed assets, the focus is first on sales and second on rentals in specific circumstances related to the Housing Social Fund and/or special rentals. In the case of unique assets (specific buildings, offices, commercial premises, industrial buildings and land), the general policy is to sell these assets.
- Policy of transparency in all transactions to guarantee public offering of the asset.
- Policies to set prices for assets and delegated powers. Sales in accordance with an authorisation system valid at all times.
- General policy of non-exclusivity in mediation on sales of assets.
- Assessment of asset sale offers in any situation.
- The marketing process will be carried out through all the channels established: network branches, web, property sales desks at certain branches, brokers with or without keys, trade fairs and events, etc.

The pricing policies and principles for the property portfolio may be summarised as follows:

- **Transparency**: all assets available for sale are published exclusively on the Real Estate Portal with their retail prices www.haya.es.
- **References to set prices**: the price references will be those of comparable assets, the appraisal value of each asset, reports by mediators and book value.
- **Unique assets**: the primary reference of unique assets will be the latest appraisal value, although the complex nature of sales of these assets will require individual negotiations, using the same references as cited above.
- **Adaptation to changes in the housing market**: dynamic adaptation and review of prices in accordance with changes on the property market. Prices will be reviewed regularly, with updates of appraisals and observance of regulations and consideration of changes to the official housing market indexes.
- **Special events**: at trade fairs, real estate fairs or other temporary events, more attractive prices may be published for that period only.
- **Leases**: property assets will be leased with a rent approved by the appropriate committee, which will at all times contemplate a minimum return in accordance with the value of the asset to be leased.

The table below presents the detail of foreclosure assets acquired by the Bank through (transactions in Spain) at 31 December 2017 and 2016, classified by type (a):

(Thousands of euros)

ITEMS	Gross amount (b)	Impairment allowance	Gross amount (b)	Impairment allowance
	31/12/2017		31/12/2016	
1. Property assets from financing intended for construction and property development (c)	787,673	(312,211)	339,275	(95,585)
1.1. Finished buildings	350,615	(92,866)	261,623	(68,056)
1.1.1. Housing	290,539	(77,505)	196,594	(52,226)
1.1.2. Other	60,076	(15,361)	65,029	(15,830)
1.2. Buildings under construction	65,278	(32,844)	24,407	(6,818)
1.2.1. Housing	63,693	(32,703)	23,730	(6,263)
1.2.2. Other	1,585	(141)	677	(555)
1.3. Land	371,780	(186,501)	53,245	(20,711)
1.3.1. Urban land	159,319	(72,408)	39,898	(16,617)
1.3.2. Other land	212,461	(114,093)	13,347	(4,094)
2. Property assets from mortgage-secured financing granted to households for home purchases	2,930,388	(1,079,605)	2,144,276	(734,800)
3. Other property assets received in settlement of debt (d)	1,081,884	(261,795)	554,044	(128,186)
4. Equity instruments, investments and financing to companies holding such assets	9,383	(5,418)	1,413	(1,413)
5. Equity investments to entities holding the foreclosed property assets or assets received in payment of debts (e)	3,904,327	(3,120,862)	3,898,052	(3,097,700)
6. Financing to entities holding the foreclosed property assets or assets received in payment of debts (e)	46	-	48,430	(7,909)

(a) Includes foreclosed assets or assets received in payment of debts from financing granted by the Entity in relation to its businesses in Spain, as well as equity investments in and financing granted to the entities holding these assets.

(b) Amounts before the deduction of any impairment.

(c) Includes property asset arising in connection with loans to construction and property development companies, regardless or the sector and main economic activity of the company or individual entrepreneur delivering the asset.

(d) Includes property assets not arising in connection with loans to construction and property development companies, or to households for home purchases.

(e) Includes all equity investments in and financing to entities holding the foreclosed property assets or assets received in payment of debts.

The above tables set out property assets acquired through foreclosure or in settlement of debts, other than the exception referred to in the foregoing sub-paragraph (a), and classified by the Bank on the basis of ultimate purpose, mainly under “Non-current assets held for sale” and “Property, plant and equipment – Investment property” in the accompanying balance sheet for those dates.

4. Received and granted financial guarantee of real state exposure

The detail of the value of collateral and guarantees received to ensure collection at 31 December 2017 and 2016, distinguishing between collateral and other guarantees, is provided in the table below. The value is understood as the maximum amount of the guarantee considered, except for non-performing loans, which is the fair value.

(Thousands of euros)

ITEMS	31/12/2017	31/12/2016
Collaterals	720,618	583,938
Other collateral	-	-
Total	**720,618**	**583,938**

The detail of the guarantees extended at 31 December 2017 and 2016 related to construction and property development loans; i.e. the amount the Bank would have to pay if the guarantee or collateral was called, which could exceed the amount recognised under liabilities in the balance sheet, is as follows:

(Thousands of euros)

ITEMS	31/12/2017	31/12/2016
Collaterals	42,539	28,574
Other collateral	3,059	460

Appendix IX - Refinancing and restructuring operations and other requirements of Bank of Spain Circular 6/2012

Refinancing and restructuring operations

As part of its credit risk management policy, the Group has carried out loan refinancing operations, modifying the original conditions agreed with the borrowers (e.g. interest rate, term, grace period, collateral or guarantee).

Loan refinancing and restructuring is designed to match financing to the customers' current ability to meet its payment commitments, affording sufficient financial stability to ensure the continuity and operation of the borrower or its group. To do so, certain measures must be adopted that adapt to the source of the problem, whether they are systemic (affect all segments and borrowers the same, e.g. rises in interest rates) or specific (affect individual borrowers and require individual and structural measures for each case).

The general policies regarding loan refinancing can be summarised as follows:

- Loan refinancing, restructuring, rollover or negotiation should always aim to resolve the problem and never to hide or delay it. Delays should only be based on a realistic probability that the borrower can improve their financial situation in the future.
- Decisions on these types of operations require analysis of the borrower's and guarantor's current economic and financial situations so that the new conditions of the loan are in accordance with borrower's real ability to pay. In addition to ability, equally important is the assessment of the customer's willingness and commitment to continue meeting its payment obligations. In the case of companies, for instance, contributions of funds from shareholders or additional guarantees or collateral may be required.
- The amounts estimated to be irrecoverable should be recognised immediately.
- The refinancing or restructuring of loans whose payment is not up to date does not interrupt their arrears until the customer can make payment on schedule or unless new effective guarantees or collateral are provided.

From a management viewpoint, where loan refinancing is offered, particularly with retail loans, the operations are channelled through specific products that:

- Guarantee the identification of refinancing operations.
- Establish standardised financial conditions across the branch network within limits considered acceptable and consistent with the Risk Policies.

To ensure the success of the refinancing or restructuring, identifying the problem even before it arises is of paramount importance. This requires pro-active management, backed by the following instruments:

- For companies, customers are classified by monitoring levels, applying both objective and subjective criteria and taking account of the customer's particular situation or that of the sector to which it belongs. The level determines the management model and authorities, gearing the monitoring activity towards the most vulnerable customers. In this way, loan refinancing can become a crucial tool for a finance problem that guarantees the customer's viability when it has yet to become unable to meet its payment obligations.
- For individuals, behaviour and early warning models are applied. These not only identify potentially vulnerable loans although payment is up to date, but they also put forward specific refinancing solutions in accordance with the customer's situation, following a ranking that responds to the Group's preference among the various potential refinancing possibilities (e.g. avoiding the inclusion of grace periods).

The Group accounts for loan restructuring and refinancing operations in accordance with Bank of Spain Circular 4/2004 modified on 2016 which in general are compatible with those of the ESMA and the EBA. 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. As a general rule, all refinancings and restructurings should be classified as substandard risk when they are arranged, unless there are objective circumstances for them to be classified as doubtful or standard risks.

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

- Some or all of the payments of the modified transaction have been due for more than 30 days (without being classified as doubtful) at least once in the three months preceding its modification, or would be due for more than 30 days without said modification.
- Simultaneously or nearly simultaneously with the granting of additional financing by the Entity, the borrower has made payments of the principal or interest on another transaction with it, on which some or all of the payments have been due for more than 30 days at least once in the three months prior to the refinancing.
- When the Entity approves the use of implicit restructuring or refinancing clauses in relation to borrowers with outstanding amounts 30 days or more than 30 days past due if such clauses have not been exercised.

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:

<table>
<tr><th rowspan="3">Financial effort</th><th colspan="3">Grace period</th><th rowspan="3">Refinancing (2) with doubtful origin</th></tr>
<tr><th colspan="2"><=24 months</th><th rowspan="2">>24 months</th></tr>
<tr><th>Forgiveness (1) No</th><th>Forgiveness (1) Yes</th></tr>
<tr><td><= 50%</td><td>Watchlist</td><td>Doubtful</td><td>Doubtful</td><td>Doubtful</td></tr>
<tr><td>> 50%</td><td>Doubtful</td><td>Doubtful</td><td>Doubtful</td><td>Doubtful</td></tr>
</table>

(1) Forgiveness above % of the allowances and provisions established in Appendix IX of Bank of Spain Circular 4/2016
(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 the 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:

- Refinancing transactions classified as doubtful will remain in this category until:
  - At least one year has elapsed since the last of the following dates:
    - The refinancing date.
    - The end of the grace period.
    - The end of the disbursements.
    - The date of the last entry into arrears.
  - The borrower is not in litigation or bankruptcy.
  - The borrower is current on its payments.
  - The customer has no other transactions classified as doubtful or highly doubtful.
  - There have been no payments in arrears by more than 90 days in the past year.
  - The borrower has met payment obligations in the wake of the refinancing in an amount equal to or higher than the defaulted amount subject to forbearance measures.
- Refinancing transactions classified as watchlist will remain in this category until:
  - At least two years have elapsed since the last of the following dates:
    - The refinancing date.
    - The end of the grace period.
    - The end of the disbursements.
    - The last date of emergence from non-performing.
  - The borrower is current on its payments.
  - The customer has no other transactions under special monitoring or classified as doubtful or write-off.
  - The borrower has met payment obligations in the wake of the refinancing in an amount equal to or higher than the defaulted amount subject to forbearance measures.
  - In addition, a series of conditions must be met to evidence the lack of payment impediments.

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

The table below shows the gross amount of refinancing operations, with a breakdown between their classification as doubtful risk, and their respective coverages of credit risk at 31 December 2017 and 2016:

31 December 2017

(Thousands of euros)	TOTAL							of which: DOUBTFUL						
	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due to credit risk
					Maximum amount of the collateral							Maximum amount of the collateral		
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Property-based collateral	Other collateral		Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Property-based collateral	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector	85	44,135	2,712	85,358	80,330	1,865	(28,248)	37	4,810	2,394	42,001	40,696	-	(22,596)
Other financial institutions and natural person entrepreneurs (financial business)	48	394,463	18	11,912	11,618	14	(119,436)	39	369,815	10	1,291	1,005	14	(119,374)
Non-financial institutions and natural person entrepeneurs (non-financial business)	9,698	3,033,945	8,798	2,744,542	1,965,258	267,866	(2,171,626)	6,930	2,107,346	5,026	1,754,557	1,200,286	145,601	(2,102,256)
Of which: Construction and property development (including land)	1,834	316,756	1,863	476,797	312,669	32,916	(420,667)	1,752	311,512	978	368,694	220,557	26,225	(416,541)
Other households	22,496	409,804	45,892	5,854,773	4,753,091	42,568	(1,018,239)	15,390	321,011	21,611	2,797,723	2,183,772	12,005	(965,967)
Total	**32,327**	**3,882,347**	**57,420**	**8,696,585**	**6,810,297**	**312,313**	**(3,337,549)**	**22,396**	**2,802,982**	**29,041**	**4,595,572**	**3,425,759**	**157,620**	**(3,210,193)**
Corrections of the collective impairment							(1,672,964)							
Corrections of the especific impairment							(1,664,585)							
ADITIONAL INFORMATION														
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

31 December 2016

(Thousands of euros)

	TOTAL							of which: DOUBTFUL						
	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due to credit risk
					Maximum amount of the							Maximum amount of the		
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Property-based collateral	Other collateral		Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Property-based collateral	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector	353	118,570	2,366	44,063	42,516	-	(14,936)	22	69,115	2,365	34,865	34,156	-	(14,936)
Other financial institutions and natural person entrepreneurs (financial business)	120	111,459	21	34,230	9,742	16	(34,263)	34	9,981	11	24,437	829	16	(19,422)
Non-financial institutions and natural person entrepeneurs (non-financial business)	9,415	4,264,887	3,677	2,055,626	1,389,051	106,666	(2,688,338)	6,198	3,060,502	2,913	1,516,230	1,126,349	17,604	(2,620,759)
Of which: Construction and property development (including land)	1,326	533,529	571	184,878	145,854	-	(538,136)	560	466,440	524	178,404	139,735	-	(533,877)
Other households	23,391	488,244	23,320	3,437,785	2,785,360	354	(860,605)	16,478	385,750	15,105	2,167,173	1,760,408	311	(830,357)
Total	**33,279**	**4,983,160**	**29,384**	**5,571,704**	**4,226,669**	**107,036**	**(3,598,142)**	**22,732**	**3,525,348**	**20,394**	**3,742,705**	**2,921,742**	**17,931**	**(3,485,474)**
Corrections of the collective impairment							(1,467,296)							
Corrections of the especific impairment							(2,130,846)							
ADITIONAL INFORMATION														
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Movements at the year end of 2017 and 2016 were as follows:

(Thousands of euros)

Items	2017	2016
Opening balance	**6,956,722**	**18,794,336**
(+) Refinancing and restructuring	1,261,322	1,620,082
(-) Debt depreciation	(121,909)	(179,850)
(-) Foreclosure	(145,369)	(166,925)
(-) Disposals (reclassified as written off)	(60,984)	(47,168)
(+/-) Other changes	(1,037,022)	(13,063,753)
Addition due to business combination	2,388,623	-
Closing balance	**9,241,383**	**6,956,722**

(*) The acumulated impairment at the year end 2017 was EUR 260,593 thousand (EUR 820,219 thousand at the year end 2016).

Other requirements of Bank of Spain Circular 6/2012

The table below shows information concerning sector and geographical concentration risk (a):

At 31 December 2017

(Thousands of euros)

ITEM	TOTAL	Spain	Other European Union country	America	Rest of the world
Central banks and credit institutions	13,824,427	7,849,276	5,807,936	107,609	59,606
Government agencies	37,613,393	31,955,093	5,543,774	6,836	107,690
Central Administration	31,857,665	26,223,184	5,543,774	6,836	83,871
Other	5,755,728	5,731,909	-	-	23,819
Other government agencies and individual companies (financial business activities)	29,130,157	27,285,433	1,806,845	25,451	12,428
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	45,455,837	41,713,967	2,858,168	739,751	143,951
Constructions and property developments (land included) (b)	1,936,420	1,927,865	4,908	2	3,645
Civil engineering construction	1,530,957	1,251,255	162,531	83,695	33,476
Other	41,988,460	38,534,847	2,690,729	656,054	106,830
Large enterprises (c)	22,123,847	19,323,483	2,274,124	480,218	46,022
SMEs and sole proprietors (c)	19,864,613	19,211,364	416,605	175,836	60,808
Other households (d) (by the purposes) (e)	80,154,128	78,662,560	1,078,529	86,173	326,866
Housing	70,201,130	68,749,774	1,051,922	82,831	316,603
Consumer	4,146,430	4,138,880	4,335	1,247	1,968
Other	5,806,568	5,773,906	22,272	2,095	8,295
TOTAL	**206,177,942**	**187,466,329**	**17,095,252**	**965,820**	**650,541**

(a) For the purposes of this statement, exposures include: loans and advances, debt securities, equity instruments, derivatives (held for trading and hedging), investments in subsidiaries, joint ventures and associates, and guarantees extended, irrespective of the line item under which they are included in the balance sheet.
The amount of the assets is the carrying amount of the transactions; i.e. after deducting impairment recognised on specific transactions.
The amount of guarantees given is their nominal amount.
The breakdown of activity by geographic area is based on the country of residence of the borrowers, the issuers of securities and the counterparties of the derivatives and guarantees given.
(b) This item includes all activities related to construction and property development, including the financing of land for property development irrespective of the counterparty's sector and main economic activity.
(c) Non-financial corporations classified as "Large enterprises" and "SMEs" in accordance with Commission Recommendation 2003/361/CE, of 6 May 2003, concerning the definition of micro, small and medium-sized enterprises. Activity of individual entrepreneurs includes that of natural persons in the exercise of their business activities.
(d) Households, including non-profit institutions serving households, but excluding business activity of individual entrepreneurs.
(e) The loans will be classified in accordance with their purpose under the criteria of rule 71.ª2.e) of Circular 4/2004.

At 31 December 2016

(Thousands of euros)

ITEM	TOTAL	Spain	Other European Union country	America	Rest of the world
Central banks and credit institutions	16,125,003	8,690,560	7,282,990	126,752	24,701
Government agencies	36,734,367	31,022,132	5,659,009	5,581	47,645
Central Administration	30,949,563	25,248,146	5,659,009	5,581	36,827
Other	5,784,804	5,773,986	-	-	10,818
Other government agencies and individual companies (financial business activities)	26,316,156	23,808,487	2,471,528	17,515	18,626
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	38,080,752	35,131,795	2,084,146	710,588	154,223
Constructions and property developments (land included) (b)	1,582,770	1,577,837	3,840	53	1,040
Civil engineering construction	2,770,782	2,690,266	79,819	594	103
Other	33,727,200	30,863,692	2,000,487	709,941	153,080
Large enterprises (c)	19,448,127	17,152,123	1,665,095	563,987	66,922
SMEs and sole proprietors (c)	14,279,073	13,711,569	335,392	145,954	86,158
Other households (d) (by the purposes) (e)	68,410,647	67,386,096	724,477	61,160	238,914
Housing	61,555,009	60,553,269	707,530	59,256	234,954
Consumer	3,213,073	3,209,752	1,693	711	917
Other	3,642,565	3,623,075	15,254	1,193	3,043
TOTAL	**185,666,925**	**166,039,070**	**18,222,150**	**921,596**	**484,109**

(a) For the purposes of this statement, exposures include: loans and advances, debt securities, equity instruments, derivatives (held for trading and hedging), investments in subsidiaries, joint ventures and associates, and guarantees extended, irrespective of the line item under which they are included in the balance sheet.
The amount of the assets is the carrying amount of the transactions; i.e. after deducting impairment recognised on specific transactions.
The amount of guarantees given is their nominal amount.
The breakdown of activity by geographic area is based on the country of residence of the borrowers, the issuers of securities and the counterparties of the derivatives and guarantees given.
(b) This item includes all activities related to construction and property development, including the financing of land for property development irrespective of the counterparty's sector and main economic activity.
(c) Non-financial corporations classified as "Large enterprises" and "SMEs" in accordance with Commission Recommendation 2003/361/CE, of 6 May 2003, concerning the definition of micro, small and medium-sized enterprises. Activity of individual entrepreneurs includes that of natural persons in the exercise of their business activities.
(d) Households, including non-profit institutions serving households, but excluding business activity of individual entrepreneurs.
(e) The loans will be classified in accordance with their purpose under the criteria of rule 71.ª2.e) of Circular 4/2004.

At 31 December 2017

(Thousands of euros)

ITEMS	TOTAL (*)	Autonomous communities									
		Andalucía	Canarias	Castilla y León	Cataluña	Madrid	Valenciana Community	La Rioja	Murcia	Baleares	Others
Central banks and credit institutions	7,849,276	365,349	48	329	254	3,863,321	2,302,369	9	151,722	15	1,165,860
Government agencies	31,955,093	361,097	56,633	622,470	401,681	1,921,529	681,340	102,202	97,164	372,241	1,115,552
Central Administration	26,223,184		-	-							
Other	5,731,909	361,097	56,633	622,470	401,681	1,921,529	681,340	102,202	97,164	372,241	1,115,552
Other government agencies and individual companies (financial business activities)	27,285,433	34,165	1,392	3,252	333,279	26,222,832	263,756	538	52,255	23,126	350,838
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	41,713,967	3,303,953	1,463,045	1,178,523	4,973,121	15,171,003	5,676,607	339,162	2,195,061	2,038,710	5,374,782
Constructions and property developments (land included)	1,927,865	191,215	53,985	41,366	198,974	711,983	313,870	12,148	157,827	90,000	156,497
Civil engineering construction	1,251,255	50,032	11,847	4,687	234,876	590,821	41,251	905	18,447	31,839	266,550
Other	38,534,847	3,062,706	1,397,213	1,132,470	4,539,271	13,868,199	5,321,486	326,109	2,018,787	1,916,871	4,951,735
Large enterprises	19,323,483	804,448	491,918	306,602	2,270,318	9,721,199	1,801,268	81,725	692,106	579,753	2,574,146
SMEs and sole proprietors	19,211,364	2,258,258	905,295	825,868	2,268,953	4,147,000	3,520,218	244,384	1,326,681	1,337,118	2,377,589
Other households (by the purposes)	78,662,560	10,124,627	3,233,761	2,406,570	9,107,628	24,320,459	12,503,544	695,877	4,785,955	4,154,555	7,329,584
Housing	68,749,774	8,855,014	2,719,396	2,155,933	8,254,325	21,104,710	10,759,632	597,790	3,923,588	3,628,446	6,750,940
Consumer	4,138,880	337,026	365,963	159,936	236,724	1,479,887	840,880	43,703	144,876	156,886	372,999
Other	5,773,906	932,587	148,402	90,701	616,579	1,735,862	903,032	54,384	717,491	369,223	205,645
TOTAL	**187,466,329**	**14,189,191**	**4,754,879**	**4,211,144**	**14,815,963**	**71,499,144**	**21,427,616**	**1,137,788**	**7,282,157**	**6,588,647**	**15,336,616**

(*) Included the items of the balance sheet: Loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, Derivatives held for trading, Hedging derivatives, Participation and contingent liabilities. The amounts included in the table are net of impairment losses.

At 31 December 2016

(Thousands of euros)

ITEMS	TOTAL (*)	Andalucía	Canarias	Castilla y León	Cataluña	Madrid	Valenciana Community	La Rioja	Murcia	Baleares	Others
		Autonomous communities									
Central banks and credit institutions	8,690,560	379,453	176	979	183,297	7,425,579	32,032	86	1	46	668,911
Government agencies	31,022,132	95,635	77,116	58,885	360,026	4,428,180	407,425	13,021	33,948	39,799	259,951
Central Administration	25,248,146		-	-							-
Other	5,773,986	95,635	77,116	58,885	360,026	4,428,180	407,425	13,021	33,948	39,799	259,951
Other government agencies and individual companies (financial business activities)	23,808,487	807	279	687	431,401	22,099,793	419,117	460	299	1,125	854,519
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	35,131,795	1,920,818	1,202,005	1,154,019	4,609,257	15,079,142	4,581,497	357,342	543,855	714,908	4,968,952
Constructions and property developments (land included)	1,577,837	64,466	46,714	46,170	123,658	868,941	305,499	9,578	28,314	13,813	70,684
Civil engineering construction	2,690,266	163,157	252,248	69,422	583,631	727,340	452,161	61,783	23,328	60,742	296,454
Other	30,863,692	1,693,195	903,043	1,038,427	3,901,968	13,482,861	3,823,837	285,981	492,213	640,353	4,601,814
Large enterprises	17,152,123	729,349	207,937	293,434	2,242,275	9,363,222	1,081,265	77,267	250,182	356,098	2,551,094
SMEs and sole proprietors	13,711,569	963,846	695,106	744,993	1,659,693	4,119,639	2,742,572	208,714	242,031	284,255	2,050,720
Other households (by the purposes)	67,386,096	5,591,447	3,336,911	2,495,643	9,105,779	25,389,664	11,445,647	728,819	775,213	1,525,426	6,991,547
Housing	60,553,269	5,357,871	2,853,872	2,283,638	8,487,579	22,041,327	10,204,559	647,615	735,062	1,432,910	6,508,836
Consumer	3,209,752	142,763	398,211	171,144	225,848	1,033,215	762,582	50,571	13,032	43,263	369,123
Other	3,623,075	90,813	84,828	40,861	392,352	2,315,122	478,506	30,633	27,119	49,253	113,588
TOTAL	**166,039,070**	**7,988,160**	**4,616,487**	**3,710,213**	**14,689,760**	**74,422,358**	**16,885,718**	**1,099,728**	**1,353,316**	**2,281,304**	13,743,880

(*) Included the items of the balance sheet: Loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, Derivatives held for trading, Hedging derivatives, Participation and contingent liabilities. The amounts included in the table are net of impairment losses.

The following table shows the total amount of secured financing by the percentage of the carrying amount of the financing to the latest available appraisal or the valuation of the available guarantee or collateral at 31 December 2017 and 2016.

31 December 2017

(Thousands of euros)

				Secured loans. Carrying amount over last available appraisal value (Loan to value)				
ITEMS	TOTAL	Of which: Mortgage loans	Of which: Other secured loans	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Government agencies	5,448,660	302,161	145,583	97,302	119,274	141,769	53,736	35,663
Other government agencies and individual companies (financial business activities)	2,218,887	89,966	395,909	16,836	33,352	19,357	407	415,923
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	34,408,993	9,803,506	5,578,428	4,856,999	3,165,724	1,954,710	785,266	4,619,235
Constructions and property developments (land included)	830,289	697,937	1,793	190,970	145,284	206,621	54,906	101,949
Civil engineering construction	859,848	75,690	699,013	304,492	219,383	133,560	26,004	91,264
Other	32,718,856	9,029,879	4,877,622	4,361,537	2,801,057	1,614,529	704,356	4,426,022
Large enterprises	14,647,279	1,501,166	4,217,805	1,414,021	431,009	242,190	148,067	3,483,684
SMEs and sole proprietors	18,071,577	7,528,713	659,817	2,947,516	2,370,048	1,372,339	556,289	942,338
Other households (by the purposes)	79,950,761	73,406,760	77,634	16,425,027	22,909,865	21,454,371	6,442,349	6,252,782
Housing	70,201,130	69,589,296	12,086	15,252,973	21,890,036	20,704,108	6,096,310	5,657,955
Consumer	4,146,430	293,215	9,664	88,577	77,862	55,735	30,089	50,616
Other	5,603,201	3,524,249	55,884	1,083,477	941,967	694,528	315,950	544,211
TOTAL	**122,027,301**	**83,602,393**	**6,197,554**	**21,396,164**	**26,228,215**	**23,570,207**	**7,281,758**	**11,323,603**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	9,241,383	7,367,845	339,561	1,166,677	1,592,644	1,906,729	1,145,426	1,895,930

31 December 2016

(Thousands of euros)

ITEMS	TOTAL	Of which: Mortgage loans	Of which: Other secured loans	Secured loans. Carrying amount over last available appraisal value (Loan to value) Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Government agencies	5,215,796	199,097	152,316	23,211	35,495	44,575	45,781	202,351
Other government agencies and individual companies (financial business activities)	2,068,434	75,476	118,342	5,841	7,469	13,637	3,057	163,814
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	28,394,391	7,253,923	4,858,419	2,161,203	2,163,765	1,853,872	890,225	5,043,277
Constructions and property developments (land included)	616,908	513,542	734	122,856	114,642	135,613	98,457	42,708
Civil engineering construction	2,770,782	2,253,554	302,038	539,124	672,380	654,566	249,213	440,309
Other	25,006,701	4,486,827	4,555,647	1,499,223	1,376,743	1,063,693	542,555	4,560,260
Large enterprises	13,475,074	703,248	3,864,648	447,658	251,827	94,649	96,967	3,676,795
SMEs and sole proprietors	11,531,627	3,783,579	690,999	1,051,565	1,124,916	969,044	445,588	883,465
Other households (by the purposes)	68,406,405	62,416,172	44,599	13,993,549	20,272,677	19,842,102	5,322,925	3,029,518
Housing	61,555,008	60,876,178	520	13,472,050	19,770,570	19,505,156	5,223,169	2,905,753
Consumer	3,213,073	124,748	30,294	60,688	38,668	22,694	11,320	21,672
Other	3,638,324	1,415,246	13,785	460,811	463,439	314,252	88,436	102,093
TOTAL	**104,085,026**	**69,944,668**	**5,173,676**	**16,183,804**	**22,479,406**	**21,754,186**	**6,261,988**	**8,438,960**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	6,956,722	4,750,750	799,904	1,037,524	1,209,996	1,192,870	496,841	1,613,423

Appendix X - Detail of agents and disclosures required by Article 22 of Royal Decree 1245/1995 of 14 July

Information at 31 December 2017

Bankia, S.A. agents authorised to enter into and/or negotiate transactions on behalf of the entity (under Bank of Spain Circular 4/2010, rule 1, section 1)	
Name or corporate name of	**Registered address**
Mapfre Familiar, Compañía de Seguros y Reaseguros, S.A.	Crta. Pozuelo a Majadahonda, 52 – 28220 (Majadahonda - Madrid)
Cooperativa Comercial Agraria de Totana (COATO)	Ctra. De Mazarrón, s/n 30850 (Murcia)
Oesia Servicios Agencia Financiera, S.L.	Avda. del Este, 60 Polígono Ind. Cabezo Cortado 30100 Espinardo (Murcia)
Bankia, S.A. agents authorised only to market products and services; not authorised to enter into and/or negotiate transactions on behalf of the entity (under Bank of Spain Circular 4/2010, rule 1, section 2)	
Name or corporate name of	**Registered address**
Saturno Javier Rodríguez Tarno	Travesía de Muriago, 9 - 39400 (Los Corrales de Buelna - Cantabria)
Inversiones Confidence Capital, S.L.	C/ General Arrando, 12 - 28010 (Madrid)
ESF Consultores 2010, S.L.	C/ Antonio Belón, 1 - 29602 (Marbella - Málaga)
Inversiones Peix, S.L.	C/ Sant Elies 9 Despatx 95 – 08006 (Barcelona)
Fernando Herrerías Miera	C/ Luis Martínez, 27 – 39005 (Santander – Cantabria)
Asesoramiento Financiero y Patrimonial, S.L.	C/ Orense, 32 – 28020 (Madrid)

Appendix XI – Other information

Customer care service

At its meeting on 16 June 2011, the Board of Directors of the Bank approved the "Customer Protection Regulations of Bankia, S.A. and its Group", which was subsequently updated at its meeting of 25 July 2012. Among other aspects, the Regulations stipulate that the Bankia, S.A. Customer Care Service must handle and resolve any complaints or claims submitted by those in receipt of financial services from all Bankia Group finance companies – one of which is the Bank – covered by the scope of the service (Bankia, S.A. and Group entities subject to Order ECO/734/2004 of 11 March governing Customer Care Departments and Services and Customer Ombudsmen of Financial Institutions).

Pursuant to Order ECO/734/2004 of 11 March governing Customer Care Departments and Services and Customer Ombudsmen of Financial Institutions, the following Bankia Group entities are subject to the obligations and duties required by the Order in this connection, with claim procedures and solutions centralised through the Bankia, S.A. Customer Care Service:

Company
Bankia, S.A.
Bankia Fondos, S.G.I.I.C., S.A.
Bankia Pensiones, S.A., E.G.F.P.
Segurbankia, S.A., Correduría de Seguros del Grupo Bankia

The Bank fulfils these obligations and duties in accordance with Law 44/2002, of 22 November, on Financial System Reform Measures, and with Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and Customer Ombudsmen of Financial Institutions.

The following are the main data relating to customer claims of the Bank during the years 2017 and 2016:

31 december 2017

Company	No. of claims received	No. of claims admitted for processing	No. of claims dismissed (1)	No. of claims resolved against the customer	No. of claims resolved in favour of the customer	No. of claims resolved informed to customer
Bankia, S.A.	104,434	102,905	1,529	72,090	12,321	18,703

(1) Claims dismissed in 2017.

31 december 2016

Company	No. of claims received	No. of claims admitted for processing	No. of claims dismissed	No. of claims resolved against the customer	No. of claims resolved in favour of the customer	No. of claims resolved informed to customer
Bankia, S.A.	34,924	32,725	2,199	5,736	14,454	12,069

The breakdown by type of all claims resolved in 2017 and 2016 is as follows:

	Number of claims	
Type of claim	**31/12/2017** (1)	**31/12/2016**
Asset transactions	80,116	7,081
Liabilities transactions	11,446	14,027
Other banking products	4,091	3,752
collection and payment services	1,958	2,249
Investment services	701	3,012
Insurance and pension funds	786	858
Miscellaneous	4,016	3,479
Total	**103,114**	**34,458**

(1) Not including those dismissed.

At last, the claims pending resolution by the Bank at 31 December 2017 and 2016 are as follows:

	Number of claims pending resolution	
Company	31/12/2017(1)	31/12/2016
Bankia, S.A. (1)	1,890	2,139

(1) In addition, at 31 December 2017, there were 710 claims pending resolution deriving from the business combination between the Bank and BMN (Note 1.16).

Average period of payment to suppliers. Third additional provision. “Disclosure requirement" in Law 15/2010 of 5 July

In compliance with the provisions of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment on commercial transactions, implemented by Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016, on the information to be included in the notes to financial statements with regard to deferred payments to suppliers in commercial transactions, it is disclosed that:

- Due to the nature the business activities in which Bankia mainly engages (financial activities), the information provided in this Note concerning deferred payments exclusively concerns payments to suppliers for the provision of various services and supplies to the Bankia’s entities resident in Spain and to payments to suppliers made by Spanish Group entities that carry out non-financial activities, other than payments to depositors and holding companies of securities issued by Group entities, which were made, in all cases, in strict compliance with the contractual and legal periods established in each case, irrespective of whether or not they were payable in cash or by instalment. Nor is any information provided concerning payments to suppliers excluded from the scope of this mandatory disclosure pursuant to the provisions of the aforementioned ICAC Resolution, such as suppliers of fixed assets that are not considered to be trade creditors.
- In connection with the information required by Law 15/2010 of 5 July in relation to Group's commercial and service providers, and in due consideration the Article 6 of ICAC Resolution of 29 January 2016, there follows the information of 2017 and 2016 required by this regulation, to the scope defined in the preceding paragraph:

(days)

ITEM	2017	2016
Average payment period (days)	9.9	10.34
Average late-payment (days)	11.73	14.06
Average period of payment to suppliers	**9.98**	**10.45**

(Thousands of euros)

ITEM	2017	2016
Total payments	656,136	674,653
Total outstanding payments	26,675	20,554

Payments for payables and receivables among Spanish entities of the Group have been excluded from the above data.

BANKIA, S.A.

MANAGEMENT REPORT

DECEMBER 2017

Table of contents

This report was prepared following the recommendations of the "Guidelines for the preparation of management reports of listed companies" issued by the CNMV in September 2013.

1. - KEY EVENTS OF 2017

The key highlights of the Bankia performance in 2017 are as follows:

1.1.- End of the Restructuring Plan

The Restructuring Plan approved at the end of 2012 by European authorities aimed at recapitalising Bankia through the contribution of public funds officially came to an end on 31 December 2017. The Entity had already delivered the Plan targets by the end of 2015, two years ahead of schedule.

The commitments agreed with the authorities in the framework of the Restructuring Plan placed limits on inorganic growth and the Bankia's activity outside of retail banking. The successful completion of the Plan lifts these restrictions. Therefore, as of January 2018, Bankia can compete with the rest of the Spanish banks on equal footing. In the new scenario, the entity is working on a second strategic plan, for the 2018-2020 period, in which Bankia's main challenge going forward is to achieve a return above cost of capital and, at the same time, offer quality and added-value services to its customer base.

1.2.- Bankia merges with BMN and reinforces its competitive position in Spain

On 14 September 2017, the Extraordinary General Meetings of Shareholders of Bankia and Banco Mare Nostrum ("BMN") approved the merger of the two institutions through the merger by absorption of BMN by Bankia. The valued BMN at EUR 825 million (0.41x tangible book value at year-end 2016). On 8 June 2017, the deed to the merger by absorption executed on 29 December 2017, and the Bankia share capital increase via the issuance of 205.6 million new shares of EUR 1 par value each, which were delivered to BMN shareholders to execute the merger between the two institutions, were placed on public record. The acquisition date was 28 December 2017, and 1 December 2017 the date from which BMN transactions are deemed to have been performed by Bankia ('designated' acquisition date).

The merger reaffirms Bankia's position as Spain's fourth largest b ank by total assets, and comes at a time when the outlook for the financial system is positive, in terms of both expected business growth and the foreseeable trend in interest rates. It also enables both Entity's shareholders to reap significant value to be generated through expected synergies. Both Bankia and BMN have a business model focused on retail banking, with a similar customer profile. This points to large potential synergies through the reduction of redundant costs and limited risk of integration. Specifically, the reduction in recurring costs (before tax) is estimated to reach EUR 155 million by 2020.

The geographical fit of the customer base and branch network increases the resulting entity's diversification and reach, reinforcing a solid competitive position, not to mention the benefits of a higher rating. In particular, the strategic fit of the merger includes higher revenue generation, mostly in net interest income and fee and commission income, since BMN boasts a leading franchise in areas where Bankia's presence is small, driving a major increase in scale and customer bases in these areas.

Bankia expects to achieve a return on invested capital (ROIC) of 12% and an increase in ROE of approximately 120 bps in 2020.

1.3.- Growth in Bankia's shareholder base and repayment of public assistance received

The confidence generated by Bankia in markets enabled BFA, Tenedora de Acciones S.A.U. ("BFA"), Bankia's main shareholder, to sell part of its direct stake in the bank to institutional investors. Specifically, on 12 December 2017, BFA sold 201,553,250 shares representing 7% of Bankia's share capital. The transaction was carried out through a private placement among qualified investors, with a total of EUR 818.3 million placed, for a unit selling price of EUR 4.06 per share. Investors requested shares totalling EUR 1,900 million, which represents an oversubscription of 2.3x the amount offered.

At the end of December 2017, after this sale and recognition of the share exchange for the merger with BMN, BFA held 1,881,195,830 Bankia shares, representing 60.98% of its share capital. The percentage ownership held by foreign investors decreased from 4% after the May 2013 share capital increase to 23.3% at year-end 2017. The new placement takes Bankia's free float to 39.02%, boosting the liquidity of the shares and making them more attractive to large institutional investors.

The transaction is another step towards Bankia's privatisation and the sell-off also allows the Entity to continue returning the state aid. BFA had completed another placement in February 2014, when it sold shares representing 7.5% of Bankia's capital for EUR 1,304 million. In the three following years, added to this repayment of state aid, three dividends were paid for a total gross amount of EUR 820 million. As a result, Bankia has already repaid EUR 2,942 million of aid between proceeds from placements of capital and the distribution of dividends thanks to the value generated by the Entity in recent years.

1.4.- Earnings impacted by the merger with BMN and the interest-rate environment

Bankia, S.A. reported net profit of EUR 469 million in 2017, down 34.8% from 2016. This performance was largely due to one-off restructuring costs recognised in the fourth quarter related to the BMN merger (EUR 445 million). On a constant-scope basis (i.e. excluding the impact of the merger), net profit for the Bankia in 2017 was EUR 816 million, up 7.5% from the year before.

Profit in 2017 was also affected by the particularly adverse economic scenario for banks, with interest rate remaining lower throughout the year. Against this challenging backdrop, Bankia shored up its new customer-centric commercial model and continued to focus on efficiency and controlling cost of risk. As a result, the bank managed to increase fee and commission income (+2.9% on a constant-scope basis), contain administrative expenses (-0.5% ex-BMN) and counterbalance much of the effects of the pressure caused by low interest rates on net interest income.

1.5.- A good year for activity and assets under management thanks to the momentum of the new commercial model

The advances made in the new customer-centric commercial model in 2016 were consolidated in 2017. New products and services were developed in the various business areas to increase customer loyalty, leveraging new technologies and working on different levels of the digital transformation. This led to sharp growth in the Bankia multi-channel and digital customer bases. As a result of this process and excluding the impact of the BMN merger, multi-channel customers at 31 December 2017 accounted for 40.5% of all Bankia customers, up from 37.6% at 31 December 2016 and 31.5% at 31 December 2015.

These advances in commercial strategy were borne out by the increase in business volumes compared to the year before. On the lending front, the year featured further growth in new mortgages (+133.5%) and loans to strategic segments, such as SMEs (+30.2%) and consumer loans (+14.6%). Bankia portfolios remain highly diversified and show an adequate level of credit quality.

In customer funds, demand deposits and off-balance sheet funds (mainly mutual funds) performed especially well, with growth on a constant-scope basis of 14.6% and 11.8%, respectively, benefiting from the shift in our customers' savings out of deposits with agreed maturity.

1.6.- Capital strength

The Bankia Group's CET 1 phased-in ratio at 31 December 2017, including profit for the year less the dividend to be charged to reserves, stood at 14.15% after absorbing the negative impact (-283bps) of the merger with BMN, due mostly to the integration of its balance sheet. This level of higher-quality capital makes the Bankia Group one of the most solvent entities in Spain's financial system, with a capital surplus of 628bps above the minimum capital requirement for CET 1 SREP communicated by the ECB to the Group for 2017 (7.875%) and 559bps above the regulatory requirement for 2018 (8.5625%).

The Bankia Group's capital strength was underpinned by the Group's organic capital generation model, predicated on the capitalisation of profits and selective growth in the business segments considered strategic by Bankia for their higher credit quality. This is one of the main cornerstones of it sound solvency position, in addition to the gradual deleveraging process of the Group´s balance sheet.

The Bankia Group also strengthened its Total Capital base in 2017 through issuances of eligible capital instruments, in addition to the Tier 2 instruments contributed by BMN following the merger. In this respect, in March 2017 Bankia issued EUR 500 million of subordinated bons, with a positive impact of +66bps on Total Solvency at the time of the issue. Additionally, in July 2017, Bankia issued EUR 750 million worth of contingent convertible bonds (AT1) eligible for inclusion as additional level 1 capital. This issue has had an estimated impact of +100bps on Additional Tier 1 Capital and Total Solvency. With these issues, the Bankia Group increased its base of instruments with loss-absorbing capacity ahead of the future regulatory requirement of the MREL envisaged in the BRRD directive.

At 31 December 2017, the Bankia Group achieved a Total Capital phased-in ratio of 16.84%, after absorbing the negative impact (-322bps) caused by the merger with BMN. This level implies a surplus of 547bps over the minimum capital requirement for Total Capital SREP for 2017 (11.375%) and 478bps over the minimum requirement for 2018 (12.063%).

The excellent solvency level underscores the Bankia Group's ability to continue generating capital while still paying dividends to shareholders.

1.7.- Further improvements in asset quality, with declines in default and foreclosed assets volume

Bankia kept a low risk profile in its balance sheet and high asset quality, which triggered further improvement in its credit quality indicators in 2017. Stripping out the impact of BMN's integration in 2017, non-performing loans (NPLs) fell by 15.3% from the end of December, while the NPL ratio decreased by 1.3 percentage points (pp) to 8.5% at the end of December 2017 (8.9% including the integration of BMN). This performance is related directly to the low risk profile of the balance sheet, the high quality of assets, and the growing risk culture in the bank over the past few years, leading to lower NPL inflows and better management of recoveries.

The strategy of reducing problem assets also resulted in a decline in the volume of foreclosed assets, of 9.9% since December 2016, excluding the impact of adding BMN's assets to the balance sheet.

1.8.- Financial strength, solid funding structure and high liquidity

Bankia continues to enjoy an extremely sound financial structure, underpinned by the funding of its credit activity, mainly with customer resources. In accordance with this retail banking model, customer deposits at year-end 2017 represented 63.2% of external funding sources after the integration of BMN, leaving the Group operating with a stable LTD ratio of 93.7%.

Bankia also taps capital markets to raise funds in order to supplement its structural liquidity needs. At 31 December 2017, wholesale issuances accounted for 10.1% of the Group's borrowings and consisted primarily of mortgage covered bonds (*cédulas hipotecarias*). Issuances included the EUR 500 million issue of Tier 2 subordinated bonds carried out in March, which was more than 10 times oversubscribed, and the EUR 750 million issue of AT1 completed in July, which was oversubscribed by 3.3x. Bankia had sufficient available liquid assets at the end of December 2017 to cover its entire wholesale debt maturities.

Meanwhile, excluding the impact of the BMN integration, ECB funding decreased by 2,153 million in the year, to EUR 12,816 million at the end of December 2017. This amount consisted entirely of funds obtained through the auctions held under the framework of the ECB's TLTRO programmes.

The financial strength achieved by Bankia has resulted in further rating upgrades. In February 2017, Standard & Poor's raised its long-term rating for Bankia from BB+ to BBB-. With this, Bankia was rated investment grade at the end of 2017 by the three agencies from which the Bank has applied for a rating.

1.9.- Changes in share capital and value creation for shareholders

On 1 June 2017, Bankia reduced share capital by EUR 6,335 million to increase the Entity's voluntary reserves, by reducing the par value of all shares by EUR 0.55 to EUR 0.25 per share. Bankia's share capital post-reduction stood at EUR 2,879 million.

On the same day, it carried out a reverse split, converting each four shares of EUR 0.25 par value into a new share of EUR 1 par value. This reduced the number of Bankia shares from 11,517 million to 2,879 million, with effect on the stock exchange from 5 June 2017.

The transaction was agreed to adapt Bankia's equity structure and reduce the volatility of its shares. It did not result in any change in the economic value of shareholders' interests in the Entity.

In addition, with accounting effect onDecember 2017, Bankia carried out a EUR 205.6 million share capital increase via the issuance of 205.6 million new shares, which were delivered to BMN shareholders to execute the merger between the two institutions.

Bankia's share capital at 31 December 2017, after these two transactions, amounted to EUR 3,085 million.

Increasing shareholder returns is one of the Bankia's top priorities. On 31 March 2017, Bankia paid a gross dividend out of 2016 profit of EUR 317.42 million (EUR 2.756 cents per share).

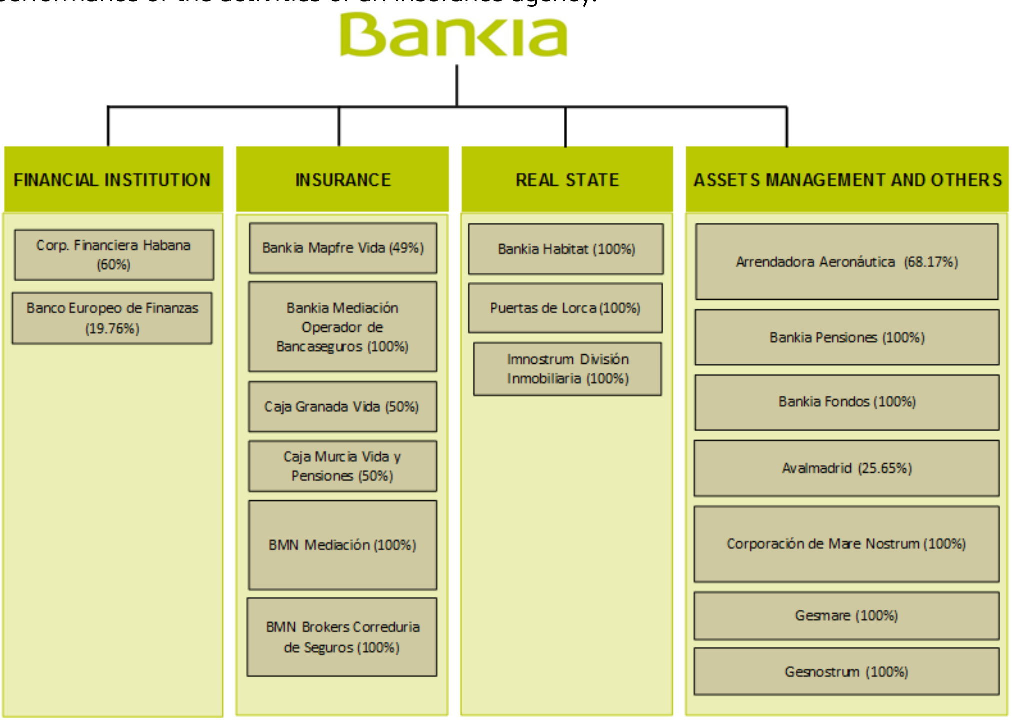
Positive results, coupled with the good performance of the balance sheet and main solvency metrics, have enabled Bankia to remunerate shareholders with more the EUR 820 million out of profits from year 2014. This is one of the Entity's main achievements since its incorporation.

Underpinned by organic capital generation ability and an increasingly strong balance sheet, the Bankia's goal is to maintain and improve shareholder remuneration in coming years as another step towards getting the business back to normal and repaying the public assistance received.

2.- ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

2.1.- Overview of Bankia Group and its organisational structure

Bankia is a financial group with operations throughout Spain, focusing mainly on the traditional retail banking, corporate banking, asset management and private banking businesses. Its corporate objects include all manner of activities, operations, acts, contracts and services related to the banking sector in general or directly or indirectly related thereto, permitted to it by current legislation, including the provision of investment services and ancillary services and performance of the activities of an insurance agency.



BFA is Bankia's biggest shareholder, with a 60.98% stake at 31 December 2017. Investments in companies included in the Bankia Group's scope of consolidation are held directly in Bankia's portfolio or indirectly through other holdings. The most important are:

Organisationally, Bankia is the Group's parent. At 31 December 2017, the consolidation scope comprised 88 companies between subsidiaries, associates and jointly-controlled entities, engaging in a range of activities, including the provision of finance, insurance, asset management, services, and real estate development and management. Of these, 41 are Group companies, 15 are jointly-controlled entities and 32 are associates. Bankia mainly does business in Spain. The bank had total assets at 31 December after the integration of BMN of around EUR 215,044 million. The Bankia's branch network comprised 2,423 offices at the year-end. Section 2.5 below provides a breakdown of the branch office network by region.

2.2.- Corporate governance

Bankia's governing bodies are the General Shareholders Meeting and the Board of Directors.

- **The General Shareholders Meeting** is the highest decision-making authority within the scope attributed to it by law or by the bylaws; e.g. the appointment and removal of Directors, the approval of the annual financial statements, the distribution of dividends, the acquisition or disposal of assets under the terms established by the Law or the approval of the Director Remuneration policy, among others.
- **The Board of Directors** is responsible for representation of the Company and has the broadest authority to administer the Company except for matters reserved for the General Shareholders Meeting. Its responsibilities include, inter alia, approving the strategic or business plan, management objectives and annual budgets, and determining the Company's general policies and strategies, the corporate governance policy for the Company and the Group, the responsible management policy, the control and risk management policies, and the dividend policy, among others.

There are six Board committees, whose members are appointed in accordance with their suitability based on their knowledge, aptitudes, experience and the duties of each committee.

Board of directors The Board of Directors held 28 meetings in 2017
(7 independent directors and 3 executive directors at 31 December 2017)
• Mr. José Ignacio Goirigolzarri Tellaeche. Executive Chairman • Mr. José Sevilla Álvarez. Chief Executive Officer • Mr. Antonio Ortega Parra. Executive Director • Mr. Joaquín Ayuso García. Lead Independent Director • Mr. Francisco Javier Campo García. Independent Director • Mrs. Eva Castillo Sanz. Independent Director • Mr. Jorge Cosmen Menéndez-Castañedo. Independent Director • Mr. José Luis Feito Higueruela. Independent Director • Mr. Fernando Fernández Méndez de Andés. Independent Director • Mr. Antonio Greño Hidalgo. Independent Director
Mr. Álvaro Rengifo Abbad, independent director, tendered his resignation as director of the Company in writing on 17 October 2017, with effect the same day.

Audit and Compliance Committee	
The Audit and Compliance Committee monitors the effectiveness of internal control, the internal audit, compliance and the risk management systems, and the preparation of regulated financial information. Its responsibilities also includes, among others, proposing the appointment, reappointment and removal of, and establishing the appropriate relationships with, the external auditors, and reviewing and supervise compliance with the Company's governance and compliance rules.	**Four external independent directors:** - Mr. Antonio Greño Hidalgo (Chairman) - Mr. Joaquín Ayuso García (Director) - Mr. Jorge Cosmen Menéndez-Castañedo (Director) - Mr. José Luis Feito Higueruela (Director) The Audit and Compliance Committee held 20 meetings during 2017.
Appointments Committee and Responsible Management Committee	
The Appointments Committee has general authority to propose and report on appointments and removals of directors and senior managers. It is also responsible for, among others, assessing the ability, diversity and experience required for the Board of Directors, and the necessary time and dedication to carry out their duties in an effective manner. It defines the necessary functions and abilities for candidates wishing to cover vacancies. It examines and organizes the succession plan for governance bodies. Other responsibilities include the review of the Company's corporate social responsibility policy, ensuring that it is geared towards value creation, and monitoring of the corporate social responsibility strategy and practices and assessing their degree of compliance, among other responsibilities.	**Nowadays it is composed for external independent directors:** - Mr. Joaquín Ayuso García (Chairman) - Mr. Francisco Javier Campo García (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Appointments Committee and Responsible Management Committee held 17 meetings during 2017. Álvaro Rengifo Abbad tendered his resignation as director of the Company and, therefore, as member of the Appointments and Responsible Management Committee, in writing on 17 October 2017, with effect the same day.

Remuneration Committee	
The Remuneration Committee has general authority to propose and report on remuneration and other contractual terms and conditions of directors and senior managers, and must periodically review the remuneration programs, considering their appropriateness and utility, and ensuring transparency of remuneration and compliance with the remuneration policy set by the Company, among other responsibilities.	**Four external independent directors:** - Mrs. Eva Castillo Sanz (Chairwoman) - Mr. Joaquín Ayuso García (Director) - Mr. Jorge Cosmen Menéndez-Castañedo (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Remuneration Committee held 12 meetings during 2017.
Risk Advisory Committee	
The Risk Advisory Committee advises on the overall propensity of risk and the risk strategy, overseeing the pricing policy, presenting risk policies and proposing to the Board the company's and Group's risk control and management policy through the Internal Capital Adequacy Assessment Process (ICAAP). Supervises the internal control and risk management function and proposes the system of credit risk delegation to the Board of Directors, among other responsibilities.	**Three external independent directors:** - Mr. Francisco Javier Campo García (Chairman) - Mrs. Eva Castillo Sanz (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Risk Advisory Committee held 36 meetings during 2017.
Board Risk Committee	
The Board Risk Committee adopts decisions regarding risks within the authority delegated to it by the Board of Directors. The Board Risk Committee is responsible for establishing and overseeing compliance with the Bank's risk control mechanisms, approving the most important operations and establishing overall limits. It is also responsible for reporting to the Board of Directors on risks that may affect the Company's capital adequacy, recurring results, operations or reputation, among other responsibilities.	**An Executive director and three external independent directors:** - Mr. José Sevilla Álvarez (Chairman) - Mr. Francisco Javier Campo García (Director) - Mrs. Eva Castillo Sanz (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Board Risk Committee held 36 meetings during 2017.

In addition, at 24 March 2017, the Board of Directors resolved to create the **Monitoring and Supervision Committee for the Process of Merger of Bankia and BMN**, amending the Board of Directors Regulations by introducing a final provision to regulate the Committee's duties, functioning, composition and organisation. As envisaged upon its creation, the Committee was extinguished, via a resolution adopted by the Board of Directors on 25 January 2018, once the merger process was completed. This Committee is composed exclusively of independent directors. Its core mission is to monitor and oversee the whole process of the merger of Bankia with BMN, as regards both the study and analysis phases of the transaction and also compliance with all established legal requirements.

The Committee will report to the Board of Directors on the development of all these tasks. In addition, it will focus in particular on the interests of all Bankia shareholders, ensuring autonomy and independence in decision-making.

The Committee's four independent directors are: Joaquín Ayuso García (Lead Independent Director and Chairman of the Appointments and Responsible Management Committee), as Chairman, and Francisco Javier Campo García (Chairman of the Risk Advisory Committee), Eva Castillo Sanz (Chairman of the Remuneration Committee) and Antonio Greño Hidalgo (Chairman of the Audit and Compliance Committee), as members.

The Committee met a total of 12 times between its creation on 24 March 2017 and 31 December 2017.

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

In relation to the above, the Board of Directors has defined a Corporate Governance System that ensures healthy, prudent management of the Company and that provides for an appropriate distribution of functions within the organization and the prevention of conflicts of interest. The Board oversees the application of this system and regularly monitors and assesses its effectiveness, taking whatever measures are necessary to resolve possible deficiencies.

Bankia also has a Management Committee, composed of the Chairman of the Board of Directors, Mr. José Ignacio Goirigolzarri, CEO Mr. José Sevilla, Executive Director and General Manager of People, Resources and Technology Mr. Antonio Ortega, General Secretary and Deputy General Director of the General Secretariat Mr. Miguel Crespo, Deputy General Director of Communication and External Relations Mrs. Amalia Blanco, the Deputy General Director of Retail Banking Mr. Fernando Sobrini and the Deputy General Director of Business Banking Mr. Gonzalo Alcubilla.

As for **appointments**, in line with the considerations highlighted by the European Central Bank (ECB) in relation to establishing a procedure that ensures the correct rotation of members of the Board of Directors, of particular relevance as the majority of the mandates of Bankia's Directors ended on the same date, it was resolved to partially renew the mandates of the members of the Board at the General Meeting of Shareholders held on 15 March 2016. In order to continue this process, approval was given at the General Meeting of Shareholders held on 24 March 2017 for a second renewal of the mandates of the members of the Group, and the re-election, with their related director categories and for the four-year term of office stipulated in the Bylaws, of José Ignacio Goirigolzarri Tellaeche, Antonio Ortega Parra, Jorge Cosmen Menéndez-Castañedo, José Luis Feito Higueruela, Fernando Fernández Méndez de Andés and Álvaro Rengifo Abbad. As a result, Bankia's Board of Directors is still composed of a broad majority of independent directors, in line with good corporate governance practices.

In addition, pursuant to these directors' re-elections, the Board of Directors agreed to re-elect José Ignacio Goirigolzarri as the Executive Chairman of Bankia and the other five directors to the Board Committees to which they belonged.

- **Advances in Corporate Governance**

One of Bankia's main priorities is to align its corporate governance with Spanish and international best practice.

In particular, in compliance with requirements in domestic and European banking regulations and the recommendations and principles of good governance contained in the Code of Best Practices of supervisors and regulators, Bankia has the Corporate Governance System as a general framework for internal organization affecting the Bank and all the companies that make up the Bankia Group.

The system of corporate governance covers and guarantees the proper functioning of internal governance, thereby assuring healthy, prudent management of the Entity and its Group, the core objective being to satisfy the corporate interest, understood as the common interest of all shareholders of an independent, public limited company (sociedad anónima) focused on the profitable and sustainable pursuit of its objects and the creation of long-term value. The main priorities are:

- To ensure a correct distribution of functions within the organisation
- To prevent and resolve conflicts of interest
- To establish a transparent framework for relations between Bankia and its shareholders

The system embodies the Group's corporate values with respect to business ethics and corporate social responsibility, and is backed by the principles of good governance developed by the Company based on the recommendations of the Good Governance Code.

A key part of the system of corporate governance is the set of rules and regulations, which provides a Group-wide internal control framework. They comprise a set of internal rules that regulate the Entity's corporate governance and operational functioning, basically made up of corporate texts, internal procedures and rules of conduct, and corporate policies. Specifically, the body of work includes:

A. CORPORATE BYLAWS

- The Corporate Bylaws establish the general rules and principles of the Company's organisation and operation, set out in the General Meeting Regulations and the Board of Directors Regulations.

- The purpose of the **General Meeting Regulations** is to determine the operating principles of the supreme body representing the Company's shareholders, and the operating rules for the call, preparation, information, attendance and conduct of the meetings, and the exercise of voting rights by shareholders when it is called and held, all in accordance with the provisions of law and the Bylaws
- The purpose of the **Board of Directors Regulations** is to specify the operating principles for the Board of Directors, the basic rules of its functioning and the code of conduct for its members, all while observing the best corporate governance practices in the business sector.

The General Meeting of Shareholders of 24 March 2017 was informed about the amendment of article 8 to the Board of Directors Regulations with the aim of including a shareholding requirement for members of the Board of Directors as a means of aligning their interests with those of the shareholders.

Also in 2017, the Board of Directors Regulations were amended to introduce the Final Provision governing the Monitoring and Supervision Committee for the Process of Merger of Bankia and BMN, as indicated previously.

B. INTERNAL PROCEDURES AND RULES OF CONDUCT

The Company and the Group also have other internal procedures and rules of conduct that comply with regulatory requirements in legal or statutory provisions, or those arising from good governance recommendations. These include, among others, the following rules and procedures:

- The **Code of Ethics and Conduct**, which contains the commitments and principles of operation for the Bankia Group's managers, directors and employees, in both their dealings within the Company and with stakeholders. Section 15.2 provides more details on its content and application.

- The **Internal Rules of Conduct for Securities Markets,** which sets out the obligations arising from the Entity's unique status as a listed company, addressing various issues, such as rules on market abuse.

These core texts of rules of conduct are implemented and supplemented by other provisions and internal procedures in the areas of anti-money laundering and counter terrorist financing, the regulation for the defence of customers and the regulation of the whistleblowing channel.

C. CORPORATE POLICIES

- **Corporate policies.** These set out the general guidelines or principles guiding the Bank's and the Group's governing bodies, functions, activities and processes, establishing policies that provide legal certainty to the Bank and the Group. They are general in scope and are intended to apply over the long term, and were approved by the Board of Directors taking into consideration both related legal requirements and good governance recommendations.

In particular, the Corporate Governance System of the Company includes, among others, the following:

- **Corporate governance of Bankia and definition of the structure of Bankia Group.** This policy establishes the main principles and commitments of the Bank and the Group in terms of corporate governance, and the general guidelines and criteria for the definition of the Group's structure through the various subsidiaries and the configuration of its governance bodies. The objective is to provide an appropriate framework for coordination among the various companies comprising the Group so that it can perform its businesses efficiently.

- **Director selection policy.** This policy establishes the requirements and criteria which the Board of Directors and the Appointments Committee and must consider when selecting new members of the Board of Directors, as well as in the re-election and ratification of existing directors. This policy seeks a balance of diversity of knowledge, experience and gender in the Board's membership.

- **Senior manager selection and appointment.** This policy takes into account the assessment procedures and, in general, the requirements and criteria for the selection and appointment of Bankia's senior managers.

- **Remuneration of directors, and general managers and similar performing senior management duties** under the direct supervision of the Board of Directors, the Executive Committees or the Chief Executive Officer. This policy sets out the remuneration policy and remuneration components applicable to the persons covered by the Policy as specified in solvency regulations and the Capital Enterprises Act, and in good corporate governance recommendations.

- **Dividend policy.** This policy lays out the principles that should govern Board of Director proposals and resolutions regarding shareholder remuneration, including alignment with the Company's earnings and the over-riding aim of achieving sustainable profitability and shareholder value creation.

- **Treasury shares**. This policy sets out the principles and rules of conduct governing transactions in the Company's own shares, in accordance with the limits and other specific terms and conditions established by securities market regulations.

- **Conflicts of interest policy.** This policy mainly sets out the operating policies for preventing conflicts of interest of shareholders, and members of the Bank's Board of Directors and Senior Management, employees, suppliers, and customers, as well as third parties directly or indirectly related to them.

- **Policy of information, communication and contact with shareholders, institutional investors and proxy advisors.** This policy encourages discussion and ongoing dialogue with all of the Company's stakeholder groups, particularly shareholders, institutional investors and proxy advisors, in order to forge stable and long-term trust-based relationships and to promote transparency in the framework of corporate interest, always taking into account regulations against market abuse and equal treatment of shareholders in the same position.

- **Investments and financing**. This policy establishes the general guidelines and principles of action of Bankia and the Group in this respect, which are instrumented in the Entity's Strategic Plan.

- **Risk control and management policies** They address, *inter alia*, the various types of financial non-financial risks (social, environmental, corporate governance and reputation), including tax risks, to which the Company and its Group are exposed, and the bases of the internal reporting and control systems used to control and manage these risks, the criteria used to determine acceptable risk levels and the corrective measures to limit the impact of the risks identified, should they materialise.

- **Responsible management policy** The purpose of this policy is to promote the integration of social, environmental and corporate governance criteria in Bankia's and the Group's business, so that their activity is geared towards creating value for the various stakeholders and the communities where they are present.

In addition to the aforementioned policies, the Board of Directors may approve other corporate policies to the extent that they are deemed appropriate for establishing strategies and management criteria, and policies for their monitoring and supervision.

- **Update of the Corporate Governance System**

In 2017, Bankia's Corporate Governance System, as well as the various Corporate Policies, were reviewed and updated to reflect the latest amendments in legislation and adapt them to the modifications of the Corporate Texts, as well as to include the latest recommendations issued by supervisory bodies.

- **Conflicts of interest**

Among the top priorities of the corporate governance policy is to detect and manage potential conflicts of interest. In this respect, without prejudice to those set out in applicable legislation, the Entity has a number of information and decision-making tools included, inter alia, in the following rules and regulations:

- Directors must disclose to the Board of Directors any direct or indirect conflict either they or persons related thereto have with the interest of Bankia and must refrain from attending meetings and participating in deliberations on matters which affect, directly or indirectly, them or persons related to them.
- Directors must adopt the necessary measures to avoid situations in which their interests, on their own behalf or on behalf of another, can be in conflict with the Company's interests and their duties to it. In addition, they must perform their functions in accordance with the principle of personal responsibility, exercising their own judgement, independently of any instructions from or ties to third parties.
- All directors must make a first declaration of potential conflicts at the time of taking office. This declaration must be updated immediately in the event of a change in any of the circumstances declared or surcease or if new circumstances appear.

Bankia has a Conflicts of Interest Policy that sets out the general rules applicable to the management of conflicts of interest. These are implemented and supplemented by the provisions of each of the rules and procedures making up the internal rules governing potential situations of conflict of interest. In this respect, the main internal rules covering aspects related to the system applicable to conflicts of interest are, but not limited to, the following:

- The Board of Directors Regulations.
- The Bankia Group Structure and Corporate Governance Policy.
- The Internal Rules of Conduct for Securities Markets (RIC)
- The Bankia Group's Code of Ethics and Conduct.
- The General Meeting Regulations of Bankia.

2.3.- Business model

Bankia is a franchise with a presence throughout Spain, focusing on Retail and Business Banking, and a growing multi-channel strategy. The main objective of its activity is to create sustainable, recurring value, taking a long-term, to respond to the expectations of its shareholders, customers, employees and society at large. Accordingly, the Bankia´s business model is characterised by its customer focus, providing a service that is close to customers, professional and tailored to customers' needs at all times.

With this purpose, the comercial model of Bankia, is structured in three main business lines:

- Retail Banking
- Business Banking
- Corporate Centre

Note 1.14 of the Bankia's financial statements provides a breakdown of the results of each business line in the 31 December and 2017 and 2016, as well as the key balance sheet items of the two year-ends.

After the integration with BMN, Bankia carries out its business through a network of 2,423 branches, distributed geographically as follows:

Autonomous communities	Branches number
Andalucía	345
Aragon	11
Asturias	11
Baleares	183
Canarias	105
Cantabria	20
Castilla - La Mancha	103
Castilla - León	125
Cataluña	136
Ceuta	5
Extremadura	10
Galicia	22
La Rioja	52
Madrid	650
Melilla	1
Región de Murcia	169
Navarra	3
País Vasco	17
Valencia	455
TOTAL BRANCHES	**2,423**

Retail Banking

Retail Banking includes retail banking with legal and natural persons with annual income of less than EUR 6 million, distributed through a large multi-channel network in Spain and operating a customer- satisfaction and asset management profitability business model. It also includes the Corporate Management of Private Banking and Asset Management, as well as Insurance Banking Management.

Retail customers are a strategic business for Bankia, as one of Spain's largest financial institutions in this area. The Entity focuses on traditional banking products such as salary direct deposit, mortgages, term deposits, credit cards, insurance, investment and pension funds, and other asset management services, which it offers to high net-worth customers who need specialised financial and tax advice.

This area focuses on **retail activity** following a universal **banking model**. Its objective is to forge relationships with and retain customers, providing them with added value in products and services, and in advisory, and service quality, thereby increasing its satisfaction rate with Bankia. To achieve this, it segments customers in accordance with the need for specialised service and the needs of each customer type. Customer segmentation allows Bankia to assign specific customers to specialist managers, who are in charge of the customer's relationship with the Bank. This approach yields greater customer satisfaction and generates new sources of business. Moreover, with a view to offering families comprehensive commercial service, ensuring that they are provided the same quality as the biggest customers, all customers of each family group have been assigned the same manager. This way, we simply their dealings with Bankia, while at the same time enhancing the service we offer them

In 2017, Retail Banking continued to focus a loyalty strategy with retail customers which began on January 2016, eliminating fees for customers whose income is paid directly into their accounts. In the same line, in January Bankia began marketing the "Hipoteca sin comisiones" (no-fee mortgage), offering the best rates for customers with direct deposit of income. The "We remove your fees" strategy has become a cornerstone for the Bank with retail customers.

In the retail banking segment, Bankia focused in 2017 on consumer finance, mostly customers that were pre-approved for financing, enabling them to take out products with Bankia in less than a minute through any of the Bank's channels. This is rounded off with a permanent offer of personalised financing for the times when the customer needs it most.

Further developments were made during the year to the FinanExpress microloan service, covering everything from card transactions via SMS to bill and tax payments and the rest of the channels.

Moreover, to promote efficient energies, Bankia launched the Sustainable Loan in 2017, offering special terms and conditions.

In line with its growing multi-channel and digital banking strategy, one of the pillars of the Entity's commercial position, noteworthy are the new "Oficina Internet" (Internet Office) and the new Bankia app, with innovative features developed in the first half of 2017 to make it easier for customers to arrange products and contact the Bank. Also this year, Bankia has launched "Bankia online", the net internet office for retail customers.

Bankia's distribution network is composed of a finely **meshed branch network**, a complementary agency network (spearheaded by Mapfre) that gives the bank a valuable competitive advantage, and a low-cost multi-channel distribution network (e.g. ATMs, Internet, Mobile and Telephone Banking).

With the aim of strengthening its competitive positioning, grounded in its relationship with customers, Bankia model is model based on a segmented branch network in which universal branches, business branches, private banking centres and the new 'agile' branches coexist. Agile branches are a new type of branch launched by Bankia in a pioneering move in the Spanish financial system that allow it to deliver quality, fast service to the customers who execute the most transactions, to free up time for the rest of the branch offices, so they can devote more time to advisory services and commercial actions.The offices have longer opening hours and are equipped with a large number of ATMs and quick service cashier positions, covering the areas with the largest concentration of transaction-intensive customers.

Bankia also has an agency network, focusing mostly on bringing in new retail and business customers, and marketing the products and services in Bank's catalogue. The agency network comprises 6,300 agents and 208 offices of Mapfre, which distribute Bankia's products and sign up new customers.

In line with its multi-channel strategy, the Bank has a complete array of technological channels that allow customers to carry out their transactions, contract and manage products, and to use the online broker. At 31 December 2017, the "Conecta con tu Experto" service, provided though multi-channel managers integrated in the multi-channel branches, had 584,000 digital customers requiring personalised service. These customers interact with Bankia in over 90% of the cases through remote channels and, based on their current value and/or commercial upside, require more pro-active selling and personalised service.

Within Retail Banking, the ***private banking*** business is geared towards the high- wealth or high-income individual customers, investment companies or foundations. Bankia offers these customers a comprehensive range of products and services with highly personalised, professional and reliable treatment, providing them with solutions that are tailored to their financial or tax needs. The main private banking business lines are wealth management and advisory, the sale of third-party financial products, intermediation in the trading of securities and advisory regarding the securities market.

Bankia Fondos and Bankia Pensiones are responsible for ***asset management*** which provide financial products to the net.

Bankia owns 100% of Bankia Fondos SGIIC, and has marketing agreements with international fund managers for certain niche products. Bankia's investment fund manager offers a wide range of competitive, high quality products in all categories (money market, fixed income, equity, mixed, guaranteed, global, etc.), in both Spain and abroad. This variety allows it to meet the needs of different customer profiles, from the most conservative, whose priority is capital preservation, to the more adventurous, and who are willing to take certain risks in the interest of a higher return.

In pension funds, significant efforts were made to encourage long-term saving, highlighting the need to address the situation of savings to supplement future pensions sufficiently in advance. Pension fund advisory services and simulation tools are the main marketing tools for these retirement saving products. Bankia Pensiones, a wholly owned subsidiary of Bankia, is the Group's pension fund management company. It is engaged in the management of all types of pension plans (individual, employment and related), focusing on meeting unitholders' needs and offering products that are suitable for their investment profile and the time horizon established by the retirement age.

Bankia's ***Bancassurance*** department is in charge of coordinating and promoting the insurance brokerage activity at Bankia and provides specialised support to the branches for the marketing of insurance for individuals (life, home, auto, health and saving) and businesses (comprehensive trade, credit insurance, general liability and comprehensive business).

As part of its comprehensive offering and customer advice, the Bancassurance Directorate is responsible for to deliver a good service, both for individuals (savings, health, life, auto, home) and for businesses (trade, SMEs, third-party liability, credit, etc.), Being also responsible for the supply of insurance.

The Bancassurance department defines the framework for relations with partner insurance companies based on the strategic alliances entered into with each. The aim is to boost the contribution from the sale of insurance to the Entity's fees and commissions.

The concept of the bancassurance distribution network is closely linked to the banking network and, therefore, it has been evolving in recent years. The agreements signed with Mapfre in January 2014 considered, as a distribution network, not only the bank branches, but also any other distribution channels the Bank could have at any given time. Penetration of the insurance activity in the Bank's other channels (public website, multi-channel managers, etc.) increased in 2016 and 2017, thereby broadening the range of insurance products offered to Bankia's multi-channel customers.

In this year, the Bancassurance Directorate continued its efforts to enhance the product catalogue (streamlining to make it easier and bring it closer to customers) and sales systems (to make them more efficient), accompanying Bankia on its digital transformation in the area of insurance.

In 2017, new policies mostly entailed life and home insurance, but SMEs also showed considerable growth in the comprehensive business, leasing and credit insurance lines. In addition to providing support and advice to the distribution networks and employee training, efforts continued in 2017 to boost branch sales support and portfolio management from the bancassurance operator and post-sales service.

Efforts were made to optimise the commercialisation systems and streamline the procedures for arranging insurance and managing the portfolio, not only in the traditional network, but also the new channels. Functionalities were also added to enhance customer experience (simulators in the auto insurance website, Nexo Life and Heath).

Looking ahead to 2018, efforts in Bancassurance will target boosting production of insurance, increasing product penetration among Bankia customers and raising the contribution to the Entity's income statement, simplifying operations in branches to boost productivity per employee, tailoring products to the needs of customers from the bancassurance channel, promoting remote channels for arranging insurance and accompanying the Bank on its digital transformation, maximising its potential.

The main short- and medium-term **objectives and strategies** for Bankia to continue driving activity include improving margins and profitability, increasing lending, especially to self-employees and SMEs, managing non-performing loans and boosting cross-selling. With all, having the client as the main importance.

The alignment with its needs, understood as something dynamic, is what inspires Bankia's planning and strategy for the development of the Personal Banking business.

Business Banking

Business Banking targets legal entities with annual income in excess of EUR 6 million (Corporate banking) as well as the Capital Markets activity. Other customers, legal entities or self-employed professionals with income below this figure fall into the Retail Banking category.

The customer basis is highly diversified between different productive and economic sectors, especially service sector, manufacturing, followed by construction, commerce and supply. The Entity has traditionally had a large number of customers in the medium and large company segment in two of the three biggest business markets: Madrid and Valencia. Bankia also has good penetration among companies in other regions where it is a strong player such as, La Rioja, the Canary Islands, Castilla la Mancha.

Bankia **business model** in this segment is customer-oriented and strongly supported by specialist teams, which focus on long-term profitability and customer management. The model distinguishes between different segments and distribution channels:

- **Business Banking.** Business Banking targets growth in the banking business of companies with annual revenue of over EUR 6 million (including those belonging to the corporate segment). It has a network of centres throughout Spain, concentrated in the regions with the greatest business activity. A network of specialist managers are responsible for serving customers and bringing in business. They are assigned a limited number of customers -structuring portfolios where the region's critical mass allows based on the business's revenues- so that they can provide personalised service. The managers also receive support by teams of experts in legal, tax, risk approval and management, marketing and specialised products.

- **Corporate Banking**. This segment caters to Bankia's largest accounts, which have several common denominators: the size of the businesses (over EUR 300 million in annual sales), groups comprising a large number of companies, and the demand for more complex and sophisticated financial services. Commercial coverage of Corporate Banking customers is provided by two centres, in Madrid and Barcelona, staffed by industry specialists, working in conjunction with the Capital Markets products teams.

- **Capital Markets**. The Capital Markets segment consists of a number of areas specialising in products, offering specific financial products demand mainly by Business Banking and Corporate Banking customers.

These segments and distribution channels come in addition to a powerful online banking service, which allows client companies to carry out practically all their transactional operations.

The commercial **strategy** is predicated on active management of total returns for clients, combining a price discipline that sets floor prices based on the cost of funds and the client's risk (assessed using Bank of Spain-approved internal models) and the active search for cross-selling opportunities, efficiency in capital consumption by including the RaR approach to transactions.

The objectives of the teams are to contribute business volume and results, cross-selling and close supervisions of risks, so as to provide financial support to business ventures with a view to establishing long-term relationships with customers.

To control and manage risk, there are Business Banking teams that report hierarchically and functionally to the Corporate Risk Department, whose objective is to analyse risks, admit them as appropriate, and monitor them as needed. There are risk analysis and approval teams specialised in businesses some of them centralised teams provide support to transactions with large corporations and institutions. The rest are not centralised in business directions.

2018 opens up new possibilities with business with large corporations for two reasons: 1) the lifting of the operating and business restrictions included in the Bank's restructuring plan; and 2) the integration of BMN customers. Regarding restrictions, the Bank will be able to raise long-term finance again in 2018 through investment grade companies and companies with access to capital markets, thereby expanding the potential business base. At the same time, in terms of products, we can be more active in project finance operations. Regarding customers, from the beginning of 2018, BMN's integration will increase the Bank's base of business companies with annual revenue of over EUR 6 million. Having service staff specialised in customers with higher turnover and working harder on relational quality on all business fronts should present opportunities with the Bank's new customers.

Corporate Centre

The Corporate Centre includes the rest of the businesses and activities other than Retail Banking and Business Banking, including, among others, Investees and assets or portfolios affected by the Restructuring Plan, most of which are classified as Non-current assets held for sale.

Customer service and multi-channel network

Amid an increasingly competitive environment, Bankia's over-riding objective is to maximise customer satisfaction and loyalty. The Bank's activity places priority on delivering an increasingly efficient and higher quality service, striving to always satisfy customers' needs and expectations.

Technological progress and the development of the information society have given rise to new ways of providing service to bank customers, with tools such as the web or mobile phone becoming increasingly important. As a result, providing appropriate multi-channel customer service is one of the Entity's priorities. In line with this objective, in 2015 Bankia created the

Corporate Directorate for New Distribution Models, which is responsible for carrying out the Bank's multi-channel transformation project.

Significant strides were made in the Bankia's multi-channel strategy in 2017, cementing many of the projects initiated in 2015 and 2016, which have driven considerable growth in the multi-channel and digital customer bases. At year-end 2017, multi-channel customers accounted for 40.5% of all Bankia customers, up from 37.6% in December 2016.

Bankia's big project in terms of digital service for customers is "Conecta con tu Experto" (connect with your expert), a free and remote specialist advisory service, which is key to delivering multi-channel customer services, especially to the more digital customers. In this service, Bankia assigns a personal manager which customers can contact through the telematics means of their choice, by phone, e-mail, virtual chat, etc., who can provide personalised service and do away with waiting times. All types of banking transactions can be performed through this service, except cash withdrawals. In 2017, "Conecta con tu Experto" expanded its customer base to 584,000 users by year-end (compared to 300,000 in December 2016).

As part of Bankia's strategic digital transformation in 2017, "Bankia Online" has been rolled out so that customers can access all their transactions, with accessibility from any device and interaction across the various channels. In keeping with its customer-centric digital strategy, Bankia has developed an architecture capable of processing customer events related to their financial transactions, generated across various channels and contact points (omni-channel) to not only offer them better service, but also personalised commercial offers in real time. Bankia won the **Computing 2017** for this.

The initiatives undertaken until now, coupled with advances in the multi-channel strategy to be rolled out in the coming years, are designed to enhance customer satisfaction and attracte new customers to Bankia. The results obtained in recent years are encouraging, but more work needs to be done.

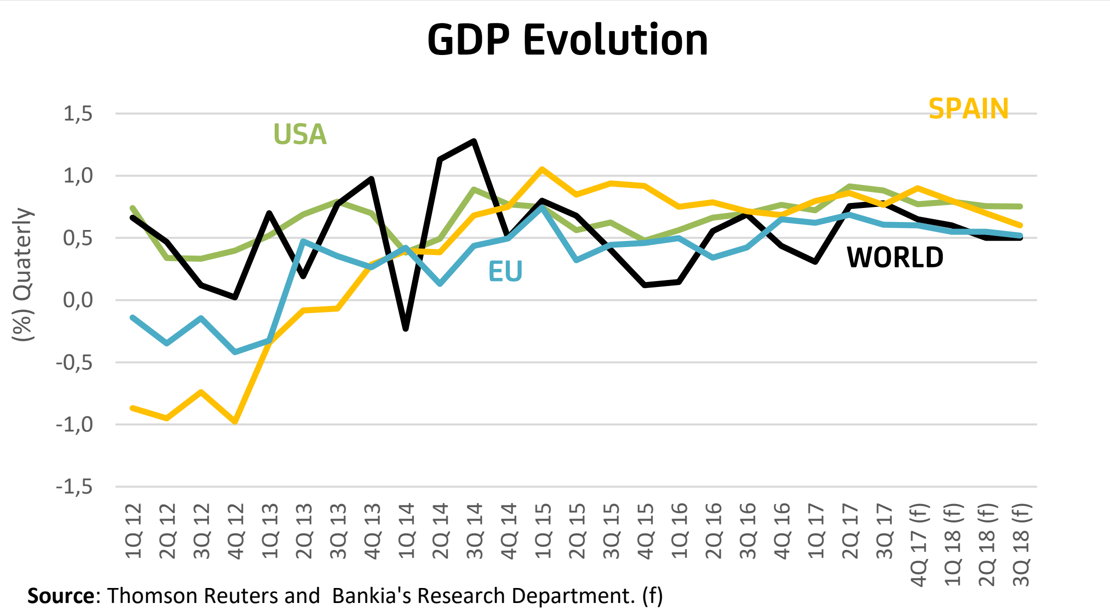
3.- ACTIVITY AND RESULTS

3.1.- Economic and financial backdrop

2017 was the best year for the global economy since 2011, featuring a sharp and highly synchronised upturn. All the major developed economies outperformed expectations, with GDP growth of 2.2% by the United States, 2.4% by the euro area and 1.6% by Japan. The euro area's strength was particularly eye-catching, since the improvement in 2017 was not only quantitative, but also qualitative. Growth was more even across countries -France and Italy gained significant momentum after lagging- and demand components -faster growth in consumption reduced the reliance on net trade-. Emerging economies fared better, driven mainly the resilience of China (6.8%) and the recovery in Brazil and Russia, with both coming out of recession.

On the whole, all the world's main economies posted above-potential growth for the first time in six years, reducing idle capacity. This, coupled with a sharp spike in oil prices, pushed up global inflation. Headline inflation in the euro area rose by an average of 1.5% in 2017 compared to 0.2% in 2016. The strong macroeconomic environment helped stabilise financial markets amid temporary bouts of heightened political (uncertainty caused by the Trump administration, Brexit, the crisis in Catalonia and the difficulties of Germany to form government) and geopolitical (North Korean, ISIS attacks and instability in the Middle East) risk.

The propitious economic scenario prompted central banks to begin withdrawing stimulus measures gradually, maintaining a prudent stance. The Fed hiked interest rates three times, to a 1.25%-1.50% range, and began reducing its balance sheet in October. For its part, the ECB cut back its bond-buying programme in April, from EUR 80,000 million to EUR 60,000 million a month, before announcing a further reduction at its October meeting as from January 2018, to EUR 30,000 million, although it extended the programme until September next year. This decision could push back any rate-tightening campaign until the end of 2018 or the first quarter of 2019. Concurrent action by the main central banks did not generate the upward pressure on yields that was initially feared (the German 10Y Bund yield rose just 22bps in the year, while US treasury yields actually fell). The yield of Spanish 10Y Bonos held up reasonably well, despite the political uncertainty in Catalonia, with the risk premium holding steady at between 100 and 130bps.



Source: Thomson Reuters and Bankia's Research Department. (f)

The Spanish economy remained buoyant in 2017, with GDP growth of 3.2%, slightly below the previous year's rate (3.3%). The dynamism of economic activity fed through to the labour market, with the highest rate of job creation in 12 years. The economy displayed high expansionary inertia, continuing to benefit from certain stimuli that proved more lasting than initially expected: favourable financing conditions, a booming tourism industry and, above all, the positive performance of our trading partners. Meanwhile, the uncertainty shock caused by the political crisis in Catalonia is proving to have a minimal impact. All demand components contributed positively to growth, led by consumption (thanks to the strong labour market and lower interest payments) and exports (supported by the momentum of the European economies and continuous improvements in competitiveness). At the same time, thanks to the recovery of saving, economic growth remained compatible with significant financing capacity, allowing for investment to be financed, while pushing ahead with private sector deleveraging.

For the banking industry, the year saw banks become stronger and activity pick up amid financial and regulatory conditions that squeezed profitability. Spanish banks bolstered their balance sheets, raising their capacity to absorb shocks more. Solvency indicators rose and asset quality indicators improved yet again during the year. Banking activity was favoured by the buoyancy of the economy and favourable financing conditions for customers. Profitability remained under heavy pressure from low interest rates. Banks continued to make adjustments to counterbalance this pressure, rolling out cost-cutting and digital transformation plans, as well as mergers. As regards regulation, the reforms continued, notably with the agreement reached at the end of the year on the outstanding elements of Basel III, in what is the last step to complete this regulatory framework. On the domestic front, the Bank of Spain approved the circular adapting the Spanish accounting regime to the new international standards IFRS 9 and IFRS 15, effective from 1 January 2018, mainly with the aim of improving the estimation of provisions.

3.2.- Financial performance in 2017

- **Note about comparative information**

The merger between Bankia and BMN was carried out with effect for accounting purposes from 1 December 2017. Therefore, the Bankia's balance sheet at the end of 2017 included the assets and liabilities contributed by BMN in the merger process. The income statement for 2017 only included BMN's earnings for December. As a result, the merger with BMN impacted the changes in balance sheet totals at the end of 2017, whereas its impact on the income statement mainly entailed non-recurring restructuring costs incurred in December (EUR 445 million). BMN's contribution to the 2017 income statement from 1 December 2017 was immaterial.

To provide comparative financial information with 2016, in addition to the year-end balance sheet and income statement for 2017, the management report includes a balance sheet and income statement for 2017 excluding the impacts of the integration of BMN.

Sections 3.3, 3.4 and 3.5 below include a summary of basic data and comments on the most significant trends in Bankia´s main balance sheet and income statement items in 2017. Explanations are provided where the impact of the merger on the balance sheet and income statement is material for certain items, noting in these cases the performance relative to 2016 on a same-scope basis; i.e. excluding the effect of the merger.

3.3.- Key figures

KEY FIGURES DATA - BANKIA S.A.

Balance (millions of euros) (*)	Dec-17 (1)	Dec-16	Variation
Total assets	215,044	191,008	12.6%
Loans and advances to customers (net)	123,201	104,680	17.7%
Loans and advances to customers (gross)	128,908	110,549	16.6%
Balance sheet customer funds	152,258	126,816	20.1%
Customer deposits	132,970	108,621	22.4%
Debt securities issued	19,288	18,196	6.0%
Total customer managed funds (1)	174,722	146,912	18.9%
Total turnover (2)	297,923	251,592	18.4%
Equity	12,792	12,027	6.4%
Risk management (Millions of euros and %) (*)	**Dec-17 (1)**	**Dec-16**	**Variation**
Total risk	136,488	117,653	16.0%
Doubtful loans	12,081	11,478	5.3%
Provisions for credit lose	6,102	6,283	(2.9%)
NPL ratio	8.9%	9.8%	(0.9) p.p.
Hedging ratio	50.5%	54.7%	(4.2) p.p.
Profit / Losses (Millions of euros) (*)	**Dec-17 (1)**	**Dec-16**	**Variation**
Net interest income	1,924	2,046	(5.9%)
Gross income	2,974	2,988	(0.5%)
Operating income /(expenses) before provisions	968	1,467	(34.0%)
Operating income /(expenses)	606	1,142	(46.9%)
Profit/ Loss before tax from continuing operations	549	914	(39.9%)
Profit/ Loss	469	719	(34.8%)
Ratios relevantes (%)	**Dec-17 (1)**	**Dec-16**	**Variation**
Efficiency (5)	67.5%	50.9%	+16.6 p.p.
ROA (6)	0.3%	0.4%	(0.1) p.p.
RORWA (7)	0.5%	0.9%	(0.4) p.p.
ROE (8)	4.1%	6.4%	(2.3) p.p.
ROTE (9)	4.1%	6.5%	(2.4) p.p.
Bankia's share	**Dec-17 (1)**	**Dec-16**	**Variation**
Weighted average number of shares (millions) (10)	3,085	2,879	-
Market price at close (EUR) (10)	3.99	3.88	-
Additional information	**Dec-17 (1)**	**Dec-16**	**Variation**
Numbers of employees	17,217	13,159	30.8%

(*) Financial Statement amounts rounded to millions of euros
(1) Figures for 2017 reported after the merger between Bankia and BMN.
(2) Comprises customer deposits, debt securities issued, and off-balance sheet funds managed
(3) Comprises net loans and advances to customers, on- and off-balance sheet managed customer funds.
(4) Excluding the impact of the merger with BMN, the NPL ratio in 2017 was 8.5% and NPL coverage was 53.3%.
(5) The efficiency ratio in 2017 was affected by the non-recurring integration costs arising from the merger with BMN. Excluding the merger, it was 52.2%.
(6) Profit/(loss) for the year/ average total assets. Excluding the merger, it was 0.4% in 2017.
(7) Profit/(loss) for the year/risk-weighted assets at year-end. Excluding the merger, it was 0.9% in 2017.
(8) Profit/(loss) for the year attributable to owners of the Parent/average own funds. Excluding the merger, it was 6.7% in 2017.
(9) Profit/(loss) for the year attributable to owners of the Parent/average tangible own funds. Excluding the merger, it was 6.8% in 2017.
(10) The number of shares and share price at 31 December 2016 were adjusted in accordance with the reverse split carried out in June 2017.

3.4.- Highlights and changes of the balance sheet

BALANCE - BANKIA. S.A.

(Millions of euros) (*)	Dec-17	Dec-16	Change on Dec-16 Amount	%
Cash, cash balances at central banks and other demand deposits	3,755	2,082	1,673	80.4%
Financial assets held for trading	6,719	8,279	(1,560)	(18.8%)
Derivatives	6,713	8,267	(1,554)	(18.8%)
Debt securities	2	5	(3)	(60.0%)
Equity instruments	4	7	(3)	(38.8%)
Available-for-sale financial assets	22,726	25,421	(2,695)	(10.6%)
Equity instruments	57	26	31	119.1%
Debt securities	22,669	25,395	(2,726)	(10.7%)
Loans and receivables	126,674	108,985	17,689	16.2%
Debt instruments	444	727	(282)	(38.9%)
Loans and advances to credit institutions	3,029	3,579	(550)	(15.4%)
Loans and advances to customers	123,201	104,680	18,521	17.7%
Held to maturity investments	32,353	27,695	4,658	16.8%
Derivatives – Hedge accounting	3,058	3,620	(562)	(15.5%)
Investments in joint ventures and associates	2,840	2,662	178	6.7%
Tangible and intangible assets	2,545	1,759	787	44.7%
Non-current assets and disposal groups classified as held for sale	3,118	2,052	1,066	51.9%
Other assets	11,255	8,453	2,802	33.1%
TOTAL ASSETS	**215,044**	**191,008**	**24,036**	**12.6%**
Financial liabilities held for trading	7,450	9,008	(1,558)	(17.3%)
Derivatives	7,107	8,549	(1,443)	(16.9%)
Short positions	343	459	(115)	(25.2%)
Financial liabilities measured at amortised cost	190,917	166,407	24,509	14.7%
Deposit from central banks	15,356	14,969	387	2.6%
Deposit from credit institutions	22,212	23,881	(1,669)	(7.0%)
Customer deposits	132,970	108,621	24,349	22.4%
Debt securities issued	19,288	18,196	1,093	6.0%
Others financial liabilities	1,090	741	350	47.2%
Derivatives – Hedge accounting	377	723	(346)	(47.8%)
Provisions	1,954	1,287	667	51.8%
Other liabilities	1,554	1,555	(1)	(0.1%)
TOTAL LIABILITIES	**202,252**	**178,981**	**23,271**	**13.0%**
Other comprehensive accumulated income	315	442	(127)	(28.7%)
Own funds	12,477	11,585	892	7.7%
TOTAL EQUITY	**12,792**	**12,027**	**765**	**6.4%**
TOTAL LIABILITIES AND EQUITY	**215,044**	**191,008**	**24,036**	**12.6%**

(*) Financial information Statement amounts rounded to millions of euros

BALANCE - BANKIA, S.A. (EX-BMN) (1)

(Millions of euros) (*)	Dec-17	Dec-16	Change on Dec-16 Amount	%
Cash, cash balances at central banks and other demand deposits	3,040	2,082	958	46.0%
Financial assets held for trading	6,668	8,279	(1,611)	(19.5%)
Derivatives	6,661	8,267	(1,605)	(19.4%)
Debt securities	2	5	(3)	(60.0%)
Equity instruments	4	7	(3)	(38.8%)
Available-for-sale financial assets	18,399	25,421	(7,022)	(27.6%)
Equity instruments	45	26	19	71.1%
Debt securities	18,354	25,395	(7,040)	(27.7%)
Loans and receivables	107,474	108,985	(1,511)	(1.4%)
Debt instruments	368	727	(359)	(49.4%)
Loans and advances to credit institutions	4,454	3,579	875	24.5%
Loans and advances to customers	102,653	104,680	(2,027)	(1.9%)
Held to maturity investments	26,975	27,695	(720)	(2.6%)
Derivatives – Hedge accounting	2,964	3,620	(657)	(18.1%)
Investments in joint ventures and associates	2,748	2,662	86	3.2%
Tangible and intangible assets	1,776	1,759	17	1.0%
Non-current assets and disposal groups classified as held for sale	1,809	2,052	(243)	(11.8%)
Other assets	8,261	8,453	(192)	(2.3%)
TOTAL ASSETS	**180,114**	**191,008**	**(10,894)**	**(5.7%)**
Financial liabilities held for trading	7,406	9,008	(1,602)	(17.8%)
Derivatives	7,062	8,549	(1,487)	(17.4%)
Short positions	343	459	(115)	(25.2%)
Financial liabilities measured at amortised cost	157,720	166,407	(8,687)	(5.2%)
Deposit from central banks	12,816	14,969	(2,153)	(14.4%)
Deposit from credit institutions	21,312	23,881	(2,569)	(10.8%)
Customer deposits	104,208	108,621	(4,413)	(4.1%)
Debt securities issued	18,496	18,196	300	1.7%
Others financial liabilities	888	741	147	19.8%
Derivatives – Hedge accounting	325	723	(398)	(55.0%)
Provisions	1,083	1,287	(205)	(15.9%)
Other liabilities	1,307	1,555	(248)	(16.0%)
TOTAL LIABILITIES	**167,841**	**178,981**	**(11,140)**	**(6.2%)**
Other comprehensive accumulated income	323	442	(119)	(26.9%)
Own funds	11,949	11,585	365	3.1%
TOTAL EQUITY	**12,273**	**12,027**	**246**	**2.0%**
TOTAL LIABILITIES AND EQUITY	**180,114**	**191,008**	**(10,894)**	**(5.7%)**

(*) Financial information Statement amounts rounded to millions of euros

(1) Financial excluding the impact of the merger between Bankia and BMN. Provided only for a better understanding of trends in the Bankia Group balance sheet on a same-scope basis in 2016 and 2017.

- **Summary of Bankia Activities**

Bankia ended 2017 with EUR 215,044 million of total assets, 12.6% more than in December 2016 thanks to the integration of BMN, which contributed assets worth a total of EUR 37,011 million.

Customer loans were broadly stable (-1.9% excluding the contribution by BMN), thanks to the good performance of new loans, which offset repayments of mortgages, and the sustained reduction in NPLs. Conversely, investment in fixed income was lower (-15.1% ex-BMN) owing to maturities and portfolio sales made in the year.

In customer funds, there was further growth in the most liquid and lower cost deposits (i.e. current accounts) and off-balance sheet funds, which continued to attract funds withdrawn by customers from deposits with agreed maturity. Particularly noteworthy was the increase in mutual funds (+15.5%), underscoring the growing demand for these savings products and the organic growth of the Bankia's assets under management.

The following table presents the trends of Bankia key balance sheet items in 2017.

- **Loans and receivables**

Note 3 and Appendices IX and X of the notes to the Bankia's financial statements provide details on loan approval policies, NPL monitoring, debt refinancing and recovery of the bank with respect to credit risk. Also provided in this note and appendices is the breakdown of credit risk by product and activities, as well as the distribution of Loan to Value (LTV) of secured loans, the maturity profile, the detail of refinancing and restructuring operations, along with additional information on loans for property development, home purchases and property assets foreclosed or received in payment of debts. Therefore, from a management perspective, this point looks at trends in loans and receivables in 2017 and the main movements therein.

Loans and receivables amounted to EUR 126,674 million at 31 December 2017, up 16.2% following the addition of BMN, which contributed net loans of EUR 21,513 million in December 2017.

Under this item, **loans and advances to customers** totalled EUR 123,201 million. Excluding the credit contributed by BMN, this balance stood at EUR 102,653 million, largely stable (-1.9%) from the end of 2016. In gross terms (before provisions), loans and receivables from customers decreased slightly, by 2.8% on a constant-scope basis (ex-BMN) in the year. The trend towards stabilisation of loans is explained by the positive impact of commercial strategies geared towards being close to customers and the improvement in macroeconomic indicators. This led to new mortgage, consumer and SME loans, and made up for the decline in the stock of mortgage loans, caused by ongoing household deleveraging despite the increase in new loans granted by Bankia in this segment. The higher volume of new business and SME loan arrangements was reflected in the growth of loans to financial and non-financial entities, of 15.3% and 2.8%, respectively, excluding the addition of assets from BMN.

Excluding the non-performing loans added to the Bankia's balance sheet as a result of the merger with BMN, gross non-performing loans (NPLs) extended the downtrend seen in 2016, falling by EUR 1,709 million (-15.9%) in 2017. The fall was mainly organic (lower gross NPL inflows and healthy pace of recovery), but there were also portfolio sales in the year amounting to EUR 338 million.

Stripping out non-performing loans and reverse repurchase agreements, the Bankia's performing loan portfolio excluding BMN was stable (-1.2%) in 2017, underscoring the good performance of the Entity's new loans in the year.

LOANS AND ADVANCES TO CUSTOMERS BANKIA, S.A. BY SECTOR

(Millions of euros) (*)	Dec-17 Ex-BMN (1)	Dec-17 Bankia (1)	Dec-16	Change Dec -16 Ex-BMN	Change Dec -16 Bankia
Government agencies	5,111	5,471	5,303	(3.6%)	3.2%
Other financial companies	2,371	2,999	2,056	15.3%	45.9%
Non-financial companies	28,176	32,327	27,411	2.8%	17.9%
Households	66,995	82,404	69,910	(4.2%)	17.9%
Loans and advances to customers	**102,653**	**123,201**	**104,680**	**(1.9%)**	**17.7%**
Less: Doubtful	(4,195)	(5,561)	(4,849)	(13.5%)	14.7%
Less: Reserve repurchase agreement	(244)	(256)	(469)	(47.9%)	(45.4%)
Net loans and advances to customers	**98,214**	**117,384**	**99,362**	**(1.2%)**	**18.1%**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures for the Group for 2017 reported after the merger between Bankia and BMN. Data ex-BMN exclude the impact of the merger and are presented for a better understanding of comparisons with 2016 on a same-scope basis.

Loans and advances to credit institution, after the integration of BMN, stood at EUR 3,029 million at the end of 2017, down EUR 550 million (-15.4%) from December 2016.

- **Debt securities**

Debt securities at 31 December 2017, recognised under available-for-sale financial assets, held-to-maturity investments, financial assets held for trading and loans and receivables amounted to EUR 55,468 million compared to EUR 53,821 million at December 2016. Of the total at the end of December 2017, EUR 9,769 million were bonds contributed by BMN to the Bankia's balance sheet in the merger process and EUR 20,698 were SAREB bonds received as a result of the asset transfer carried out by the Entity in 2012.

The remainder comprises sovereign debt, mainly Spanish, and debt from other public and private issuers. The debt securities held by Bankia in the "Financial assets held for trading" "Available-for-sale financial assets","Loans and receivables" and "Held to maturity investments portfolios", by type of instrument, at 31 December 2017 and 2016 are as follows:

DEBT SECURITIES - BANKIA S.A.

(Millions of euros) (*)	Financial assets held for trading	Available for sale financial assets	Loans and receivables	Held to maturity investments	TOTAL PORTFOLIOS
Spanish goverment debt securities	2	16,211		10,204	26,417
Foreign goverment debt securities		4,280		1,260	5,540
Financials institutions		1,590		3	1,593
Other straight fixed income securities (**)		593	448	20,887	21,927
Impairment losses and other fair value		(5)	(3)	(0)	(8)
Total portfolio at 31 December 2017	**2**	**22,669**	**444**	**32,353**	**55,468**
Spanish goverment debt securities	5	15,907		9,643	25,556
Foreign goverment debt securities		4,388		1,271	5,658
Financials institutions		3,385		9	3,394
Other straight fixed income securities (**)		1,722	668	16,779	19,170
Impairment losses and other fair value		(8)	58	(6)	44
Total portfolio at 31 December 2016	**5**	**25,395**	**727**	**27,695**	**53,821**

(*) Financial Statement amounts rounded to millions of euros
(**) Held to maturity investments includes, interalia, securities issues by SAREB on December, 2012.

The biggest movement was the inclusion of BMN's bond portfolio as a result of the merger, which increased the bank's held-to-maturity investments. Stripping out the impact of the merger, changes were mainly in available-for-sale financial assets, with a same-scope balance (ex-BMN) of EUR 18,354 million at the end of 2017, down EUR 7,040 million (-27.7%) from the year before, thanks to sales and maturities of the public and private debt held in the portfolio. Financial assets held for trading, debt securities included in loans and receivables and held-to-maturity investments were little changed in the year without taking into account the BMN integration.

- **Financial liabilities at amortised cost**

Financial liabilities at amortized cost at 31 December 2017 stood at EUR 190,917 million, of which EUR 35,242 million were contributed by BMN in the merger process. Ex-BMN, financial liabilities at amortised cost stood at EUR 157,720 million at 31 December 2017, down EUR 8,687 million (-5.42%) from December 2016. This performance was the result of Bankia's lower overall funding needs in 2017 thanks to the proceeds obtained from asset disposals, mainly fixed income.

FINANCIAL LIABILITIES AT AMORTISED COST - BANKIA S.A.

(Millions of euros) (*)	dec-17 Ex-BMN [1]	dec-17 Bankia [1]	dec-16	Change Dec -16 Ex-BMN	Change Dec -16 Bankia
Deposits from central banks	**12,816**	**15,356**	**14,969**	**(14.4%)**	**2.6%**
Deposits from credit institutions	**21,312**	**22,212**	**23,881**	**(10.8%)**	**(7.0%)**
Customer deposits	**104,208**	**132,970**	**108,621**	**(4.1%)**	**22.4%**
Government agencies	3,797	5,678	5,029	(24.5%)	12.9%
Other financial companies	7,459	9,430	10,634	(29.9%)	(11.3%)
Non-financial companies	12,460	16,607	12,403	0.5%	33.9%
Households	74,042	89,029	71,671	3.3%	24.2%
Reserve repurchase agreement	205	2,668	1,209	(83.0%)	120.7%
Single mortgage bonds	4,562	7,499	5,207	(12.4%)	44.0%
Securities issued	1,683	2,060	2,468	(31.8%)	(16.6%)
Debt securities issued	**18,496**	**19,288**	**18,196**	**1.7%**	**6.0%**
Others financial liabilities	**888**	**1,090**	**741**	**19.8%**	**47.2%**
Total financial liabilities measured at amortised cost	**157,720**	**190,917**	**166,407**	**(5.2%)**	**14.7%**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures for the Group for 2017 reported after the merger between Bankia and BMN. Data ex-BMN exclude the impact of the merger and are presented for a better understanding of comparisons with 2016 on a same-scope basis.

Deposits from central banks and deposits from credit institutions

After the integration with BMN, **deposits from central banks** totalled EUR 15,356 million at the end of 2017, an increase of EUR 387 million from 2016, due to the balances contributed by BMN in the merger process (EUR 2,540 million). On a constant-scope basis, deposits from central banks to Bankia ended 2017 at EUR 12,816 million, down 14.4% year-on-year, caused by the early repayments made by Bankia during the year on funds drawn under the ECB's TLTRO I programme. At the end of December 2017, 90.2% of ECB financing (EUR 13,856 million) comprised amounts taken in TLTRO II auctions, with the rest in TLTRO I (EUR 1,500 million).

Deposits from credit institutions amounted to EUR 21,312 million after the merger with BMN, down 7% from the end of 2016, caused by the lower volume of reverse repurchase agreements with other entities.

Customer deposits

Customer deposits ended December 2017 at EUR 132,970 million, marking a year-on-year increase of 22.4% thanks to the merger with BMN, which contributed EUR 28,761 million of customer deposits. Excluding BMN, the Bankia's customer deposits fell by 4.1% in the year, due to decreases in the volumes of assets sold under repurchase agreements (EUR -1,004 million), strict customer deposits (EUR -1,979 million), mostly with agreed maturity, and one-off marketable mortgage-backed securities (EUR -645 million).

Within customer deposits, strict customer deposits (i.e. excluding repurchase agreements, and one-off non-marketable mortgage-backed securities) totalled EUR 120,743 million, of which EUR 22,985 million corresponded to BMN. Stripping out the effect of the integration of BMN, Bankia's strict customer deposits amounted to EUR 97,758 million at year-end 2017, slightly below (-2%) the level in December 2016 because of the lower volume of deposits with agreed maturity. Conversely, the year featured a generalised increase in the most liquid and lower cost (current accounts) resources of the retail network (households), and financial and non-financial corporations (companies), attracting part of the balances that customers are transferring out of deposits with agreed maturity, whose yields fell in line with the trend of market interest rates.

CUSTOMER DEPOSITS- BANKIA S.A.

(Millions of euros) (*)	dec-17 Ex-BMN (1)	dec-17 Bankia (1)	dec-16	Change Dec -16 Ex-BMN	Change Dec -16 Bankia
Strict customer deposit	**97,758**	**120,743**	**99,737**	**(2.0%)**	**21.1%**
Public sector	3,797	5,678	5,029	(24.5%)	12.9%
Other financial companies	7,459	9,430	10,634	(29.9%)	(11.3%)
Current accounts	5,691	6,126	5,257	8.3%	16.5%
Term deposits (2)	1,768	3,304	5,377	(67.1%)	(38.6%)
Non-financial companies	12,460	16,607	12,403	0.5%	33.9%
Current accounts	10,277	12,611	8,691	18.2%	45.1%
Term deposits	2,184	3,996	3,712	(41.2%)	7.6%
Households	74,042	89,029	71,671	3.3%	24.2%
Current accounts	43,416	53,677	37,874	14.6%	41.7%
Term deposits	30,625	35,351	33,797	(9.4%)	4.6%
Single mortgage bonds	**4,562**	**7,499**	**5,207**	**(12.4%)**	**44.0%**
Securities issued	**1,683**	**2,060**	**2,468**	**(31.8%)**	**(16.6%)**
Reserve repurchase agreement	**205**	**2,668**	**1,209**	**(83.0%)**	**120.7%**
Total customer deposits	**104,208**	**132,970**	**108,621**	**(4.1%)**	**22.4%**
Investment funds (3)	15,726	15,726	13,617	15.5%	15.5%
Pension funds (3)	6,738	6,738	6,478	4.0%	4.0%
Total off balance funds resources	**22,464**	**22,464**	**20,096**	**11.8%**	**11.8%**

(*) Financial Statement amounts rounded to millions of euros.

(1) Figures for the Group for 2017 reported after the merger between Bankia and BMN. Data ex-BMN exclude the impact of the merger and are presented for a better understanding of comparisons with 2016 on a same-scope basis.

(2) Excluded single mortgage bonds, showed in a separate epigraph.

(3) Excludes off-balance sheet customer funds marketed by the Group but managed by third parties outside the Bankia Group.

With interest rates remaining persistently low, Bankia opted for a commercial policy aimed at offering customers higher-yielding off-balance sheet products, with more attractive yields, driving growth in off-balance sheet funds managed of 11.8% from December 2016. Investment funds continued to deliver the best performance of any product thanks to healthy subscription.

The combined balance of strict customer deposits and off-balance sheet funds was broadly steady in 2017, increasing by EUR 390 million (+0.3%) from December 2016, excluding the funds contributed by BMN in the merger (+19.5% post-merger).

Debt securities issued

Bankia has selective policy in fixed-income markets with issues, which purpose is to maintain the Entity financial soundness, to adapt deal sizes to its structural liquidity needs and maintaining an appropriate funding structure. In the first half of 2017, Bankia successfully placed EUR 500 million of Tier 2 subordinated debts, bolstering the bank's solvency and helping meet the Tier 2 capital requirement of 2%, increase its base of instruments with loss-absorbing capacity ahead of the future regulatory requirement of the MREL.

The balance of debt securities issued by Bankia at December 2017 stood at EUR 19,288 million, EUR 1,092 million more than at the end of December 2016 after including BMN's issues.

- **Provisions**

Provisions recognised on the balance sheet in 2017 amounted to EUR 1,954 million, of which EUR 447 million related to BMN and EUR 445 million to non-recurring provisions set aside to cover the integration costs arising from the Bankia-BMN merger. Excluding the impact of this merger, provisions totalled EUR 1,083 million, down EUR 205 million (-15.9%) from the amount recognised at the end of December 2016. This decrease was due mainly to the use of a large part of the funds set aside in previous years to cover the potential cost of reimbursing amounts unduly charged in application of the clauses declared null. And to cover the contingencies derived from civil lawsuits in relation to Bankia's 2011 IPO.

Total equity

At 31 December 2017 amounted to EUR 12,792 million, EUR 765 million more than at year-end 2016 after the inclusion of BMN.

The main transactions with an impact on capital and equity in 2017 are those described in section 1.9, carried out to adapt Bankia’s equity structure, reduce the volatility of its share price and complete the merger with BMN. After these transactions, Bankia's share capital at 31 December 2017 stood at EUR 3,085 million, with EUR 12,477 million of own funds post-BMN merger.

3.5.- Highlights of the income statement

INCOME STATEMENT - BANKIA S.A.

(Millions of euros) (*)	Dec -17	Dec - 16	Change Dec-16 Amount	%
Net interest income	**1,924**	**2,046**	**(122)**	**(5.9%)**
Dividend income	62	29	33	111.6%
Total net fees and commissions	791	755	36	4.7%
Gain and losses on financial assets and liabilities	376	251	125	49.9%
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	310	253	56	22.3%
Gains or losses on financial assets and liabilities held for trading, (net)	96	51	44	86.9%
Gains or losses from hedge accounting, (net)	(30)	(54)	24	(44.9%)
Exchange differences	10	14	(4)	(28.4%)
Other operating income and other operating expenses (net)	(188)	(107)	(82)	76.8%
Gross income	**2,974**	**2,988**	**(14)**	**(0.5%)**
Operating expenses	(2,006)	(1,521)	(485)	31.9%
Administrative expenses	(1,833)	(1,366)	(467)	34.2%
Staff costs	(1,374)	(892)	(482)	54.0%
Other administrative expenses	(459)	(474)	15	(3.2%)
Amortisation	(173)	(154)	(18)	11.7%
Pre impairment income	**968**	**1,467**	**(499)**	**(34.0%)**
Provisions or reversal of provisions	(94)	(120)	26	(21.8%)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(268)	(205)	(63)	30.8%
Total operating income	**606**	**1,142**	**(536)**	**(46.9%)**
Impairment or reversal of impairment in investment in joint-controlled or associates	68	28	41	147.7%
Impairment or reversal of impairment on non-financial assets	(0)	2	(2)	-
Other gains and losses	(125)	(257)	132	(51.4%)
Profit or Loss before tax from continuing operations	**549**	**914**	**(365)**	**(39.9%)**
Tax expense or income related to Profit or Loss from continuing operations	(81)	(195)	114	(58.6%)
Profit or Loss after tax from continuing operations	**469**	**719**	**(251)**	**(34.8%)**
Profit or Loss after tax from discontinued operations	-	-	-	-
Profit or Loss	**469**	**719**	**(251)**	**(34.8%)**

Main ratios				
Efficiency ratio (1)	67.5%	50.9%	+16.6 p.p.	32.5%
ROA (2)	0.3%	0.4%	(0.1) p.p.	(28.9%)
ROE (3)	4.1%	6.4%	(2.3) p.p.	(36.3%)

(*) Financial Statement amounts rounded to millions of euros.
(1) (Administration expenses + Depreciation and Amortizations) / Gross margin. Efficiency ratio is implemented by integration extraordinary costsarising from the merger with BMN 52.2% excluding the merger.
(2) Profit/ Loss / Average total net assets. Excluding the merger has been 0.4%
(3) Profit or Loss attributable to owners of the parent / Average own funds. Excluding the merger has been 6,7%

INCOME STATEMENT - BANKIA S.A. (EX-BMN) (1)

(Millions of euros) (*)	Dec -17 (1)	Dec - 16	Change Dec - 16 Amount	%
Net interest income	**1,899**	**2,046**	**(146)**	**(7.2%)**
Dividend income	52	29	23	78.8%
Total net fees and commissions	777	755	22	2.9%
Gain and losses on financial assets and liabilities	377	251	126	50.1%
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	310	253	56	22.2%
Gains or losses on financial assets and liabilities held for trading, (net)	96	51	45	88.4%
Gains or losses from hedge accounting, (net)	(30)	(54)	24	(44.9%)
Exchange differences	10	14	(4)	(26.5%)
Other operating income and other operating expenses (net)	(186)	(107)	(79)	74.2%
Gross income	**2,929**	**2,988**	**(58)**	**(1.9%)**
Operating expenses	(1,530)	(1,521)	(9)	0.6%
Administrative expenses	(1,360)	(1,366)	6	(0.5%)
Staff costs	(910)	(892)	(18)	2.0%
Other administrative expenses	(450)	(474)	24	(5.2%)
Amortisation	(170)	(154)	(16)	10.1%
Pre impairment income	**1,399**	**1,467**	**(67)**	**(4.6%)**
Provisions or reversal of provisions	(94)	(120)	26	(21.6%)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(265)	(205)	(60)	29.5%
Total operating income	**1,040**	**1,142**	**(102)**	**(8.9%)**
Impairment or reversal of impairment in investment in joint-controlled or associates	72	28	45	162.3%
Impairment or reversal of impairment on non-financial assets	(0)	2	(2)	-
Other gains and losses	(127)	(257)	131	(50.8%)
Profit or Loss before tax from continuing operations	**986**	**914**	**71**	**7.8%**
Tax expense or income related to Profit or Loss from continuing operations	(212)	(195)	(17)	8.9%
Profit or Loss after tax from continuing operations	**774**	**719**	**54**	**7.5%**
Profit or Loss after tax from discontinued operations	-	-	-	-
Profit or Loss	**774**	**719**	**54**	**7.5%**

Main ratios				
Efficiency ratio (2)	52.2%	50.9%	+1.3 p.p.	2.6%
ROA (3)	0.4%	0.4%	-	-
ROE (4)	6.7%	6.4%	+0.3 p.p.	5.5%

(*) Financial Statement amounts rounded to millions of euros.

(1) Financial excluding the impact of the merger between Bankia and BMN. Provided only for a better understanding of trends in the Bankia S.A. balance sheet on a same-scope basis in 2016 and 2017.

(2) (Administration expenses + Depreciation and Amortizations) / Gross margin.

(3) Profit/ Loss / Average total net assets.

(4) Profit or Loss attributable to owners of the parent / Average own funds.

INCOME STATEMENT BANKIA, S.A. - QUARTERLY TREND

(Millions of euros) (*)	4Q 17 Ex-BMN (1)	4Q 17 Bankia (1)	3Q 17	2Q 17	1Q 17	4Q 16	3Q 16	2Q 16	1Q 16
Net interest income	**492**	**517**	**460**	**474**	**474**	**530**	**490**	**506**	**518**
Dividend income	13	23	1	32	6	0	0	28	1
Total net fees and commissions	195	209	192	200	190	196	188	189	182
Gain and losses on financial assets and liabilities	53	52	51	113	160	55	67	62	67
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	47	47	45	71	146	35	75	71	73
Gains or losses on financial assets and liabilities held for trading, (net)	14	13	11	48	23	27	9	2	13
Gains or losses from hedge accounting, (net)	(9)	(9)	(5)	(6)	(9)	(7)	(18)	(10)	(19)
Exchange differences	3	3	3	2	2	(1)	(2)	8	8
Other operating income and other operating expenses (net)	(124)	(127)	3	(61)	(3)	(94)	(10)	(1)	(1)
Gross income	**632**	**676**	**709**	**760**	**828**	**686**	**733**	**792**	**776**
Operating expenses	(394)	(869)	(383)	(373)	(380)	(372)	(379)	(380)	(390)
Administrative expenses	(349)	(822)	(339)	(331)	(340)	(326)	(341)	(343)	(355)
Staff costs	(231)	(695)	(226)	(222)	(231)	(215)	(220)	(223)	(234)
Other administrative expenses	(118)	(128)	(114)	(109)	(109)	(112)	(121)	(120)	(121)
Amortisation	(44)	(47)	(43)	(42)	(40)	(45)	(38)	(36)	(35)
Pre impairment income	**238**	**(193)**	**327**	**387**	**448**	**315**	**354**	**412**	**385**
Provisions or reversal of provisions	19	19	(81)	(4)	(29)	(108)	40	(24)	(28)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(49)	(52)	(66)	(66)	(84)	36	(105)	(59)	(76)
Total operating income	**208**	**(226)**	**180**	**317**	**335**	**243**	**289**	**330**	**281**
Impairment or reversal of impairment in investment in joint-controlled or associate	54	50	(14)	(20)	52	14	12	0	1
Impairment or reversal of impairment on non-financial assets	(0)	(0)	(1)	1	(0)	(1)	5	(1)	(1)
Other gains and losses	(64)	(63)	(22)	(13)	(27)	(184)	(39)	(22)	(14)
Profit or Loss before tax from continuing operations	**198**	**(238)**	**144**	**285**	**359**	**73**	**267**	**307**	**267**
Tax expense or income related to Profit or Loss from continuing operations	(40)	92	(23)	(73)	(77)	(32)	(46)	(55)	(63)
Profit or Loss after tax from continuing operations	**159**	**(146)**	**121**	**212**	**282**	**41**	**221**	**253**	**205**
Profit or Loss after tax from discontinued operations	0	0	0	0	0	0	0	0	0
Profit or Loss	**159**	**(146)**	**121**	**212**	**282**	**41**	**221**	**253**	**205**

(*) Financial Statement amounts rounded to millions of euros.
(1) Figures for 4Q 17 for the Group are published year-end 2017 for the resulting entity of the merger between Bankia and BMN, and include one month of profit and loss of BMN. Figures for 4Q 17 Ex-BMN exclude the impact of the merger and provided for a better understanding of quarterly trends in the Group's income statement on a same-scope basis with previous quarters.

INCOME STATEMENT BANKIA S.A. - HIGHLIGHTS

(Millions of euros) (*)	December 2017			December 2016		
	Amount	% of gross income	% of average total net assets	Amount	% of gross income	% of average total net assets
Net income interest	**1,924**	**64.7%**	**1.0%**	**2,046**	**68.5%**	**1.0%**
Gross income	**2,974**	**-**	**1.6%**	**2,988**	**-**	**1.5%**
Operating expenses	(2,006)	(67.5%)	(1.1%)	(1,521)	(50.9%)	(0.8%)
Administrative expenses	(1,833)	(61.6%)	(1.0%)	(1,366)	(45.7%)	(0.7%)
Depreciation and amortization charge	(173)	(5.8%)	(0.1%)	(154)	(5.2%)	(0.1%)
Provisions or reversal of provisions	(94)	(3.2%)	(0.1%)	(120)	(4.0%)	(0.1%)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(268)	(9.0%)	(0.1%)	(205)	(6.8%)	(0.1%)
Total operating income	**606**	**20.4%**	**0.3%**	**1,142**	**38.2%**	**0.6%**
Impairment or reversal of impairment on non-financial assets Investments in joint ventures and associates	68	2.3%	0.0%	28	0.9%	0.0%
Impairment or reversal of impairment on non-financial assets	(0)	(0.0%)	(0.0%)	2	0.1%	0.0%
Other gains and losses	(125)	(4.2%)	(0.1%)	(257)	(8.6%)	(0.1%)
Profit or Loss before tax from continuing operations	**549**	**18.5%**	**0.3%**	**914**	**30.6%**	**0.5%**
Tax expense or income related to profit or Loss from continuing	(81)	(2.7%)	(0.0%)	(195)	(6.5%)	(0.1%)
Profit or Loss after tax from continuing operations	**469**	**15.8%**	**0.3%**	**719**	**24.1%**	**0.4%**
Profit or Loss after tax from discontinued operations	0	0.0%	0.0%	0	0.0%	0.0%
Profit or Loss	**469**	**15.8%**	**0.3%**	**719**	**24.1%**	**0.4%**

(*) Financial Statement amounts rounded to millions of euros

- **Bankia Overview of earnings**

Net attributable profit for Bankia in 2017 fell by 34.8% to EUR 469 million. The decrease was caused by staff costs arising from the integration with BMN recognised in December (EUR 445 million before taxes).

Excluding the impact of the merger, Bankia would have obtained net attributable profit of EUR 774 million in 2017, an increase of 7.5% from the year before. The trend in business was customers was one of the main drivers of the increase. Increasing customer satisfaction, highly loyalty ratings and advances in the multi-channel strategy helped Bankia boost business volume, increase its market shares and stabilise its recurring income tax amid chronically low interest rates.

At the same time, the bank has continued to focus on managing key issues in the current environment, such as efficiency and control of risk costs. This has helped reinforce the recurring revenue generation and boost operating margins compared to the first half of 2016.

Main movements in the Bankia's income statement items of year 2017 are discussed below.

- **Net interest income**

Net interest income for the bank totalled EUR 1,924 million, down EUR 122 million (-5.9%) from 2016. Excluding the impact of the merger with BMN, the year-on-year decline in the bank's net interest income was EUR 146 million (-7.2%).

The performance of net interest income was impacted primarily by the decline in returns on fixed-income portfolios and, to a lesser extent, loan portfolios. In the latter case, the situation is gradually stabilising thanks to the increasingly smaller impact of low interest rates on mortgage repricing.

The following table shows trends in net interest income in 2017 and 2016, with average balances of income and expenses for the various items comprising total investment and funds, and the impact of changes in volumes and prices on the overall trend in net interest income in 2017.

STRUCTURE OF INCOME AND EXPENSES - BANKIA S.A.

	December 2017			December 2016			Variation		Effect	
(Millions of euros and %) (*)	Average balance (1)	Income/ Expenses (1)	Type	Average balance	Income/ Expenses	Type	Average balance	Income/ Expenses	Type	Volume
Finance income										
Credit institutions (2)	5.540	82	1.48%	6.124	52	0.86%	(584)	29	38	(9)
Loans and advances to customers (a)	104,216	1,749	1.68%	108,857	1,825	1.68%	(4,642)	(75)	2	(78)
Debt securities	49,219	482	0.98%	55,320	743	1.34%	(6,101)	(262)	(202)	(60)
Other interest bearing assets	391	3	0.82%	352	7	1.98%	39	(4)	(4)	0
Other non interest bearing assets	24,920	-	-	30,413	-	-	(5,493)	-	-	-
Total assets (b)	**184,287**	**2,316**	**1.26%**	**201,066**	**2,627**	**1.31%**	**(16,779)**	**(311)**	**(101)**	**(211)**
Financial expenses										
Credit institutions (2)	35.657	45	0.13%	40.156	71	0.18%	(4.500)	(26)	(21)	(6)
Customer deposits (c)	106,653	179	0.17%	112,044	363	0.32%	(5,392)	(185)	(176)	(9)
Stric customer deposits	99,313	95	0.10%	98,453	263	0.27%	860	(168)	(169)	1
Repos	416	0.0	0.00%	4,075	0.1	0.00%	(3,659)	(0)	(0)	(0)
Singular bonds	6,924	84	1.21%	9,516	101	1.06%	(2,592)	(17)	14	(31)
Debt securities issued	18,316	162	0.89%	20,221	140	0.69%	(1,904)	22	39	(17)
Other interest bearing liabilities	1,009	6	0.64%	944	7	0.74%	64	(1)	(1)	0
Other non interest bearing liabilitites	10,598	-	-	15,688	-	-	(5,090)	-	-	-
Equity	12,055	-	-	12,012	-	-	42	-	-	-
Total Liabilities and Equity (d)	**184,287**	**392**	**0.21%**	**201,066**	**582**	**0.29%**	**(16,779)**	**(190)**	**(154)**	**(36)**
Customers margin (a-c)		**1,571**	**1.51%**		**1,461**	**1.35%**		**109**	**178**	**(69)**
Balance sheet differential (b-d)		**1,924**	**1.04%**		**2,046**	**1.02%**		**(122)**	**54**	**(175)**

(*) Financial Statement amounts rounded to millions of euros

(1) BMN is included with effect for accounting purposes from 1 December 2017. Therefore, results and average balances include finance income, finance costs, interest -bearing assets and liabilities of BMN for the month of December.

(2) Includes central banks and credit institutions. Loans and advances to credit institutions includes revenues arising from the negative interest rates applicable on deposits from central banks and credit institutions (mainly TLTRO II and repo transactions in 2016), since, according to accounting regulations, income arising from the application of negative interest rates is recognised in accordance with the nature of the item. On the liabilities side, it is the opposite with deposits from central banks and credit institutions.

Finance income was down 11.8% year-on-year (EUR 311 million) from the the same period in 2016. The steepest fall was in fixed-income portfolios, which produced EUR 482 million of interest through 2017, EUR 262 million lower than in the same period last year. The fall was due mostly to the impact of interest rates (lower yields of sovereign debt of the ALCO portfolio and, to a lesser extent, the repricing of SAREB bonds). As a result, the profitability of the securities portfolio stood at 0.98% at the end of the first half of 2017, 36bps lower than the average return on fixed income in 2016.

Interest on loans and receivables from customers amounted EUR 1,749 million, decreasing on EUR 75 million about 2016, due to both interest rates and loan repayments. The decline in interest income was the result of further reprising in loan portfolios (mainly mortgages) caused by the fall in the Euribor rate, feeding through to a decline in the average interest rate charged on loans and advances to customers, to 1.68% at the end of 2017, 4bps lower than 2016.. Lower income on lending volume was the result of loan deleveraging, as the increasing contribution of new loans was still not enough to offset maturities in the portfolio.

As a result of all these factors, the bank's average return on assets in 2017 was 1.26%, 5bp lower than the same period in 2016.

The lower cost of funding was what enabled Bankia to make up for the fall in returns on assets. Finance costs for the bank in 2017 fell by 32.7% (EUR 190 million) from the same period last year. Most of the reduction was in the cost of customer deposits (EUR -185 million), the average rate of which was 0.17% (15bp lower than in the same period in 2016) thanks to the sharp reduction in the average price of new term deposits arranged.

The lower finance cost of retail savings, along with the lowerimpact of the euro yield curve on the Companie´s credit stock, improved the customer´s margin, which stood at 1,58% at the end of 2017, compared to 1.51% in 2016.

The Bankia's net interest margin at 31 December 2017 stood at 1.04%, a level which similar to that reported in 2016 (1.02%), the positive performance in funding costs has mitigated the pressure caused by low interest rates on returns from loans and lower income from the fixed-income portfolios.

- **Gross income**

Gross income for Bankia in amounted to EUR 2,974 million, reaching a similar figure to 2016 which (-0.5%) thanks to the gradual stabilisation of recurring income (net interest and fee and commission income) and the year-on-year increase in gains and losses on financial assets and liabilities, net, or trading income. Net interest income and fees and commission income combined represented 91.3% of Bankia's gross income in 2017. Stripping out the impact of the merger with BMN, gross income for the bank fell by 1.9% in 2017 to EUR 2,929 million.

Net fees and commissions totalled EUR 791 million, 4.7% more than last yearof which EUR 14 million were contributed by BMN in the merger process. Retail banking featured a sound performance of fees and commissions from investments funds and insurance products, collection services and contigent liabilities ods on the back of increased activity and stronger customer loyalty, the growth of assets under management, new digital functionalities and recovery of private consumption. Income from loan structuring and design, securities custody and other fees and commissions, mainly the exchange of foreign currency and bank notes, were the main drivers of the bank's fees and commissions in 2017.

Gains and losses on financial assets and liabilities contributed positively to the income statement in 2017, rising by 49.9% year-on-year to EUR 376 million. This increase was underpinned by the gains obtained on fixed-income sales, mostly in the first two quarters of the year based on the outlook for trends in market interest rates.

Other operating income and expenses showed a net expense of EUR 188 million in 2017, an increase of EUR 82 million from the last year, driven by the gain (EUR 58 million) obtained by Bankia on the sale of Visa Europe last year, to lower income obtained from leased property in 2017 and the increased contribution to the FGDEC, which affected the entire sector. This heading includes mainly rental income, income from non-financial activities, amounts invoiced to group companies, expenses for managing foreclosed assets, state tax expense on deposits and contributions to the Single Resolution Fund (SRF) and the FGDEC.

The **other items** comprising gross income (dividends, share of other recognised income and expense of entities accounted for using the equity method and exchange differences) did not show any significant changes in balances or movements, totalled EUR 72 million in 2017, EUR 429 million more than the year before, due primarilyto the integration of BMN

- **Operating expenses**

Operating expenses (administrative expenses and depreciation) rose by 31.9% in 2017 to EUR 2,006 million, driven by the inclusion of BMN's expenses for one month and the EUR 445 million of non-recurring staff costs to cover the integration costs arising from the merger. Excluding the impact of the merger with BMN, operating expenses on a constant-scope basis were stable (+0.6%), in line with the objective of controlling costs and managing efficiency as a core element of the Entity's strategy.

This performance was the result of the various streamlining and cost-containment measures implemented in all bank areas upon completion of the restructuring process. Noteworthy was the 5.2% year-on-year fall in other administrative expenses (ex-BMN), offsetting the higher depreciation charge (+10.1%) due to investments in non-current assets.

The efficiency ratio (operating expenses/gross income) at 31 December 2017 stood at 52.2%, excluding the impacts of the merger with BMN, which measures up well with the ratios of the main Spanish competitors.

- **Pre-provision operating income**

The evolution of operating income and expenses placed pre-provision profit´s margin in EUR 968 million in 2017. Stripping out the impact of the merger with BMN, Bankia's net income was EUR 1,399 million, down from EUR 1,467 million in 2016 on a constant-scope basis.

- **Provisions and write-downs**

The business combination between Bankia and BMN did not result in the recognition of any material provisions in the income statement, so the amounts set aside after the merger were largely similar to what they would have been otherwise.

Provisions, which include provisions for legal issues, tax litigation, guarantees and commitments extended, registered a negative figure of EUR 94 million due to reversals of provisions for issuer risk and other contingent liabilities in the year. The balance in 2016 was a negative EUR 120 million and included an additional provision of EUR 93 million by Bankia to cover the potential contingencies arising from the elimination of the floor clauses in retail mortgages.

Impairment of financial assets not measured at fair value through profit or loss, which includes mainly provisions for credit losses, increased by EUR 63 million in 2017 (+30.8%) to EUR 268 million.

Impairment of non-financial assets, mainly tangible assets and investment properties, was immaterial in 2017. **Impairment of investments in joint ventures and associates** amounted to a positive EUR 68 million at year-end 2017, compared to a positive EUR 28 million in 2016. This performance reflects the lower amount of impairment losses on investments and the update of the carrying amounts of certain assets in 2017, which led to the partial reversal of impairment losses recognised in previous reporting periods.

The trends in the various items of provisions and impairments resulted in total charges in 2017 of EUR 294 million, at a similar level as total dotation's done at the previous year.

- **Other gains and other losses**

This item mainly includes impairment of the non-current assets held for sale (mainly, foreclosed real estate assets) of the Bank´s and the extraordinary results of the sale of share stakes. At the first half year of 2017, shows negative figure includes impairments and gains on disposals of foreclosed assets. The balance of this item in 2016 was a negative EUR 257 million, the recognition of additional allowances and provisions for foreclosed assets in 2016 as a result of the change in estimates caused by application of the next Annex IX of Bank of Spain Circular 4/2016.

- **Profit or loss for the period**

After the integration of BMN, Bankia obtained profit before tax from continuing operations in 2017 of EUR 549 million, 39.9% lower than in 2016 due to the non-recurring expenses arising from the merger with BMN recognised in the year. After income tax, profit decrease in 34.8% lower in 2017, at EUR 469 million. Profit attributable to the Group on a constant-scope basis was EUR 774 million, 7.5% higher than in 2016.

4.- ALTERNATIVE PERFORMANCE MEASURES

In addition to the financial information prepared in accordance with generally accepted accounting principles (IFRS), Bankia uses certain alternative performance measures ("APMs") that are used habitually in the bank sector as indicators for monitoring the management of the Entity's assets and liabilities and its financial and economic position. In compliance with the ESMA transparency directive for the protection of consumers, published in October 2015, the following tables present breakdowns of all the APMs used in this document and the reconciliation with balance sheet and income statement line items used in their calculation.

ALTERNATIVE MEASURES OF PERFORMANCE

PERFORMANCE MEASURE	DEFINITION	CALCULATION METHOD AND ACCOUNTING DATA USED	SECTION OF MANAGEMENT REPORT
Customers resources	Sum of customer deposits, wholesale issued, off-balance sheet customer resources	Balance sheet items: - Customer deposits - Marketable debt securities Third-party resources managed and marketed by the Entity (Estate F.22.02 excluding the discretionary portfolios managed by the customers): - Investment companies and funds - Pension funds	3.3
Total turnover	Sum of loans and advances –customers, customer deposits, wholesale issued, off-balance sheet customer resources	Balance sheet items: - Loans and advances - customers - customer deposits - Debt securities issued Third-party resources managed and marketed by the Entity (Estate F.22.02, excluding the discretionary portfolios managed by the customers): - Investment companies and funds - Pension funds	3.3
NPL ratio (%)	Relationship between non-performing loans and the total balance of customer credit risk and contingent risks	Gross balance (before provisions) of NPLs under loans and advances to customers and contingent risks divided by gross loans and advances to customers (before provisions) and contingent risks.	1.7 3.3 7.1
NPL coverage ratio (%)	Measures the degree of impairment of NPLs for which impairment allowances have been recognised	Impairment allowances for loans and advances to customers and contingent risks divided by gross NPLs under loans and advances to customers and contingent risks.	3.3 7.1
LTD ratio (%)	Relationship between loans granted to customers and deposits taken from customers	Loans and advances to customers divided by customer deposits plus funds raised through second-floor loans received from the EIB and ICO. - Loans and advances to customers less reverse repos and balances with BFA. - Customer deposits less repos.	1.8 5
Financial operations result	Sum of the profit/ (loss) from management of the trading portfolios, financial assets available for sale, assets and liabilities at amortized cost and accounting hedges	Sum of the flowing items of the income statement: - Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net. - Gains or (-) losses on financial assets and liabilities held for trading, net. - Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net. - Gains or (-) losses from hedge accounting, net.	3.3 3.5
Operating income before provisions	Gross margin less administrative expenses and depreciation	Sum of the flowing items of the income statement: - Gross Margin - Administration fees - Amortization	3.3 3.5
Customers margin (%)	Difference between the average interest rate charged on loans and advances to customers and the average interest rate paid on customer deposits	Average interest rate on loans and advances to customers: - Interest income on loans and advances to customers recognised in the year divided by the average month-end balance of loans and advances to customers in the year. Average interest rate paid on customer deposits: - Interest expenses on customer deposits recognised in the year divided by the average month-end balance of customer deposits in the year.	3.5
Differences on the balance sheet (%)	Difference between the average return on assets and the average cost of liabilities and equity	Average return on assets: - Interest income in the year divided by average month-end balances of recognised assets. Average cost of liabilities and equity: - Interest expenses in the year divided by average month-end balances of total equity and liabilities in the year.	3.5

PERFORMANCE MEASURE	DEFINITION	CONCILIATION CALCULATION AND ACCOUNTING DATA	SECTION OF MANAGEMENT REPORT
ROA (%)	Measures the return on assets	Profit/(loss) for the year divided by average recognised assets at the end of the 12-month period.	3.3 3.5
ROE (%)	Measures the return obtained from own funds	Profit/(loss) for the year attributable to owners of the Parent divided by average equity at the end of the 12-month period.	3.3
RORWA (%)	Measures the return obtained from the risk-weighted average assets	Profit/(loss) for the year attributable to the period divided by regulatory risk-weighted assets at the end of the year.	3.3 3.5
ROTE (%)	Measures the return on equity excluding intangible assets	Profit/(loss) for the year attributable to the period divided by average equity less intangible assets at the end of the 12-month period	3.3
Efficiency ratio (%)	Measures operating costs as a percentage of gross income	Administrative + depreciation expenses divided by gross income.	3.3 3.5

CALCULATION OF ALTERNATIVE PERFORMANCE MEASURES AND ACCOUNTING RECONCILIATIONS (EUR million and %)

CALCULATION OF ALTERNATIVE PERFORMANCE MEASURES AND ACCOUNTING RECONCILIATIONS (EUR million and %)	Dec-17 [1]	Dec-16
Resources managed by customers	**174,722**	**146,912**
- Customer deposits	132,970	108,621
- Marketable debt securities	19,288	18,196
- Investment companies and funds	15,726	13,617
- Pension funds	6,738	6,478
Total turnover	**275,459**	**251,592**
- Loans and advances - customers	123,201	104,680
- customer deposits	132,970	108,621
- Debt securities issued	19,288	18,196
- Investment companies and funds	15,726	13,617
- Pension funds	6,738	6,478
NPL ratio (%)	**8.9%**	**9.8%**
- Doubtful risks of loans and advances to customers and contingent risks	12,081	11,478
- Total risks of loans and advances to customers and contingent risks	136,488	117,653
NPL coverage ratio (%)	**50.5%**	**54.7%**
- Loan impairment and customer advances and contingent risks	6,102	6,283
- Doubtful risks of loans and advances to customers and contingent risks.	12,081	11,478
LTD ratio (%)	**93.7%**	**96.4%**
- Loans and advances to customers	123,201	104,680
- Temporary Acquisitions of Assets	256	469
- Deposits of the clientele	132,970	108,621
- Temporary Assignment of Assets	2,668	1,209
- Unique mortgage notes	7,499	5,207
- Funds for mediation appropriations received from the EIB and ICO	3,007	3,117
Gains or losses on financial assets and liabilities (net)	**376**	**251**
- Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	**310**	**253**
- Gains or losses on financial assets and liabilities held for trading, net.	**96**	**51**
- Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-**	**-**
- Gains or losses from hedge accounting, net	**(30)**	**(54)**
Operating income before provisions	**968**	**1,467**
- Gross income	**2,974**	**2,988**
- Administrative expenses	**(1,833)**	**(1,366)**
- Depreciation	**(173)**	**(154)**
Average interest rate on loans and advances to customers (%):	**1.51%**	**1.35%**
- Interest income on loans and advances to customers in period	1.68%	1.68%
- Interest income on loans and advances to customers annualised	1,749	1,825
- Average month-end balances of loans and advances to customers	104,216	108,857
Average interest rate paid on customer deposits (%):	0.17%	0.32%
- Interest expenses on customer deposits in the period	179	363
- Interest expenses on customer deposits annualised	106,653	112,044
- Average month-end balances of customer deposits		
Average return on assets:	**1.04%**	**1.02%**
- Interest income in the period	1.26%	1.31%
- Interest income in the period annualised	2,316	2,627
- Average month-end balances of recognised assets in the period	184,287	201,066
Average cost of liabilities and equity (%):	0.21%	0.29%

- Interest expenses in the period - Interest expenses in the period annualised - Average month-end balances of total equity and liabilities in the period	392 184,287	582 201,066
ROA (%) (2) - Profit/(loss) for the period - Profit/(loss) for the period annualised - Average value of recognised assets at the end of the first half of the year	**0.3%** 469 184,287	**0.4%** 719 201,066
RORWA (%) (2) - Profit/(loss) for the period - Profit/(loss) for the period annualised - Regulatory risk-weighted assets at the period end	**0.5%** 469 89,715	**0.9%** 719 79,996
ROE (%) (2) - Profit/(loss) attributable to owners of the Parent for the period - Profit/(loss) attributable to owners of the Parent for the period annualised - Average value of equity of the 12 months preceding the period end adjusted for expected dividends	**4.1%** 469 11,528	**6.4%** 719 11,265
ROTE (%) (2) - Profit/(loss) attributable to owners of the Parent for the period - Profit/(loss) attributable to owners of the Parent for the period annualised - Average value of tangible equity of the 12 months preceding the period end adjusted for expected dividends	**4.1%** 469 11,5392	**6.5%** 719 11,151
Efficiency ratio (%) (2) - Administrative expenses - Depreciation for the period - Gross income	**67.5%** 1,833 173 2,974	**50.9%** 1,366 154 2,988

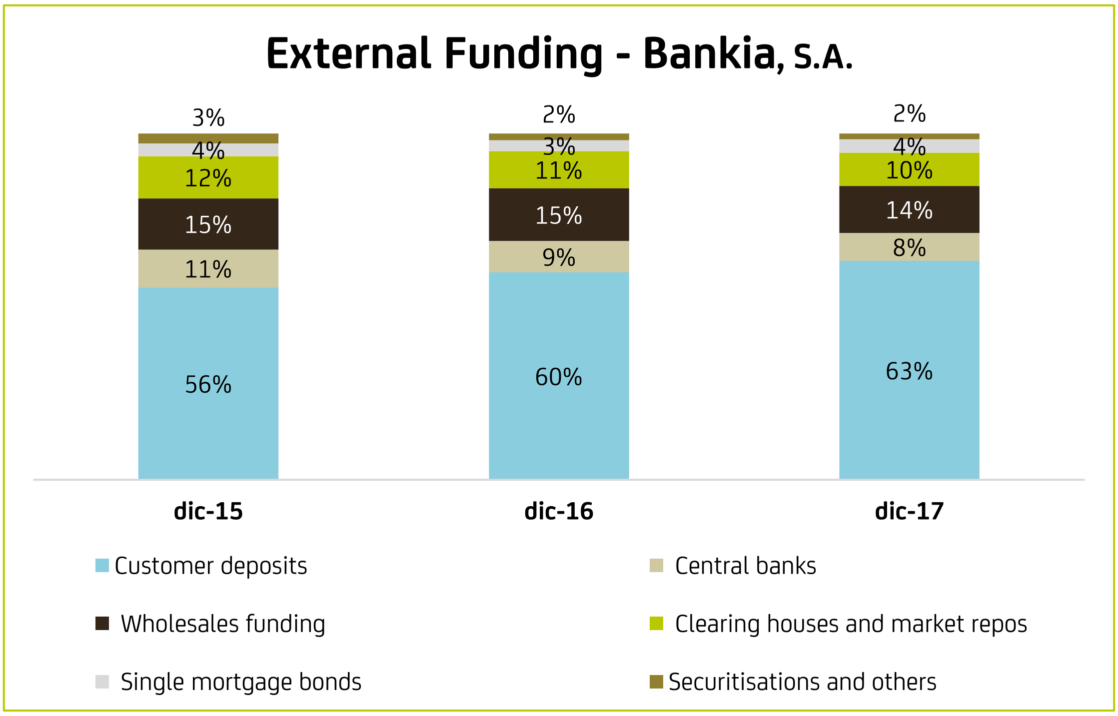
(1) The Group's efficiency ratio at 31 December 2017 is affected by the non-non-recurring integration costs arising from the merger between Bankia and BMN.

5.- FUNDING STRUCTURE AND LIQUIDIT

Note 3.2 and 3.3 to the financial statements for the period ended 31 December 2017 describes Bankia's liquidity management policies and provide details on maturities of financial assets and financial liabilities used to project its liquidity balance at different maturities. Accordingly, this section deals with trends in the Group's main liquidity indicators and funding sources in 2017.

Bankia's goal is to maintain a long-term financing structure that is in line with the liquidity of its assets and whose maturity profiles are compatible with the generation of stable, recurring cash flows. In line with this goal, in 2017 Bankia achieved improvement in both its liquidity metrics and liability structure.

According to the retail business model underpinning the banking activity, the Group's funding structure places priority on attracting retail liabilities, which represented 98% of net liabilities at 31 December and lend stability to the Bank funding structure. These arise mainly from business with retail customers (80.2% of customer deposits come from retail banking). Funds obtained through customer deposits are complemented by wholesale financing gearing towards the medium and long term (issuances) with a small percentage in the short term (interbank market), repos arranged in the market, balances with the ECB and (non-marketable) single mortgage bonds and the rest of funding sources.



Bankia's external funding requirement increased by EUR 24,509 compared to 2016, mostly because of the integration of BMN's financial liabilities. However, on a constant-scope basis, the bank's borrowings decreased by EUR 8,687 million, due mainly to the liquidity raised on disposals and maturities of fixed-income portfolios.

Post- merger with BMN, customer funds reached EUR 120,743 million, increasing their weight on the funding mix to 63.2% of Bankia´s external funding courses, compared to 59,9% in December 2016, broken down as follows: (i) 45.6% households, (ii) 8.7% non-financial corporations, (iii) 4.9% other financial institutions and (iv) 3% public sector deposits. Customers continued to transfer savings to current accounts and short-term deposits last year, further illustrating the shift of funds by Bankia customers away from longer-term products earning lower interest.

Wholesale funding stood at EUR 25.943 million at 31 December 2017, representing 13.6% of borrowings, down from 15.3% at 31 December 2016, and comprising mainly mortgage-backed securities and deposits from credit institutions. Over the new emissions during 2017 in which are included the EUR 500 million issue of 10-year Tier 2 subordinated bonds concluded in March, which was more than 10 times oversubscribed, and the EUR 750 million of AT1 bonds in July. The coupon on the latter was 6%, which is lower than other issues made by Spanish banks in 2017 because of the strong demand by the institutional investors targeted by the issue, resulting in 3.3x oversubscription of the amount finally allotted.

FUNDING SOURCES- BANKIA, S.A.

(Millions of euros) (*)	Dec-17 Ex-BMN (1)	Dec-17 Bankia (1)	Dec-16	Change Dec-16 Ex-BMN	Change Dec-16 Bankia	Percentage Dec-17 Ex-BMN (1)	Percentage Dec-17 Bankia (1)	Percentage Dec-16
Strict customer deposit	**97,758**	**120,743**	**99,737**	**(2.0%)**	**21.1%**	**62.0%**	**63.2%**	**59.9%**
Public sector	3,797	5,678	5,029	(24.5%)	12.9%	2.4%	3.0%	3.0%
Other financial companies	7,459	9,430	10,634	(29.9%)	(11.3%)	4.7%	4.9%	6.4%
Current accounts	5,691	6,126	5,257	8.3%	16.5%	3.6%	3.2%	3.2%
Term deposits	1,768	3,304	5,377	(67.1%)	(38.6%)	1.1%	1.7%	3.2%
Non-financial companies	12,460	16,607	12,403	0.5%	33.9%	7.9%	8.7%	7.5%
Current accounts	10,277	12,611	8,691	18.2%	45.1%	6.5%	6.6%	5.2%
Term deposits	2,184	3,996	3,712	(41.2%)	7.6%	1.4%	2.1%	2.2%
Households	74,042	89,029	71,671	3.3%	24.2%	46.9%	46.6%	43.1%
Current accounts	43,416	53,677	37,874	14.6%	41.7%	27.5%	28.1%	22.8%
Term deposits	30,625	35,351	33,797	(9.4%)	4.6%	19.4%	18.5%	20.3%
Financiación mayorista	**24,863**	**25,943**	**25,399**	**(2.1%)**	**2.1%**	**15.8%**	**13.6%**	**15.3%**
Deposits and credit institutions (2)	6,367	6,655	7,203	(11.6%)	(7.6%)	4.0%	3.5%	4.3%
Debt securities issued	18,496	19,288	18,196	1.7%	6.0%	11.7%	10.1%	10.9%
Securities issued	**1,683**	**2,060**	**2,468**	**(31.8%)**	**(16.6%)**	**1.1%**	**1.1%**	**1.5%**
Retail issues (single mortgage bonds)	**4,562**	**7,499**	**5,207**	**(12.4%)**	**44.0%**	**2.9%**	**3.9%**	**3.1%**
Purchase agreement (Clearing houses and credit instituti	**15,150**	**18,225**	**17,887**	**(15.3%)**	**1.9%**	**9.6%**	**9.5%**	**10.7%**
Central banks	**12,816**	**15,356**	**14,969**	**(14.4%)**	**2.6%**	**8.1%**	**8.0%**	**9.0%**
Others	**888**	**1,090**	**741**	**19.8%**	**47.2%**	**0.6%**	**0.6%**	**0.4%**
Total external funding sources	**157,720**	**190,917**	**166,407**	**(5.2%)**	**14.7%**	**100.0%**	**100.0%**	**100.0%**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures for the Group for 2017 reported after the merger between Bankia and BMN. Data ex-BMN exclude the impact of the merger and are presented for a better understanding of comparisons with 2016 on a same-scope basis.

(2) Includes banc deposits, collateral deposits and other deposits in credit institutions

The bank collateralized financing and other market assignments are EUR 18,225 million at December 2017, representing 9.5% of the Bankia's external funding at December 2017 compared to 10.7% in 2016. This activity forms part of bank's strategy to diversify its funding sources and reduce costs, maintining the sources of liquidity resources secured by liquid assets other than those of the ECB.

Funding from the ECB ha totalizado EUR 15,356 million after including the balances of BMN. As a result, the weight of central banks on the Entity funding structure has been placed to 8.1% of borrowings compared to 9% in December 2016. EUR 13,856 million of the total funding from central banks held by Bankia at end-December 2017 were obtained in the ECB TLTRO II programme the rest were TLTRO I (EUR 1,500 million). BMN contributed balances with the ECB amounting to EUR 2,540 million in 2017. Excluding this amount arising from the merger, Bankia reduced its ECB funding by EUR 2,153 million compared to December 2016 through early repayments of the amounts drawn in TLTRO I auctions.

Lastly, non-marketable mortgage-backed securities included in loans and advances, the the shares issued to customers and other funding sources have reached EUR 10.649 million in 2017. They are a residual component of Bankia funding structure, representing 43.9%, 1.1% and 0.6%, respectively, of the bank borrowings.

Core liquidity metrics remain and comfortable levels. After the integration of BMN, the commercial gap, i.e. the difference between loans (excluding reverse repos) and strict customer deposits, plus funds received from the EIB and ICO for the grant of second-floor loans, was a negative EUR 805 at the end of December 2017 compared to EUR 1,357 million at 31 December 2016. After the merger with BMN, the “Loan to deposits” or LTD ratio (net loans less reverse repos/strict customer deposits plus funds raised through second-floor loans and one-off non-marketable mortgage-backed securities) ended at 31 December 2017 in 93.7%, reflecting the balance achieved between Bankia loans and deposits.

Lastly, after the merger with BMN, Bankia has a comfortable maturity profile, with EUR 4,432 million of debt issues falling due in 2018 and EUR 4,764 million in 2018, of which EUR 5,600 million are bonds and mortgage-backed securities. To meet these maturities and scheduled redemptions in the coming years, Bankia had EUR 32,827 million of available liquid assets at December 2017, equivalent volume to 15.3% of the Bank´s assets and sufficient to cover its entire wholesale debt maturities.

Therefore, with manageable debt maturities in coming quarters and a favorable capital market environment, Bankia has a great deal of flexibility to meet its short- or medium-term funding needs, enabling it to maintain a solid balance sheet structure.

LIQUIDITY RESERVE - BANKIA S.A.

(Millions of euros) (*)	Dec-17 (1)	Dec-16
Highly liquid available assets (2)	19,703	27,004
Undrawn amount on the facility	10,918	1,881
Cash (3)	2,206	950
TOTAL	**32,827**	**29,835**

(*) Financial Statement amounts rounded to millions of euros
(1) Data for the resulting entity of the merger between Bankia and BMN
(2) Market value cut by ECB
(3) Bills, coins and Central Banks accounts reduced minimal reserves

6.- CAPITAL MANAGEMENT, SOLVENCY AND LEVERAGE RATIO

Capital management geared at all times to complying with minimum regulatory requirements and with the risk appetite target or level established by the Group is a key cornerstone of the Group's Corporate Risk Appetite and Tolerance Framework.

The entry into force of the solvency requirements known as BIS III on 1 January 2014, which then marked a change and entailed tougher quality and minimum capital requirements, has led to a raft of regulatory changes impacting the solvency of financial institutions. By adequately managing its capital, the Bankia Group has been able to bolster its solvency and minimise the impact of these regulatory changes.

A main cornerstone of capital management is the Capital Planning process, both the short and the medium and long term, designed to assess the sufficiency of present and future capital, even in adverse economic scenarios, in relation to the minimum capital requirements (Pillar I and Pillar II) for each level of capital and at in terms of the target level (appetite) and optimal structure of capital determined by the governing bodies. For this, the capital buffer requirements affecting the Group are also taken into consideration, along with their direct impact on the Bank's remuneration policy (including the distribution of dividends).

The capital planning process is a holistic process involving all levels of the Entity. Senior management and the Board of Directors play a key role in designing and monitoring capital planning. The capital planning exercise is based on financial planning (e.g. balance sheet, income statement, planned corporate transactions and restrictions included in the Group's Recapitalisation Plan approved by the European Commission and the Spanish Finance Ministry on 28 November 2012), on the macroeconomic scenarios forecast by the Group and on the impact analysis of potential changes in capital adequacy regulations.

Capital planning is aligned and consistent with the Entity's strategic planning, and establishes a baseline or expected scenario and at least one adverse scenario resulting from the application of a combination of adverse impacts on the expected situation. It also allows to quantify potential impacts on results and solvency according to an economic crisis scenario. The Group has mitigation plans in place to offset impacts in adverse economic scenarios.

Since 2015, in response to the recommendations issued by the various consultative bodies in the industry and the regulatory changes made with respect to the European Banking Union, the Bankia Group strengthened its capital planning and management framework, formally documenting or updating existing documentation on these processes in a series of reports approved by the Entity's Board of Directors. These documents are:

- **The Corporate Risk Appetite and Tolerance Framework,** which defines the level of risk appetite (internal capital target) based on the risks the Group is willing to assume in carrying out its business. Together with the capital target, the tolerance or maximum levels of deviation from the established target which the Bank considers acceptable are determined.
- **The Corporate Capital Planning Framework,** which sets out a clear governance framework to ensure the involvement and coordinated orientation of the Group's various divisions related to the capital planning process to achieve a common objective and that this objective fits in the Group's Risk Appetite and Tolerance Framework.

- **Capital Planning Policies,** which include Senior Management's guidelines regarding capital preservation and correct risk measurement, as well as the corrective measures for potential deviations included in the Capital Contingency Plan.

- **Recovery Plan**, which sets out the solvency and leverage indicator levels below the Entity's tolerance level which, prior to potential non-compliance with regulations, would trigger the corrective measures in crises situations, as well as the range of measures and execution of each.

Capital planning is a dynamic and ongoing process. Therefore, these documents define a series of regulatory and financial indicators and metrics, with related minimum thresholds, calibrated and graded in accordance with the various levels of admission (risk appetite and tolerance levels, early warning levels and Recovery Plan levels). The objective is to facilitate appropriate monitoring and control of the established targets and identify in advance future capital requirements and the corrective measures to be adopted.

The Group reviewed and updated all these reports in 2017. Noteworthy was the update of the calibration of the appetite, tolerance and recovery indicators on a phased-in basis to factor in the results obtained in the Internal Capital Adequacy Assessment Process report presented to the Supervisor in April 2017.

With a monthly base, real capital adequacy ratios are measured against these metrics and indicators and their various thresholds periodically. Potential deviations are analysed to determine whether the causes relate to one-off or structural events. The measures required to adapt the level of capital so it complies with the established targets is analysed and decided. In the case of default, this could ultimately trigger the Capital Contingency Plan or even the Recovery Plan. Actual performances of these metrics and indicators are presented to the Group's governing bodies at least quarterly.

The Capital Committee is mainly in change of projecting and controlling the evolution of the Entity's solvency ratios on a monthly basis, allowing the Entity to perform an active and agile capital management. It also monitors the solvency regulatory framework to ensure that the Group continuously adapts to any changes that may occur.

Solvency levels

In November 2016, the ECB notified the Bankia Group of the minimum capital requirements of its SREP applicable to 2017 on a phased-in basis (scheduled applied to capital buffers) of a Common Equity Tier 1 ratio of 7.875% of its risk-weighted assets, comprising a Pillar 1 capital ratio of 4.5%, plus a Pillar 2 requirement of 2% and a combined buffer requirement of 1.375%, and a Total Capital ratio of 11.375% of risk-weighted assets, comprising a Pillar 1 ratio of 8%, a Pillar 2 requirement of 2% and a combined buffer requirement of 1.375%. The minimum CET 1 phase-in ratio at 31 December 2016 was 10.3125% (with no minimum requirement for total capital).

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

Regarding the combined buffer requirements, in addition to the capital conservation buffer common to all banks, Bankia Group was identified by the Bank of Spain as another systemically important institution (O-SII). Therefore, a Common Equity Tier I capital buffer was established at 0.25% of its total risk exposure on a consolidated basis. However, considering the phase-in period provided for in Law 10/2014, it will only be required to maintain 50% of this buffer in 2017 (25% in December 2016); i.e. 0.125% (0.0625% in December 2016). Lastly, set the counter-cyclical buffer own of the group, calculated according to the geographical location of exposures.

In December 2017, the Bankia Group achieved a Common Equity Tier 1 (BIS III Phase In) ratio of 14.15% (15.08 % at 31 December 2016) and a Total Capital (BIS III Phase) ratio of 16.84% (16.42% at 31 December 2016). These capital levels imply surpluses above the 7.875% minimum Common Equity Tier 1 capital ratio requirement for 2017 of EUR 5,397 million and above the 11.375% minimum Total Capital ratio requirement of EUR 4,700 million.

The following table provides a detail of capital levels, as well as risk-weighted assets calculated in accordance with the CRR and CRD IV at 30 June 2017 and 31 December 2016 applying the phase-in schedule for each period.

BANKIA GROUP Solvency Basilea III

(Millions of euros and %)

Eligible capital	Dec 2017 (*) (**)		Dec 2016 (*)	
Common Equity Tier I	12,173	14.15%	11,606	15.08%
Equity tier I	12,856	14.94%	11,606	15.08%
Equity tier II	1,632	1.90%	1,030	1.34%
Total Equity BIS III	**14,487**	**16.84%**	**12,636**	**16.42%**
Risk weighted assets BIS III	**Dec 2017 (**)**		**Dec. 2016**	
Credit risk (include CVA)	77,958		67,383	
Operational risk	6,481		6,414	
Market risk	1,608		3,162	
Total weighed assets BIS III	**86,046**		**76,960**	
Excess/(Minimal regulatory defects)	**Dec. 2017 (*) (**)**		**Dec. 2016 (*)**	
		minimum		***minimum***
Excess Common equity Tier I BIS III	**5,397**	**7.875%**	**3,670**	**10.31%**
Total Equity Bis III	**4,700**	**11.375%**	**4,700**	**10.31%**

(*) Including the amount of net profit for 2016 earmarked for reserves.
(**) Estimated at 31/12/2017.

The Bankia Group merged with BMN in December 2017. This had an estimated impact on the CET 1 phased-in ratio of -283bps and on total solvency of -322bps, which was absorbed with internal capital, without having to tap the market. The impact reflects mainly the increase in own funds (share capital increase and issue premium) at Bankia of EUR 825 million, the non-recurring restructuring costs and the EUR 16,699 million of additional RWAs related to the integration of BMN's balance sheet.

Continuing with its organic CET 1 generation model, without considering the effect of these merger, the Bankia Group generated CET 1 capital of +190bps, complying with its stated objective of reinforcing its CET 1 ratio due to its permanent, available and loss-absorbing capacity nature as required by Basel III capital regulations

The levers moving the capital evolution in 2017 are the following:

- The calendar effect has had an impact of **-11 bps on CET1 as well as total capital**.

- Profit attributable to the Group (EUR 504 million), less the deduction for the regulatory dividend (EUR 340 million) and other impacts on the numerator (e.g. prudent valuation adjustment, unrealised gains and losses on the available-for-sale portfolio, tax credits, accrual of AT2 coupon and other) generated **+32bps in CET 1**.

- **Reduction in risk-weighted assets** of EUR -7,613 million over the course of the year, generating +169bps of CET1. The decline in RWAs was centred on credit risk (EUR -5,146 million) associated with balance-sheet deleveraging and the active management of the composition of, and the improved quality of, the Group's loan portfolio. RWAs for market risk decreased by EUR 1,554 million thanks to the gradual recovery driven by the review of the calculation models and, finally, the reduction in gross income resulted in a decrease of EUR -913 million of RWAs for operational risk.

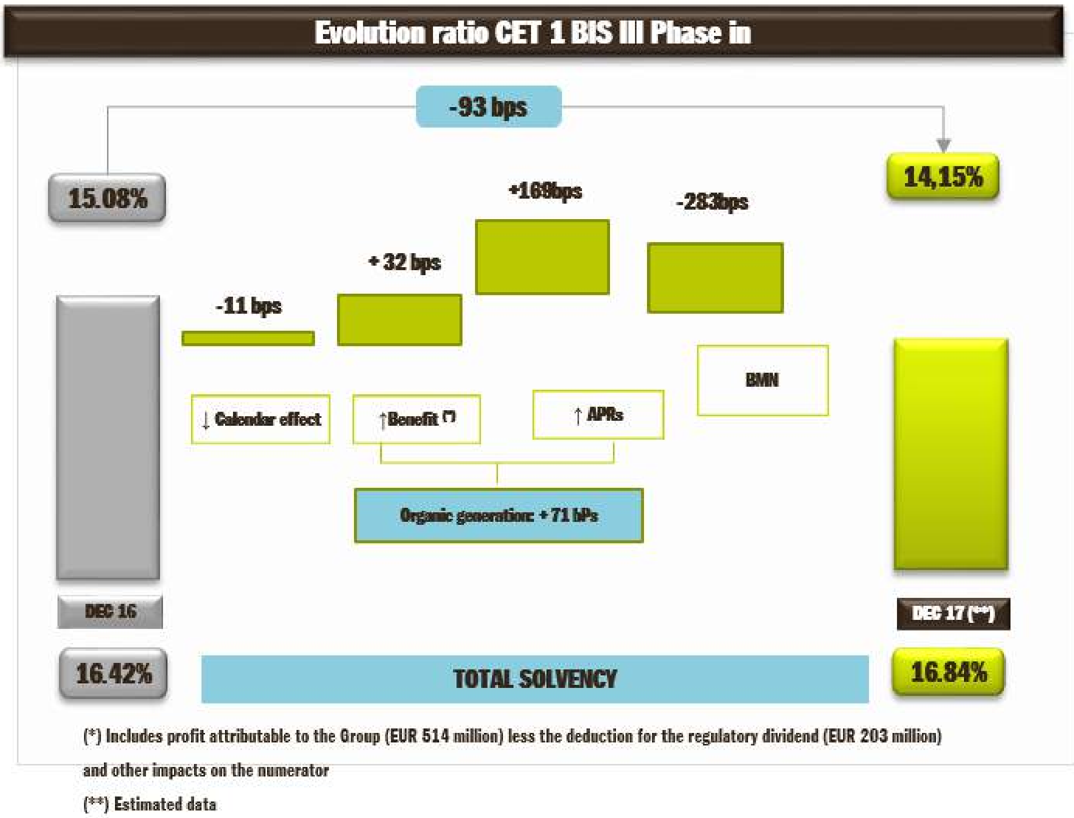
In terms of total capital, excluding the impact of the merger with BMN (-322bps), the Bankia Group would have increased the total capital ratio in 2017 by 364bps. In 2017, as part of the Group's strategy of optimising its capital structure and strengthening its total capital levels, increasing its base of instruments with loss-absorbing capacity ahead of the future regulatory requirement of the MREL (minimum requirement for own funds and eligible liabilities) envisaged in the BRRD directive, the Bankia Group carried out the following issues of capital instruments:

- March 2017: issuance of subordinated bonds ("Bankia 2017-1 Tier 2 subordinated bonds") for a nominal amount of EUR 500 million, which the Supervisor authorised as eligible for calculation as Tier 2 capital, with an estimated impact on the total capital ratio of +66bps.

- July 2017: issuance of contingent bonds convertible into Bankia shares for EUR 750 million eligible for inclusion as additional Tier 1 (AT1), with an impact on Tier 1 capital and Total Solvency of +100bps.

After the merger, the Group added to its total capital ratio EUR +175 million from subordinated bonds from BMN.

The following chart shows the trend in capital ratios:



It also presents reconciliation of equity in the balance sheet to regulatory capital, including profit for the year earmarked for reserves. Data at 31 December 2016 are for the Bankia Group excluding the impact of the merger with BMN.

BANKIA GROUP reconciliation between Equity and Eligible Capital BIS III

(Millions of euros and %)

Eligible elements	Dec. 2017 (**)	Dec. 2016 (*)	Variation	% Variation
Own funds	13,222	12,303	920	7%
Other comprehensive accumulated income	366	489	(123)	(25%)
Non controlling interests	25	45	(20)	(45%)
Total Equity (Public Balance)	**13,613**	**12,837**	**776**	**6%**
Adjustment between public and regulatory balance	0.4	(8)	10	-
Total Equity (Regulatory balance)	**13,614**	**12,829**	**783**	**6%**
Non controlling ineligible equity elements	**(137)**	**(242)**	**106**	**(44%)**
Ineligible valuation adjustments as CE T-1	(104)	(219)	115	(53%)
Non controlling interests	(20)	(23)	3	0%
Regulatory portfolio adjustment	(12)	0	(12)	0%
Regulatory capital deductions	**(1,304)**	**(981)**	**(323)**	**33%**
Intangible assets and other deductions (regulatory balance)	(342)	(273)	(68)	25%
Deferred tax assets	(587)	(324)	(263)	81%
Valuation adjustments due to prudent requirements (AVA)	(35)	(67)	31	-
Dividends	(340)	(317)	(23)	7%
Common Equity Tier I	**12,173**	**11,606**	**568**	**5%**
Additional Equity Tier I	**682**	**0**	**682**	**0%**
Equity Tier II	**1,632**	**1,030**	**602**	**58%**
TOTAL REGULATORY EQUITY (*)	**14,487**	**12,636**	**1,852**	**15%**

(*) Including the amount of net profit earmarketed for reserves.
(**) Estimated at 31/12/2017.

Finally, the estimated impact for the Group of the entry into force of IFRS 9 is a reduction in equity of around EUR 314 million after tax, as at 1 January 2018. In addition, without factoring in application of the transitional arrangements contemplated in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017, the Group estimates that first-time application of IFRS 9 will have an impact on its phase-in common equity tier 1 ratio of -21bps and on its phase-in leverage ratio of -8bps, similarly as of 1 January 2018.

The minimum capital requirements cover credit, foreign currency, market and operational risks.

At 31 December 2017, the capital requirements for credit risk, including equity and CVA, amounted to EUR 6,237 million, of which EUR +1,258 stemmed from the merger with BMN. At present, the requirements for credit risk are calculated using both the standardised and internal rating-based approaches. The entire portfolio from BMN is calculated using the standardised approach, lowering the percentage of the portfolio using internal models to 53%.

Currency and market risk exposures were calculated using internal models. However, these calculation models were being reviewed by the supervisor, during which the market risk requirements are higher that would correspond strictly by its market activity. At 31 December 2017 in this connection at amounted to EUR 129 million (EUR 253 million at 31 December 2016).

Finally, the Bankia Group used the standardised approach to calculate the capital requirements for operational risk, ended EUR 518 million at December 2017 (EUR 513 million in December 2016), of which EUR 78 million arose from the integration of BMN.

Leverage ratio

The leverage ratio arose in the December 2010 Capital Framework of the Basel Committee on Banking Supervision (BCBS), which introduced this new metric as a supplementary ratio to solvency requirements but unrelated to risk measurement. The aim is to include the leverage ratio as a binding Pillar I requirement from 1 January 2018, after conclusion of the review and calibration period that started on 1 January 2013.

The Bankia Group's (phase-in) leverage ratio at 31 December 2017, after the merger with BMN, stood at 6.02% (2016: 6.12%), including the amount of profit for the year earmarked for reserves in Tier 1 capital. The merger with BMN had an impact on the leverage ratio of -97bps, related mainly to the increase in exposure. Nevertheless, this is amount the 3% minimum reference level set by the Basel Committee.

The leverage ratio performed positively in 2017, excluding the impact of the merger with BMN, increasing by 87 bps, due above all to the reduction in total assets on the Bankia Group's balance sheet.

The following table provides a breakdown of the leverage ratio at 31 December 2017, along with a reconciliation of total assets on the balance sheet and leverage exposure measure. The composition of the leverage ratio at 31 December is for the Bankia Group excluding the impact of the merger with BMN.

BANKIA GROUP leverage ratio

Items (Millions of euros and %)	Dec. 2017 (*)	Dec. 2016 (*)
Tier 1 Capital	12,856	11,606
Exposure	213,518	189,492
Leverage ratio	**6.02%**	**6.12%**
Reconciliation between Public Balance sheet and exposure for leverage ratio		
Total Assets Public Balance	**213,932**	**190,167**
(+/-) Adjustments difference between Public and Regulatory Balance	9	199
(-) Items already deducted from Tier 1 capital	(1,003)	(663)
(-) On-balance sheet derivatives assets	(9,765)	(11,887)
(+) Derivative exposure	217	818
(+) Add-ons for counterparty risk in securities financing transactions (SFTs)	3,255	1,398
(+) Off-balance sheet items (including use of CCFs)	6,873	9,460
Total exposure leverage ratio	**213,518**	**189,492**

(*) The data has been estimated based on Delegated Regulation 2015/62.
Including the amount of net profit earmarked for reserves.

During 2017, the BCBS, in conjunction with the European Banking Authority (EBA), carried out several QIS (Quantitative Impact Study). The BFA Group, to which the Bankia Group belongs, was one of the financial institutions invited to participate actively in the leverage ratio monitoring process.

7.- RISK MANAGEMENT

Risk management is a strategic cornerstone in the organisation which primary objective is to safeguard bankia financial stability and asset base, while creating value and developing the business in accordance with the risk tolerance 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.

Under this framework, in 2015, the project to transform the risk function in order to enhance the quality of reporting and provide better risk management tools with the objective of aligning it with best practices in Spain and abroad, was completed. The plan concluded in 2015, with establishment of the general principles guiding the risk function (group-wide function, independence and commitment of senior management, etc.) and created a comprehensive organisational model throughout the risk life cycle.

These advances are associated with the Transformation Plan 2016-2018, which focuses more on improving risk management in key areas, such as optimisation of the Bank's recoveries model, the promotion of sound lending, an early warning system to detect potential impairments before they materialise, the orientation of the business towards maximising economic value, and training on risks.

Note 3 to Bankia’s financial statements for the period ended 31 December 2017 provides details on the governing bodies responsible for supervising and controlling the Entity’s risks, as well as the general principles, organisational model, policies and methods to control and measure the risks to which Bankia is exposed through its business. Accordingly, this section provides an overview of the performance and main indicators used to assess the trends in risks in 2017.

7.1.- Credit risk

Credit risk is the risk of loss assumed by Bankia in the regular course of its banking business if its customers or counterparties fail to comply with their contractual payment obligations.

Credit risk management is an end-to-end process, running from loan or credit approval to elimination of exposure, either at maturity or through recovery and sale of assets in the event of foreclosure upon default. It involves identifying, analysing, measuring, monitoring, integrating and valuing credit risk-bearing transactions on a differentiated basis for each segment of Bankia's customers.

The variables Bankia uses to measure credit risk are derived from internal models: probability of default, exposure at default and loss given default (severity). These variables allow ex-ante analysis of the credit portfolio's risk profile by calculating the expected loss and economic capital required.

- **Risk profile and composition of assets**

Given its activity and business model, Bankia´s risk profile shows far greater exposure to credit risk than the other risks to which its business is inherently exposed.

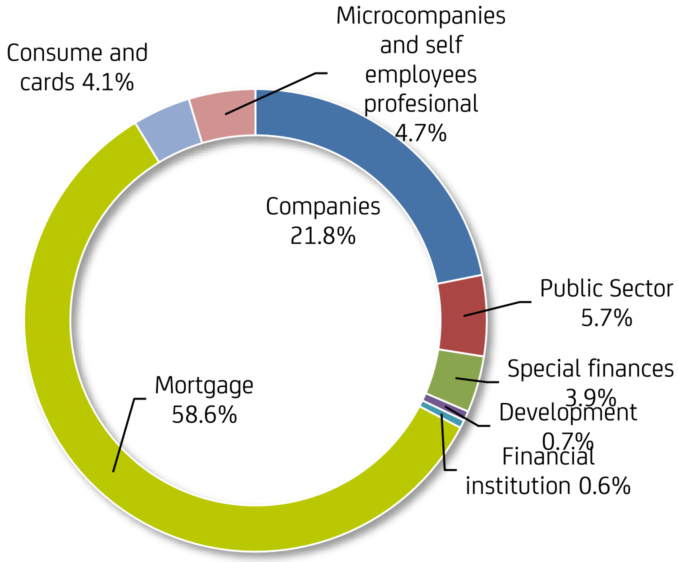
The main characteristics of the Banks’s credit risk profile and its trends in 2017 according to data from the audited portfolio (does not include positions in financial investees) are as follows:

- Loans and advances to customer remains similar to 2016 year-end structure, with a 33%-67% distribution between the corporate segment, including public sector, and retail.

- The weight of the real estate portfolio over total loans is below 0.7%.

- The mortgage portfolio accounts for 58.6% of total loans and receivables. The second largest portfolio corresponds to companies representing 21.8% of the total, followed by loans to public institutions and bodies (5.7% of the total portfolio).

- 45% of assets at 31 December 2017 were classified in the doubtful category for subjective criteria or are in the "curing" period. Accordingly, no loans in this portfolio are past-due that imply subjective arrears, or refinancing agreements have been reached with the customers and, therefore, there is an apparent willingness to pay. This must be verified over a period of at least twelve months, but can be extended to the entire grace period where applicable.



The following table shows the distribution by portfolio of expected loss and regulatory capital for credit risk of Bankia at 31 December 2017:

MM€	Dec-17	
Segment name	Regulatory Equity	Expected Loss
Public sector	59.9	120.4
Banks and financial intermediaries	178.6	13.1
Companies	1,606.3	2,325.3
Property	74.4	512.1
Retail	2,150.2	2,381.2
Mortgage	1,707.0	1,814.9
Consume	*169.0*	*102.8*
Cards	*78.1*	*38.6*
Micro-companies and self-employed profesional	*196.0*	*425.0*
Equity	396.1	9.5
TOTAL	**4,465.6**	**5,361.7**

The maturity profile of credit exposure is detailed in Note 3.3 to the condensed interim financial statements for year ended 31 December 2017 (table on residual maturities). A significant portion of loans and advances to customers (61.9%) mature beyond five years given the large volume of mortgage loans to homebuyers, which are generally for long periods.

- **Asset quality: trends in doubtful balances, NPL and coverage.**

Bankia´s pro-actively manages and anticipates credit risk with a view to containing the inflow of non-performing loans (NPLs) and raising NPL coverage. Management has enabled the key variables related to credit quality of assets to continue to fare well in 2017.

The Group's non-performing loans ended December 2017 at EUR 12,081 million, up from EUR 11,478 million in 2016. The increase was the result of the integration of BMN's assets in the merger carried out in the fourth quarter of 2017. The NPL ratio stood at 8.9%.

However, excluding the integration of BMN, the Bankia´s doubtful exposures fell further, by 15.3% (EUR 1,757 million) from the end of 206 to EUR 9,721 million at 31 December 2017. This improvement is explained mainly by the gradual decrease in inflows of NPLs, stronger efforts in monitoring and recovery management and, to a lesser extent, the sale of portfolios of doubtful and extremely doubtful assets in the year. As a result, the NPL ratio improved further, to 8.5% at 31 December 2017, 1.3 percentage points lower on a same-scope basis than at 31 December 2016.

At 31 December 2017, Bankia had counted a portfolio of refinanced operation of EUR 12,579 million in gross terms. The 58.8% of the refinancied credits had been clasified as doubtful with a NPL ratio of 43.4%.

NPL and Coverage - BANKIA, S.A.

(Millions of euros and %) (*)	Dec-17 Ex-BMN (1)	Dec-17 Bankia (1)	Dec-16	Change Dec-16 Ex-BMN	Change Dec-16 Bankia
NPLs	9,721	12,081	11,478	(15.3%)	5.3%
Total risk	114,834	136,488	117,653	(2.4%)	16.0%
Total NPL Ratio (2)	**8.5%**	**8.9%**	**9.8%**	**(1.3) p.p.**	**(0.9) p.p.**
Total provisions	**5,182**	**6,102**	**6,283**	**(17.5%)**	**(2.9%)**
Watchlist	400	475	403	(0.9%)	17.7%
Standard	272	318	266	2.0%	19.4%
Specific	4,502	5,289	5,582	(19.3%)	(5.2%)
Country risk	6	6	17	(63.1%)	(62.9%)
Fixed income	2	14	15	(89.1%)	(9.1%)
Hedging ratio	**53.3%**	**50.5%**	**54.7%**	**(1.4) p.p.**	**(4.2) p.p.**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures for the Group for 2017 reported after the merger between Bankia and BMN. Data ex-BMN exclude the impact of the me and are presented for a better understanding of comparisons with 2016 on a same-scope basis.

(2) NPL ratio: non- performing loans and advances to customers and contingent liabilities/risk assets consisting of loans and advar to customers and contingent liabilities.

The improvement in the portfolio risk profile and satisfactory levels of provision coverage leave the Group in a good position to achieve one of the main objectives in the Strategic Plan: to increase profitability and curtail risk in the coming years. Maintaining the cost of risk under control.

- **Credit risk of trading in derivatives**

The Entity is exposed to credit risk through its activity in financial markets, specifically its exposure to OTC (over the counter) derivatives. This exposure is called counterparty risk.

The method used to estimate counterparty risk entails calculating EAD (“exposure at default”) as the sum of the current market exposure and the potential future exposure. This method aims to obtain the maximum expected loss for each transaction.

However, in order to mitigate most of these risks, Bankia has, inter alia, tools that mitigate risk, such as early redemption agreements (break clause), netting of credit and debit positions (netting) and collateralisation for the market value of the derivatives or offsetting of derivatives.

At 31 December 2017, there were 1,669 netting and 240 guarantee agreements (138 derivatives, 88 repos and 14 securities loans). The main figures regarding quantification of the derivatives activity at that date are as follows:

- Original or maximum exposure: EUR 19,573 million.
- Exposure applying mitigation techniques through netting: EUR 6,220 million.
- Net exposure after applying all mitigation techniques: EUR 369 million.

As shown, counterparty risk in derivatives trading is reduced by 93.01% by applying derivatives netting and guarantee agreements.

7.2.- Liquidity risk

Liquidity risk can be expressed as the probability of incurring losses through insufficient liquid resources to comply with the agreed payment obligations, both expected and unexpected, within a certain time horizon, and having considered the possibility of the Bank managing to liquidate its assets in reasonable time and price conditions. Bankia approach to monitoring liquidity risk is based on three cornerstones:

- The first one is the liquidity gap, classifying asset and liability transactions by term to maturity taking into account the residual maturity. The liquidity gap is calculated for the recurring retail business, as well as for the funding needs of the Entity’s structural portfolios.

- The second is the funding structure, identifying the relationship between short- and long-term funding and the diversification of the funding mix by asset type, counterparty and other categorisations.

- Third, in keeping with the future regulatory approach, Bankia uses metrics that enable it to measure the resilience of the bank's liquidity risk profile in different time horizons of above mentioned regulatory ratios.

As a supplement to the various metrics, the Group has a well-defined Contingency Plan, which identifies alert mechanisms and sets out the procedures to be followed if the plan needs to be activated.

Note 3.2 and 3.3 Bankia 2017 interim financial statements provide information on remaining term to maturity of the Bank's issues by funding instrument, along with a breakdown of financial assets and liabilities by contractual residual maturity at 31 December 2017 and 2016.

Alongside the monitoring of liquidity risk in normal market conditions, action guidelines have been designed to prevent and manage situations of liquidity stress. This pivots around the Liquidity Contingency Plan (LCP), which sets out the committees in charge of monitoring and activating the LCP and the protocol for determining responsibilities, internal and external communication flows, and potential action plans to redirect the risk profile within the Bankia's tolerance limits.

The LCP is backed by specific metrics, in the form of LCP monitoring alerts, and by complementary metrics to liquidity risk and regulatory funding indicators, LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). These ratios have built-in stress scenarios for the ability to maintain available liquidity and funding sources (corporate and retail deposits, funding on capital markets) and allocate them (loan renewal, unprogrammed activation of contingent liquidity lines, etc). For the LCR, the scenario relates to a survival period of 30 days, and the regulatory assumptions underlying the construction of the ratio are valid exclusively for this period.

For the LCR, the scenario relates to a survival period of 30 days, and the regulatory assumptions underlying the construction of the ratio are valid exclusively for this period Post-merger with BMN, the regulatory LCR at 31 December 2017 (172%) was within the entity’s risk limits and above the level of the RAF (130%). The net stable funding ratio (NSFR) is currently undergoing a review and will form part of the minimum standards following approval of the new CRR (Capital Requirements Regulation), with a requirement of at least 100%. At present, Bankia expects to meet the minimum regulatory requirements.

7.3.- Market risk

Market risks arise from the possibility of incurring losses on positions in financial assets caused by changes in market risk factors (interest rates, equity prices, foreign exchange rates or credit spreads). Limits are established in accordance with a number of metrics: value at risk (VaR) calculated using the historical simulation method, sensitivity, maximum loss (stop-loss limit) and the size of the position.

The Markets and Operational Risks Department is independent of the business units and it is integrated in the Corporate Risks Department, which with respect to market risk in trading performs the following functions: control and monitoring of positions with market risk and counterparty lines; daily calculation of the results of the various desks and portfolios; independent valuation of all market positions; periodic reporting on the various market risks to the pertinent committee; and, lastly, control of model risk.

- **Interest rate risk**

Interest rate risk balance sheet structural (positions not included in the trading portfolio) reflects the probability of incurring losses because of changes in the benchmark interest rates for asset and liability positions (or certain off-balance sheet items) that could have an impact on the stability of the Entity’s results. Rate fluctuations affect both Bankia´s interest margin 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. Interest rate risk management is designed to lend stability to interest margins, maintaining levels of solvency that are appropriate for the Company’s level of risk tolerance.

Trends in interest rates depend on certain factors that are beyond the Bankia's control, such as financial sector regulation, monetary policies applied by the ECB, and the political and international environment.

Like other risks, structural interest rate risk management is predicated on a clear system of separation of roles and responsibilities. The principles, metrics and limits approved by the Board of Directors are monitored by the Structural Risks Department under the Market and Operational Risks Department, which is part of the Corporate Risk Department.

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, information prepared by the ALCO is reported by the Global Risk Management Division, along with other risks, to the Bank's senior management.

According to Bank of Spain 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.

- **Other market risks**

Other market risks arise from the possibility of incurring losses in value of positions in financial assets and liabilities caused by changes in market risk factors other than interest rate risk (equity prices, foreign exchange rates or credit spreads). These risks arise from cash and capital markets positions and can be managed by arranging other financial instruments.

- **Market risk measurement and monitoring**

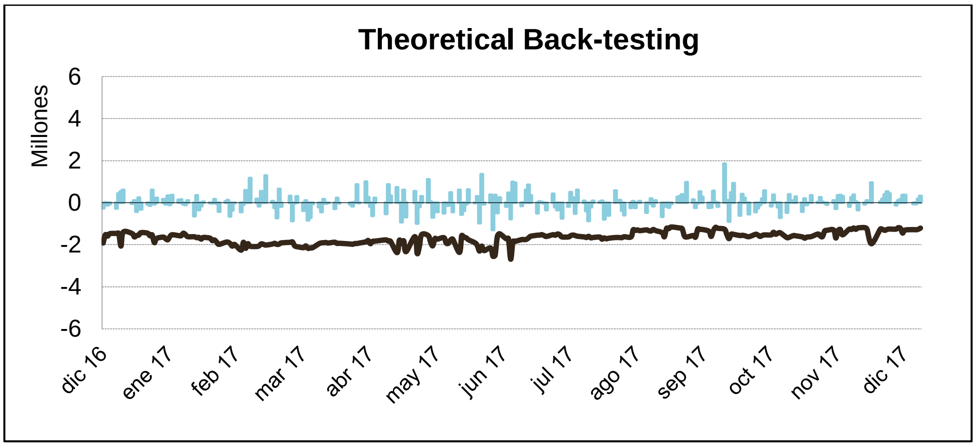
For market risk measurement used two metrics: VaR (value at risk), which provides a prediction of the maximum loss that can suffer in a time interval with a certain level of confidence and sensitivity, which expresses the impact on the valuation of financial instruments to the changes in various risk factors. These metrics are complemented by an analysis of scenarios, which consists of evaluating the economic impact of extreme movements in market factors on trading activity.

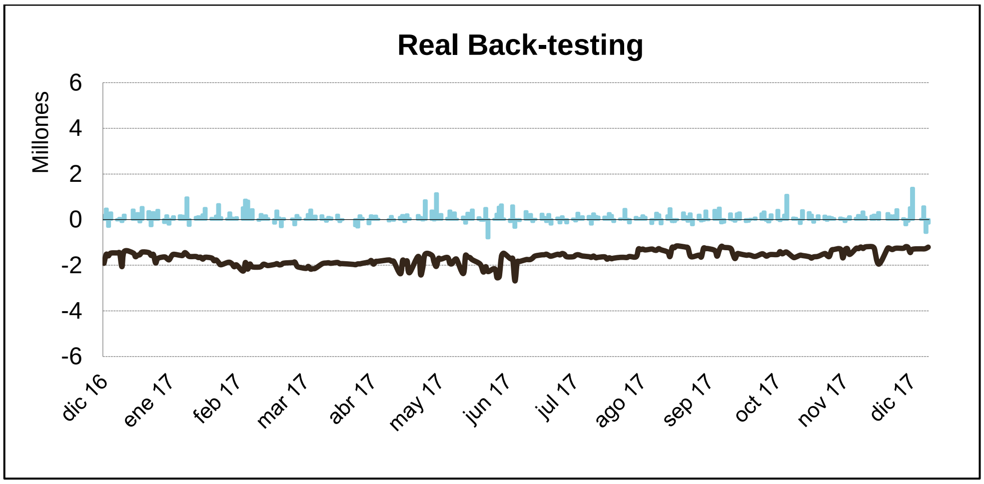
Control of market risk is based on a system of fixed limits in terms of maximum exposure to market risk, which are approved annually by senior management and distributed across the various business areas and centres.

a) Value at Risk (VaR) and back-testing

VaR is measured by the historical simulation method using a 1-day time horizon and a 99% confidence level. It takes at least one year of observations of market data.

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 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 one applying actual changes comparing daily VaR with net daily results excluding commissions.





- The checks carried out in 2017 confirm the effective operation of the model used by Bankia to measure VaR in accordance with the assumptions used, with no breaches in the year.

The scope of authorisation by the Bank of Spain of internal models lies in the measurement of market risk of the trading portfolio and exchange risk. The regulatory capital figure is calculated by the internal model as the linear sum of the value at risk (VaR), stressed value at risk (SVaR) and incremental risk (IRC) regulatory capitals.

- Value at Risk. The calculation method used to measure VaR is historical simulation with 99% confidence level and a time horizon of 1 day. A time window of 250 daily observations is used. On a daily basis two calculations of VaR are performed. One applies an exponential decay factor that lends 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 investments, credit margins, commodity prices and volatility of the foregoing).
- Stressed Value at Risk. Stressed value at risk (sVaR) uses the same calculation methodology as the VaR, with two differences. The observation period must include a period of market stress and no exponential weights are applied to observations. The

stress period is determined for the entire portfolio as the period that provides the highest VaR figure, calculated as the sum of the values at risk by factor.

- Incremental risk. The methodology for calculating incremental risk (IRC) considers the risk of default and the risk of migration 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. The distribution is 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 integration of BMN will not have a significant effect on the VaR metric.

b) Sensitivity

Sensitivity quantifies changes in the economic value of a portfolio due to given movements and determinants of the variables affecting this value. In the case of non-linear movements, such as derivatives activities, sensitivity analysis is supported by an evaluation of other risk parameters, such as sensitivity to movements in the price of the underlying (delta and gamma), volatility (vega), time (theta) and interest rate (rho). For share or index options, elasticity to changes in dividend yield is calculated. 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.

c) Stress-testing

Periodically, stress-testing is performed to quantify the economic impact of extreme movements in market factors on the portfolio. Sensitivity, VaR and IRC measures are supported by stress-testing applying different types of scenarios:

- Historical scenario: scenarios built based on movements observed in previous crises (e.g. Asian crisis of 1998, the tech bubble of 2000/2001, 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 1-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 analysis; 1) based on a matrix of credit margins built using variations observed, and 2) based on a transition matrix related to credit risk stress scenarios.
- Worst case: default by all issuers in the portfolio.

- **Trends and distribution of market risk in 2017**

Bankia maintained an average VaR in 2017 of EUR 1.42 million, with a maximum of EUR 2.62 million and a minimum of EUR 0.78 million.

VaR	Financial assets and liabilities held for trading (Millions of euros)
Average	1.42
Maximum	2.62
Minimum	0.78

Distribution of VaR by risk category *(Millions of euros)*				
Risk category	**Punctual**	**Average**	**Maximum**	**Minimum**
Interest rate	0.95	1.13	2.37	0.56
Equity instrument	0.04	0.04	0.16	0.01
Exchange rate	0.30	0.23	0.74	0.10
Credit spread	0.00	0.03	0.51	0.00

- **Trading derivatives**

Bankia trading in derivatives arises mainly from the management of market and interest rate risks, and from market making and distribution activities.

Risk of the derivatives trading activity measured in terms of VaR remains extremely low, as this activity is based on transactions with customers carried out in the market under the same terms as opposite transactions. The VaRs for 2017 are as follows:

VaR of derivatives activity *(Millions of euros)*	**Fixed income**	**Equity**	**Exchange rate**	**Total**
Average	1.33	0.05	0.28	1.65
Maximum	2.49	0.22	0.81	2.77
Minimum	0.68	0.01	0.12	0.99

- **Country risk**

Country risk is defined as the risk of incurring losses on exposures with sovereigns or residents of a country due to reasons inherent to the country's sovereignty or economic situation; i.e. reasons other than normal commercial risk, including sovereign risk, transfer risk and other risks related to international financial activity (war, expropriation, nationalization, etc.).

Bankia's country risk management principles are grounded on criteria of maximum prudence, whereby this risk is assumed on a highly selective basis.

Bankia's exposure to country risk at 31 December 2017 was marginal, recognising a provision in this connection of EUR 6 million.

7.4.- Operational risks

- **Customer concentration risk**

Bankia is subject to Bank of Spain concentration limits, such that the exposure to any single non-consolidated economic group or borrower must not exceed 25% of eligible capital. In this respect, the bank regularly monitors large exposures with customers, which are reported periodically to the Bank of Spain.

The Bank uses different tools to analyse and monitor the concentration of risks. 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 provides a direct measure of concentration risk. An approach similar to that used by ratings agencies is applied, paying attention to the weight of the main risks on the volume of capital and income-generation ability.

At 31 December 2017, there were no exposures that exceeded these limits.

- **Operational risk**

The control of the operational risk is carried out in the Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems of the Group or from external events. This definition includes legal risk, but excludes strategic risk and reputational risk.

Bankia has the following operational risk management objectives:

- Bankia operational and IT risk management not only covers the recognition of loss events and accounting of the losses, but also promotes control to minimse the potential negative impacts through continuous improvement to processes and the strengthening of operating 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.

Operational risk control is overseen by the Operational and IT Risks Department under the Market and Operational Risks Department, which is part of the Corporate Risks Department. As of March 2017, the Operational Risk Department took responsibility for acting as the second line of defence in the management of IT and cybersecurity risk, changing its name to the Operational and IT Risk Department.

The Operational Risk Committee, whose responsibilities include approving policies and methods, is the natural channel for senior management participation in operational risk management. This use of own resources trends in real and expected loss data, all the operational risk management actions carried out, Meanwhile, on 30 March 2017 the Board of Directors approved the IT and Cybersecurity Risk Policies and Procedures Manual. According to this manual, these risks are managed by the Operational Risk Department, which has changed its name to Operational and IT Risk Department. The new committee expanded its oversight competencies in this area and changed its nature, becoming an executive committee meeting monthly, rather than quarterly. It held 7 meetings in person in 2017, at which the use of own resources, trends in real and expected loss data, and all operational risk management actions carried out were presented.

The capital requirement to cover operational risk is rooted in Basel II. European Regulation No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 (CRR) regulates the treatment of this type of risk in the area of credit institutions.

Bankia used the standardised approach to measure its operational risk. This approach requires the disaggregation of the relevant revenues of the past three reporting periods by business line and the application of a percentage to each. In 2017, Bankia updated the Guidelines for the Application of the Standardised Approach for Operational Risk approved by the Board of Directors on 18 December 2013. This 36-point report contains available information so that the supervisor can verify compliance with regulatory requirements.

In 2017, Bankia used the standardised approach to measure its operational risk for the fifth consecutive year, consolidating the management aspects associated with the implementation of this method. As set out in the regulations, based on the related risk. Bankia's capital requirement for operational risk at 31 December 2017 amounted to EUR 427 million (EUR 498.19 million in 31 December 2016).

- **Changes in regulatory frameworks and regulatory risk**

The financial services industry is characterized for being tightly regulated. Bank operations are subject to specific regulation and Bankia Group's operations are exposed to risks that could arise from changes in the regulatory framework.

Changes in the regulatory framework due to modifications in government policies, the banking union process or of any other type could give rise to new regulatory requirements that affect the Bankia Group's solvency levels, ability to generate future profit, business model, dividend policy, and capital and liability structure.

Regulatory developments have been much more profound since the entry into force in January 2014 to the new prud-ential requirements known as BIS III became effective. For Europe, this consisted of Directive 2013/36/EU, of 26 June 2013 ("CRD IV") and Regulation (EU) 575/2013, of 26 June 2013 ("CRR"). The framework continues to expand through new regulatory and implementing technical standards.

Additionally, the configuration of the European Banking Union is based on two key cornerstones: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Both have brought with them additional regulatory developments, such as the Bank Recovery and Resolution Directive (BRRD) and the Directive on Deposit Guarantee Schemes. Regarding the mechanism for internal loss-absorption, a minimum requirement for own funds and eligible liabilities with loss-absorbing capacity (MREL) has been established, which institutions must maintain to prevent relying on public assistance if they are no longer viable. This legislation determines the circumstances for entry into resolution of a financial institution and resolution scheme, designing an internal mechanism where shareholders and creditors absorb losses (bail-in) in order to protect deposits, minimise the costs for taxpayers and avoid as far as possible recourse to the Singe Resolution Fund (SRF). The European Commission is proposing legislative amendments whereby it aims to review the prudential framework of BIS III and the framework for resolution of the BRRD. Nevertheless, the amendments would not enter into force until 2019.

On the Spanish legislative front, Royal Decree Law 11/2017 on urgent measures in financial matters was enacted on 23 June 2017. Among other things, the legislation created a new category of senior non-preferred debt, with a lower ranking relative to other preferred claims or ordinary senior debt, and established the requirements for classification in this category to guarantee loss-absorption capacity in the event of resolution. Enactment of this Royal Decree takes non-preferred ordinary claims to a legal status, in line with other EU Member States and the regulatory proposals being put forward in Europe in this respect.

The Regulatory Monitoring Committee, composed of senior executives, identifies the potential impact and influence of regulatory changes on the Entity, anticipating any adverse effect. The Committee pays particular attention to certain areas, such as business, accounting, risk management, solvency, liquidity, compliance and internal audit. Meanwhile, it establishes appropriate criteria for adapting the business model to the new regulatory paradigm, subsequently performing periodic and exhaustive monitoring of each adaptation project.

- **Reputational risk**

The Basel Committee on Banking Supervision defines reputational risk as "the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding".

Since the end of 2015, and in line with the Good Governance Code recommendations included in the Responsible Management Plan 2016-2018 approved by the Board of Directors, the Entity is carrying out a corporate-wide non-financial risk identification, evaluation and control exercise with a view to improving the management of reputational risk and complying with new regulator and supervisor requirements.

Spurred by these requirements, in July 2016, the Board of Directors approved the Reputational Risk Management Policies Manual which allow Bankia manage actively those events that could result in greatest reputational risk.

Sustainable management of reputational risk is crucial for carrying out Bankia's long-term plans and achieving its objectives. It considers reputation not only as past performance, but also as a possibility and future opportunity. Bankia attaches great importance to managing its reputation, as one of its objectives, since one of its objectives is to achieve trust, loyalty and the best possible valuation on the part of its interest groups to pass on an improvement of its competitiveness.

Bankia made huge efforts in 2017 to manage reputational risk, complying with regulator and supervisor requirements and maintaining its status as a benchmark in this respect.

It worked on furthering the risk culture through training sessions and workshops for individuals responsible for managing and coordinating reputational risk at Bankia. At the same time, the number of departments involved was expanded to obtain a more comprehensive and accurate vision, resulting in the construction of a more robust and complete risk management tool for decision-making.

The main development in 2017 was the design of a synthetic indicator for regular monitoring of reputation capable of identifying the main risk events both within the entity and the sector that could result in a deterioration in reputation, as well as the quality of Bankia's control environment to prevent or mitigate them. Using this indicator, the Board of Directors can assess whether Bankia enjoys the desired levels of reputation or if decisions must be taken in this respect, carrying out action plans targeting the Bank's internal management or its relations with stakeholders.

8.- FORECLOSED REAL ESTATE ASSETS

After integrating the assets of BMN following the merger with Bankia, the net balance of the Bank's property assets foreclosed or received in payment of debt ended at 31 December 2017 at EUR 3,146 million (EUR 4,800 million gross), representing just 1.5% of the bank's assets. Most of the foreclosed entails liquid assets (68.4% gross terms), mainly existing and newly built homes, which makes the disposal easier.

FORECLOSED AND ACQUIERED ASSETS OF BANKIA GROUP - SPAIN BUSINESS

(Millions of euros) (*)	December 2017			
	Carrying amount	Valuation adjustments	Gross amount	Coverage (%)
Real estate assets from construction and development	788	312	475	39.6%
Of which finished buildings	351	93	258	26.5%
Of which buldings under constructions	65	33	32	50.3%
Of which land	372	187	186	50.1%
Property assets from loan for house purchase	2,930	1,080	1,850	36.9%
Other real estate assets	1,082	262	820	24.2%
Total foreclosed assets (1)	**4,800**	**1,654**	**3,145**	**34.5%**

(*) Financial Statement amounts rounded to millions of euros
(1) Data for the res ulting entity of the merger between B ankia and BMN.

Bankia´s policy helps borrowers meet their obligations, so that foreclosure is always the last solution. It has several initiatives in place to ease the impact: adapting debts and renegotiations, offering to extend maturities or grace periods, among others. Only when it believes there are no real chances of recovering the amount financed does it acquire the mortgaged asset.

In this respect, Bankia's objective regarding this type of asset is to dispose of it with the smallest possible impact on the income statement through sale or rental, with or without a purchase option related to the Housing Social Fund and/or special rentals. With this objective, the bank engaged Haya Real Estate to manage, administer and sell its foreclosed assets under the supervision of the property Management Division.

Accordingly, Bankia has an active provisioning policy for these assets based on appraisal updates and the outlook for the real estate market. Provisions recognised at the end period of December 2017 for foreclosed assets from the Bankia's business in Spain amounted to EUR 1,654 million, implying coverage of 34.5%.

Bankia's strategy of reducing problem assets also includes the stock of foreclosed assets. With the real estate market showing growth in demand and prices, and mortgage lending picking back up, property market showed the first positive signs in relation to prices and sales, in 2017 Bankia has sold EUR 386 million of foreclosed assets.

9.- INFORMATION ON CREDIT RATINGS

At 31 December 2017 the ratings granted to Bankia by different rating agencies include the following:

Ratings Emisor BANKIA				
	STANDARD &POOR'S	FitchRatings	DBRS	SCOPE
Long Term	BBB-	BBB-	BBB (high)	BBB+
Short Term	A-3	F3	R-1 (low)	S-2
Perspective	Positive	Stable	Stable	Stable
Date	28/06/2017	15/02/2017	05/07/2017	30/11/2017

Ratings Cédulas Hipotecarias BANKIA				
	STANDARD &POOR'S	FitchRatings	DBRS	SCOPE
Rating	A+	A	AAA	AAA
Perspective	Positive	Stable	---	Stable
Date	07/04/2017	18/10/2017	22/09/2017	08/07/2016

Note: Related to the ratings assigned to Bankia by Moody's in October 2013 Bankia informed that had decided to end the contractual relationship with Moody's. In this sense, the ratings that the agency continues to publish about Bankia have the status of "not requested" ("Unsolicited") "and" non-equity "(" Non-participating "), ie Bankia does not participate in the review of ratings by the agency, who based their decisions strictly on available public information about the entity. Despite that repeatedly has asked the agency to stop publishing ratings of Bankia, is Moody's unilateral decision to determine the time at which stop publishing ratings on the Bank.

Key issues regarding credit ratings during 2017 include the following:

- The achievement of all of the objectives of the Entity's 2012-2017 Strategic Plan, coupled with the positive performance of the banking business, the reduction in NPLs and the improvement in capitalisation, have had a positive impact on the Entity's ratings of 2017.

- On 27 June, Bankia announced the merger with Banco Mare Nostrum ("BMN"). As discussed in greater detail below, the rating agencies considered that the merger BMN would have a limited impact on Bankia's credit metrics and, therefore, affirmed their ratings.

- Regarding the sovereign rating, Standard & Poor's Ratings Services (hereinafter "S&P"), Fitch Ratings (hereinafter "Fitch") and DBRS Ratings Limited (hereinafter "DBRS") affirmed their ratings for Spain of "BBB", "BBB+" and "A low", respectively, all with stable outlooks. The three agencies considered the improved macroeconomic outlook for Spain, which bodes well for the operating environment of banks in Spain. In the wake of the positive trends seen last year, the agencies believe 2017 will be a year of consolidation, in which banks will improve gradually as the economy gathers steam and the real estate market stabilises. The agencies also considered the political events surrounding Catalonia. While they did not carry out any actions on Spain's sovereign rating, they did indicate that a prolonged scenario of uncertainty and political instability could undermine the growth of the Spanish economy and, therefore, the business environment for banks.

S&P took the following rating actions on Bankia during 2017:

- On 9 February 2017, the agency revised up Bankia's long-term rating from "BB+" to "BBB", with a positive outlook, bringing it back to investment grade territory. The action was the result of an improvement in the assessment of Economic Risk and Industry Risk of banks operating in Spain, combined with the strengthening of Bankia's capital position throughout 2016.

- Subsequently, in its annual review of Bankia's ratings, S&P affirmed its rating on 24 March 2017. According to the agency, Bankia's financial and credit profile continues to benefit from a solid domestic franchise, improved risk management and an adequate risk-adjusted capital ratio.

- Finally, on 28 June 2017, following the disclosure of the terms of the merger with BMN, S&P re-affirmed its long-term "BBB-", with a positive outlook, saying the deal was likely to have a limited impact on Bankia's creditworthiness.

- The agency affirmed the "A-3" short-term rating, which it upgraded from "B" on 9 February 2017.

- Regarding the rating of Bankia's mortgage covered bonds (cédulas hipotecarias), on 7 April 2017, after the upward revision to its rating outlook on Spain on 31 March, S&P affirmed its rating on Bankia's mortgage covered bonds at "A+", revising its outlook from stable to positive. The outlook for Spanish mortgage covered bonds reflects the outlook for Spain's sovereign rating.

Highlights regarding Fitch's rating for Bankia include:

- On 15 February 2017, Fitch affirmed Bankia at "BBB-" stable outlook. In its review, the agency viewed positively Bankia's capital generation ability, noted the ongoing improvement in asset quality, high NPL coverage, the supportive domestic environment, and the Bank's commitment to actively manage down problem asset.

- On the same date, Fitch affirmed Bankia's short-term rating at "F3" and its subordinated debt rating at "BB+".

- Regarding the rating of Bankia's mortgage covered bonds (cédulas hipotecarias), on 18 October, following an industry-wide review of the covered bond programmes it rates in Spain, Fitch affirmed its A rating for Bankia's cédulas hipotecarias, outlook stable.

DBRS affirmed its ratings of Bankia long-term debt and deposits at BBB (high) and its short-term rating at R-1 (low), outlook stable. The agency affirmed its ratings after its annual review of Bankia's credit profile and considering the terms of merger with BMN, which it considered manageable for Bankia and will not have a material impact on Bankia's credit metrics.

Regarding Bankia's mortgage covered bonds, on 22 September, after the review carried out as part of the agency's ongoing monitoring, DBRS upgraded its rating by one notch from AA (high) to AAA rating. It said the action was underpinned mainly by the improvement in the level of overcollateralisation of the mortgage portfolio.

In the first half of 2017, Bankia publicly asked Scope Ratings ("Scope") to assign it an issuer rating. On 30 November, Scope assigned Bankia the following ratings based on its assessment of the Bankia's financial strength on its own, all with stable outlooks:

- Issuer rating of BBB+
- Ratings of senior unsecured debt (not eligible for MREL) at BBB+
- Ratings of senior unsecured debt (eligible for MREL) at BBB
- Short-term debt rating at S-2

These rating actions give Bankia four long-term investment grade ratings

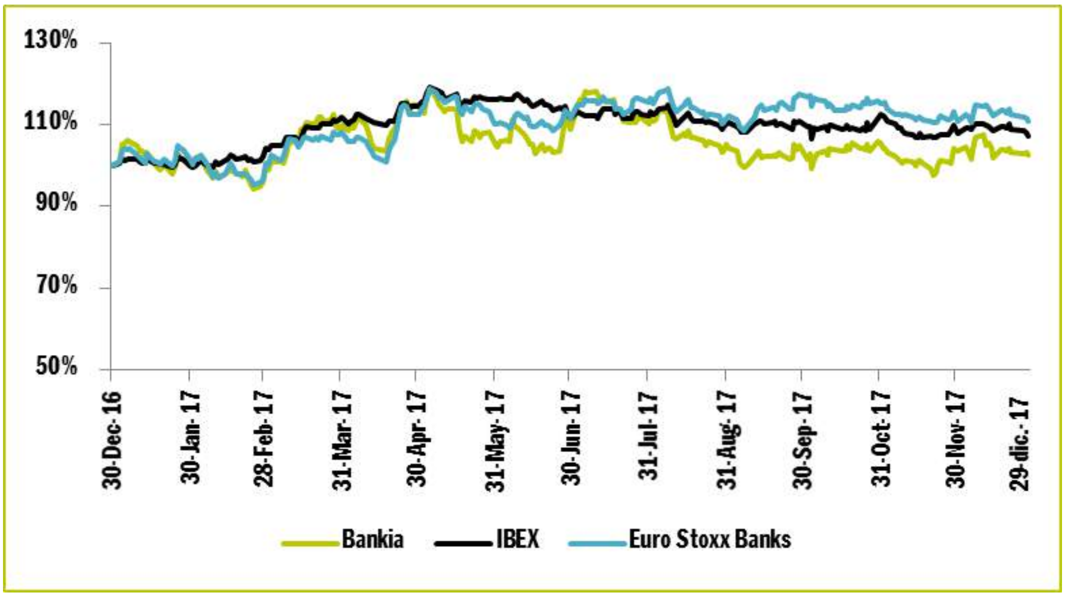
Lastly, Bankia's mortgage covered bonds are rated "AAA", stable outlook, by Scope Ratings since 8 July 2016, with no changes in 2017.

10.- SHARE PRICE PERFORMANCE AND SHAREHOLDER STRUCTURE

Financial markets were bullish in 2017, fuelled by robust economic growth in the main economies and a series of upward revisions to forecasts. The Ibex-35 gained 7.4% and the Euro Stoxx 6.5%. European banks delivered an excellent performance, with the Euro Stoxx Bank soaring by 10.9%. In Spain, geopolitical tension caused by the situation in Catalonia caused market volatility to rise, hitting listed banks particularly hard in the year’s first quarter.

Bankia's share price rose by 2.7%. Average daily trading volume was 8.5 million shares, with an average of EUR 35 million changing hands.

SHARE PRICE



A number of major transactions were carried out during the year to boost trading, bring in new shareholders and make progress on the goal of privatising the bank.

- In June, share capital was reduced with a charge to reserves, improving the Bank's capital structure, and a reverse split of 1 share for every 4 existing shares was carried out, increasing in the same proportion the share price and reducing the total number of shares.

- In December, BFA sold shares representing a 7% stake in Bankia for EUR 818 million through an accelerated book-build among qualified investors, at a price of EUR 4.06 per share. Investors requested shares totalling EUR 1,900 million, representing an oversubscription of 2.3x the amount offered.

Meanwhile, the integration of Bankia and BMN was approved in 2017. The merger was executed in January 2018 (with effect for accounting purposes on 31 December 2017) through the delivery of 205.6 million newly issued Bankia shares to BMN shareholders, after which Bankia's total capital consisted of 3,085 million shares. Of the total shares, 39.02% was free float and 60.98% held by BFA, Bankia's government-owned parent. Of the 39% free float, 36.7% related to former private Bankia investors and 2.3% for former BMN investors.

As for shareholder remuneration, following authorisation by the General Meeting of Shareholders, Bankia distributed an all-cash dividend on 31 March out of 2016 profit. It paid EUR 2.756 cents per share, for a total payment of EUR 317.4 million. This gave a pay-out of 39.5%.

11.- INFORMATION ON TREASURY SHARES

Bankia trading in treasury shares pursues the following objectives:

- To provide liquidity or supply securities to investors, as appropriate, adding breadth and minimising temporary mismatches between supply and demand in trading in Bankia shares.

- To take advantage, in the benefit of all shareholders, of weakness in share price relative to the medium-term outlook.

- To implement, as appropriate, share buybacks approved by the Board of Directors or in execution of resolutions adopted by the General Meeting of Shareholders and, in particular, to afford Bankia access to shares that enable it to meet its obligations for the delivery of shares undertaken previously in respect of issuances of convertible or exchangeable securities and other corporate transactions, such as remuneration or loyalty plans for shareholders, directors, managers or employees.

- To comply with other legitimate commitments previously undertaken.

- Any other purposes permitted under applicable regulations.

Discretionary trading over treasury shares refers to the purchase or sale of own shares on electronic trading platforms of official markets, multilateral trading systems and any other organised trading platform which is ordered by Bankia, directly or indirectly. Transactions in Bankia shares ordered by companies which are controlled by Bankia are also considered in this definition. Discretionary trading over treasury shares may not be carried out to distort price discovery and may not be carried out if the unit in charge of executing the trade possesses inside or price sensitive information.

Transactions involving treasury shares are performed by Treasury Share Management, a separate unit protected by the appropriate Chinese walls within the general departments determined by the Board of Directors and the General Meeting of Shareholders, which also list the risk limits for the treasury share policy. No other Group unit may trade in treasury shares, except for the repurchase of own shares for hedging market risk or to facilitate brokerage or hedging for customers. This may be carried out by units other than Treasury Share Management.

The balance of treasury shares at 31 December 2016 stood at 52,059,789 shares with a nominal amount of EUR 44.8 million. During 2017, a total of 71,208,722 shares were purchased (EUR 41.2 million with a par value of EUR 0.8 and EUR 19.7 million with a par value of EUR 1) and 56,970,353 shares were sold (EUR 33.5 million with a par value of EUR 0.8 and EUR 15.1 million with a par value of EUR 1), leaving a balance of treasury shares at 31 December 2017 of 20,023,158 shares, with a par value of EUR 1 after the reverse split carried out in June 2017 (46,275,000 shares). Treasury shares held at the end of 2017 represented 0.65% of Bankia's share capital at that date. The following table summarises the treasury share transactions carried out by Bankia in 2017:

TREASURY SHARE TRANSACTIONS - BANKIA GROUP

SHARES ACQUIRED 2017

Date of communication	No. of shares acquired	Par value per share (€)	Nominal amount (€ Mn)	% of share capital (*)
January	7,256,374	0.8	5.8	0.06%
February	16,203,574	0.8	13.0	0.14%
March	2,098,319	0.8	1.7	0.02%
April	3,583,015	0.8	2.9	0.03%
May	22,399,093	1.0	17.9	0.19%
June	3,961,119	1.0	4.0	0.14%
July	1,960,990	1.0	2.0	0.07%
August	2,203,915	1.0	2.2	0.08%
September	2,873,065	1.0	2.9	0.10%
October	2,189,077	1.0	2.2	0.08%
November	3,626,914	1.0	3.6	0.13%
December	2,853,267	1.0	2.9	0.09%
TOTAL	**71,208,722**		**60.90**	**1.97%**

(*) Percentage calculated based on share capital existing at the end of each month. The percentage represented by total acquisitions is calculated on share capital existing at the end of December.

TREASURY SHARE TRANSACTIONS - BANKIA GROUP

SHARES SOLD IN 2017

Date of communication	No. of shares acquired	Par value per share (€)	Nominal amount (€ Mn)	% of share capital (*)
January	3,923,036	0.8	3.1	0.03%
February	3,981,218	0.8	3.2	0.03%
March	16,713,802	0.8	13.4	0.15%
April	4,409,800	0.8	3.5	0.04%
May	12,872,308	1.0	10.3	0.11%
June	3,645,904	1.0	3.6	0.13%
July	1,981,627	1.0	2.0	0.07%
August	1,423,890	1.0	1.4	0.05%
September	2,057,821	1.0	2.1	0.07%
October	1,049,435	1.0	1.0	0.04%
November	2,904,152	1.0	2.9	0.10%
December	2,007,360	1.0	2.0	0.07%
TOTAL	**56,970,353**		**48.59**	**1.58%**

(*) Percentage calculated based on share capital existing at the end of each month. The percentage represented by total acquisitions is calculated on share capital existing at the end of December.

12.- DIVIDEND POLICY

The distribution of dividends is voted on by the General Meeting of Shareholders based on proposals made by the Board of Directors.

Pursuant to the decision by the European Commission of 20 July 2012, Bankia suspended dividend payments to shareholders until 31 December 2014. Therefore, the Entity did not pay any dividends in 2011, 2012 or 2013. The restriction on dividend payments ended on 31 December 2014. Accordingly, at the General Meeting of Shareholders of Bankia held on 22 April 2015, approval was given to distribute a gross dividend of EUR 201.6 million out of 2014 profit. This dividend was paid on 7 July 2015. This was the first dividend paid by Bankia since it was incorporated.

Subsequently, pursuant to the resolutions adopted by the General Meeting of Shareholders on 15 March 2016, on 31 March 2016, Bankia distributed a EUR 300.72 million dividend out of 2015 profit to shares carrying dividend rights at the payment date, marking a nearly 50% increase on the dividend paid out of 2014 profit.

Finally, pursuant to the resolutions adopted at the General Meeting of Shareholders of 24 March 2017, on 31 March 2016, Bankia paid a final dividend out of 2016 profit for a total amount of EUR 317.42 million gross (EUR 2.756 cents per share), 5% higher than the dividend paid last year.

Underpinned by organic capital generation ability and an increasingly strong balance sheet, Bankia's goal in the coming years is to maintain shareholder remuneration as another step towards getting the business back to normal and repaying the public assistance received.

13.- RESEARCH, DEVELOPMENT AND TECHNOLOGY

The financial industry continue undergoing a major business transformation owing to a variety of reasons (changes in customer habits, regulatory requirements stiffer competition due to the arrival of new distributors of financial products and services, as such as pressure on margins due to all-time low interest rates).

Accordingly, technology adquire a key role in the process of evolution of entities in this complex environment. Against this backdrop, the Bankia Group's investments in technology pursue two main objectives:

- To ensure an Operational Model that maximises the bank’s efficiency and agilty, (as only those institutions that can operate with an efficient cost base will be able to compete). This efficiency must be compatible with a business model that is robust (in terms of security and ensuring the absence of operating errors), flexible (reconfigurable) and scalable.

- To provide competitive advantages to the business units in their customer relations, enabling them to offer a differentiated customer experience relative to competitors, and to roll out a “hybrid” distribution model, whereby personal manages (at branches as remote) and direct channels (internet, mobile, ATMs) work seamlessly to offer customers the best advice.

Taking into account these objectives, as well as regulatory adaptations, Bankia has established IT investment priorities around major Transformation Projects (initiated in previous years): The Redesign of Processes at Branches, the Multichannel Transformation Plan and the Redesign of Information Systems. In this vein, also considered with the needs for application upgrades, without losing sight of the importance in today’s world of issues related cybersecurity.

This strategic line is predicated on three pillars, Closeness, Simplicity and Transparency, known internally as the CST Position. The entire Developments Plan is designed to reinforce these pillars.

The Redesign of Business Processes Plan, has as its main objective to make the commercial network more “efficient” through operational streamlining to make the branches more flexible and decrease administrative red tape, compliance with regulatory requirements regarding the delivery, receipt and filing of customer documentation, and leveraging the possibilities of the multi-channel customer relationship. In 2017, we redesigned the processes surrounding asset products (loan subrogation, arrangement and renewal of guarantee lines, COMEX, discounting renewal and queries, credit account queries and cancellation, global multiproduct lines, fast track processing and loans taken over from other banks). We enhanced the process of verification of signing powers via the Bankia Online Empresas channel, and improved on guarantees, card maintenance and pre-classification of non-customers.

The required work continued to conclude the developments of the redesigns of other processes initiated on 2016 (enhancing commercial processes, commercial contact manager and customer commercial file, The Process Dashboard implementing a new front and engine for the application used by the Bank for opening internal service tickets (Service Requests).

These redesigns continue to yield positive results, simplifying and reducing the number of operational tasks, freeing up time to develop commercial activities.

Multi-channel Transformation Plan the Bank's **"digital transformation"** is being addressed. All existing channels are undergoing a continuous change process, reinforcing the omnichannel approach and gradually adding new features to attract more customers, while driving a change in the behaviour of existing customers towards increasing use of digital channels aware that the transformation is only possible if they form part of it.

Along this line, **Bankia Online** was set up to allow customers access to all their transactions. The main enhancements to this include:

- Accessibility from any device and interaction between the various channels.
- Easier navigation and fewer processes.
- Interaction between the various channels.
- Full redesign of operations and contracting products and services.
- Enhancements in contactability.

Also in 2017, progress has been made on the lines of actions included in the Multi-channel Transformation Plan begun last year:

- **Remote Management:** We rolled out a new contacts management tool, Salesforce, for "Conecta con tu Experto" (connect with your expert) and "Servicios +Valor" (service +value). The contacts management tool is connected to the sales action management engine, which means that sales actions are guided by the bank's business intelligence unit.

- **Business Intelligence**: A new commercial action management engine has been added, and soon a new near-real time and batch event management system.

- **Upgrade of Digital Channels:**
    - o New features were added to the app launched in 2016 to give value-added services to customers (cash withdrawals at ATM via mobile phone, cardless withdrawals and payments between Bizum friends through the app). We have gradually added features to the app so that customers can sign up all the products available on Bankia Online, and have continued to develop functionality by enhancing one-click offers and including new features like certificate downloads.

- Work is under way on creating a single product catalogue, which will be available over remote channels and through the branch network.
- We launched Bankia Online, our new website for retail customers. The site design focuses on user-friendliness, contactability and new functionalities. The website functions across multiple devices using responsive/adaptive approach.
- We launched a new wallet using the same user experience and architecture approaches as for the app.
- We continued our strategy of offering self-assessment tools by launching health and post retirement si mulators. We have gradually added simulators to Bankia Online. The simulations now provide "Save" and "Continue signup" options.
- We have extended the online on-boarding process so that an account can have two accountholders

- **Digital Marketing:** In this line of action, developments have been made and deployed to provide pre-approved finance (Plan B) to digital customers buying in the online stores of member brands. The pre-approved financial solution (now “Bankia Ysi”) has also been rolled in various e-commerce markets.

The rest of the investment went to implementing a **new platform, BeBankia**, through which customers can shop online (accessing advertisements published in the application) or in person at member stores (via mobile phone), enabling them to buy any article in the shop. Customers are eligible to receive discounts and promotions in both cases.

In keeping with its customer-centric digital strategy, Bankia has developed an architecture capable of processing customer events related to their financial transactions, generated across various channels and contact points (omni-channel) to not only offer them better service, but also personalised commercial offers in real time. Bankia won the **Computing 2017** for this.

In 2017, work has continued on the **Redesign of the Information System** of the Group. The main objectives of this project are:

- To structure the Group's information repositories: construction of an Integrated Corporate Repository (ICR); use this repository as a single information source for the generation of all the Bank's reports and reporting; and create a glossary of terms with definitions of each items of the repository, and the criteria for its preparation where applicable.

- To align information management with industry standards of excellence: regulatory compliance with BCBS239 (Basel Committee on Banking Supervision) on RDA (Risk Data Aggregation) and RRF (Risk Reporting Framework), modelled on Data Point Model (DPM) taxonomy endorsed by the EBA, ECB and Bank of Spain and adapted to Bankia’s glossary of terms.

- Implement corporate information governance.

In 2017, implementation of the data governance tools underpinning corporate information governance was completed. On the regulatory front, 51 FINREP statements were included in production, of which 42 are ready for reporting to the regulator. Considerable progress was made on building the FI, PI, UEM and I statements and on the development of COREP and CIRBE. In addition, we completed ICR procurement of analytical data. The scorecards that are to present this information are now being validated.

Work also continued on creating an analytical platform with Big Data technology so that various business units can handle huge volumes of daily information from both internal and external sources, of various types and formats, using advanced analytical techniques applied by the Data Scientists. In 2017, we completed the following projects in this domain:

- Created a corporate Big Data platform to meet units' requirements by leveraging synergies and preventing silos from emerging at the bank.
- Implemented a powerful, scalable and flexible technology framework to integrate batch and near-real-time capabilities (input, refinement, transformation, processing, analytics and advanced visualisation functionalities).
- Enhanced governance of information and data processes, reinforcing data quality, security, traceability and privacy.
- Implemented a technology environment that allows data scientists to act autonomously.
- Reinforced information management by developing a meta data visualisation and management tool, measuring the impact of security rules and standards on the Big Data environment, and visualising and generating scorecards.
- Big data classification of customer activity: We have created a Bankia customer activity classification process, saving costs and significantly improving process time.
- Cognitive and analytics: We have started to frame our strategy to bring in tools, people and know-how that will enable us to use cognitive and AI techniques in the setting of an "operational excellence centre".

The platform currently supports Bankia's new sales analytics, based on daily customer data and real-time event detection. Work has begun with the Business Risk, Innovation, Compliance and Security areas.

In other action aimed at **renewing and upgrading the applications and systems** of the Bank, work is being done on the evolution of systems architecture, the renewal of base software, the evolution of environments for the development teams and the deployment of Cloud technology. In this respect, we renewed our agreement with Microsoft, and now have in place a hybrid cloud corporate email service.

We completed a range of projects to optimise mainframe and middleware platforms. To speed up development, we specified and implemented a micro-service architecture which evolves the current setup. We also published the first APIs (BankiaConect, TuComunidad, Legalitas).

Efforts are also being made on the evolution of certain operations through robotic process automation (debits, transfers, pensions, unemployment benefits, registration of POSs and cards). Another key technology project is the inclusion of Roboadvisor technologies in the advisory process that it will continue during 2018.

The sales and workshop catalogue was upgraded in line with the single product catalogue. We created a new app to streamline the process of creating, managing and maintaining Bankia products.

In the Cybersecurity Plan, improvements are being make, especially in remote channels, for alignment with the digitalisation strategy. Given the short response time required, work is being done on two angles, surveillance and protection. Developments are also being made in terms of IT fraud protection through analysis of vulnerabilities in applications and architectures.

In lines drawn up under the **CST Position** (closeness, simplicity and transparency), projects have begun related to:

- Customer Allocation, whereby the system adapts to trends in customer habits and the branch service models.

- Contact Manager, adapting to the context of the closeness model in customer relations, leading to more frequent contact and an enhanced customer experience (Contacta YA).

- Search engine to meet the needs of each internal front Bankia.

Beyond the scope of these two Portfolio Transformation Projects, the rest of investment in 2017 was spread out among projects on a number of fronts: business (individuals and companies), risks and recoveries, regulations, technology, and infrastructure.

On the Business with Individuals and Companies front, the main projects focused to improve insurance contracting operating processes (health, cars, multirisk, companies), and specific assets products (Line Multiproducts that allows to adjust to the maximum the limits granted to the clients).

In Risks and Recoveries, the migration to the market risk platform, previously handled by Kondor, to MUREX continued in the period. In order to have a platform for the Risks and Front Office operation adapted to the needs of the Entity within the activities of the markets.

Elsewhere, developments finalised in relation to the collection agency and lawyer's management project. The implementation and integration of the PFS Recovery tool as a single interface for management of the recovery activity is expected to conclude this year.

Additionally, work in the period was carried out on the extension of the calculation of risk-adjusted return (RAR) to individuals, on the optimisation of time spent by systems in the calculation process and on mechanisation and inclusion of RAR metrics in pricing authorities in asset proposals.

Regulatory Reporting and Compliance. During 2017, it continues with upgrade trend in volumen of requirements in regulators and supervisors. This includes, *inter alia*, investment to develop rules and regulations related to projects begun in previous years, as well as new regulations for 2017. Among these, we would highlight developments made on adaptation to IFRS 9 (International Financial Reporting Standard), MIFID II, Target2 Securities, EMIR, the new Cirbe and Anacredit, new CSR and FATCA standards, the Law on the Promotion of Business Financing, the Anti-Money Laundering Alert Tool, the implementation of the Bank of Spain's FINREP statements, developments related to Basel III and the Transparency Act - Calculation of APR, among others. The EBA and IRRBB Regulations Adaptation Project has also begun, designed to analyse, develop and implement the IRRBB (interest rate risk in the banking book) reporting engine adapted to EBA regulations and we have begun the technological implementation (GRC Suite) to manage compliance functions.

In the area of IT infrastructure management, the main investments in the year went to three main projects:

- “Work’in Bankia”, designed to optimise and upgrade spaces in the Bank's head offices. The focus is on collaborative spaces and teamwork, aligned with the lines set out in the CST Position. For the part of the project affecting technology, these objectives are articulated in the full overhaul of the equipment in the headquarters, providing it with modern resources (e.g. computers, printers, telephones). The deployment of Work’in Bankia is also generating considerable savings in overall paper consumption, adding another element of support to the Bank’s environmental improvement actions.

- “NEO Móvil”, extending the project to provide specialist managers with a mobile platform that allows execution of the financial terminal outside the area of the office and the execution of transactions with biometric signature capture, bringing the Bank closer to customers.

- Improvements in Monitoring: Workstations, “core” business applications, related devices, user experience, etc., for handling data obtained with a view to boosting process and infrastructure efficiency.

We also implemented the following improvements:

- Migrated Bankia email from an on-premise platform to a cloud platform. Each user's storage capacity increased by more than 1000%, from 100 MB to 100 GB. From a functional standpoint, cloud email allows wider flexibility and dynamically supports information transfer and file sharing in a synchronised way across devices and users.

- We implemented the Skype communication solution in all our computers to enable user-friendly communication with everyone, regardless of location. Online meetings with customers or Bankia colleagues can be held via group video calls.
- We migrated systems to Windows 10 – the process is expected to be completed in January 2018 – and conducted pilot projects for migration to Office 365.

In June 2017, the board of directors decided to enter into an integration **agreement with BMN**. From then on, alongside the execution of the plans framed at the start of the year, work began to achieve successful tech integration (in terms of infrastructure, systems and applications) so that the two organisations can operate jointly and in a unified manner.

Integration affects the development of GAPS, adaptation of interfaces, and provision to BMN of the necessary central infrastructure and workstations for it to fully and successfully integrate with Bankia. The scheduled technology integration date is 19 March 2018.

In addition, we are working on other lines of activity to enhance the bank's technology management:

- Implementing a New Project Portfolio Management (PPM) tool for centralised and integrated management of technology projects in their four domains (systems development, technology architecture, infrastructure, and financial management).
- Implementing a new technology risk management system using Cobit 5 as the mainstay for identifying and specifying processes and risk classification aligned with Basel III requirements and the EBA's ICT risk guidelines and their control framework.
- We are optimising and enhancing the efficiency of work environments (so that they can absorb both organic growth and new functionalities) and their software development capabilities. In 2017, we continued to work on projects set in motion earlier:
    - Enhancing AAD architecture with a focus on streamlining for developers throughout the development life-cycle (agile error spotting; standardising and simplifying logs; creating new patterns for standardising code).
    - Evolving the app construction and deployment mode (DevOps).
    - Reinforcing the Cobol development environment by implementing new functionalities in Bender and rolling out a new tool to replace Pacbase (XMigration).

14.- FORECASTS AND BUSINESS OUTLOOK

- **Economic overview**

As in 2017, the global macroeconomic outlook for 2018 remains bright. The world economy will grow for the 10th year running. But there are no signs of the cycle coming to an end, and for the time being political and geopolitical risk seems to be abating with respect to last year. In the euro area, the main source of uncertainty is the outcome of the Italian general election in March. World growth will continue to be rapid, with most of the developed and emerging economies equalling or even outpacing their potential. Inflation is likely to remain low, enabling central banks to approach monetary normalisation with due caution. The Fed may raise its benchmark rate by an additional 75bps to 100bps, while the ECB plans to end its asset purchase programme in September. Before this, it may even switch its interest rate policy: the bank has given signs that a gentle upward trend is set to start soon. Debt yields are therefore likely to trend upward, and more strongly in the second half of 2018. In any event, market behaviour will probably be quite orderly.

Meanwhile, in the past few months oil prices have risen sharply. This may put a brake on consumption in the second half in the key developed economies – meaning growth could slow down over the year – and current inflation forecasts might have to be revised upward. Since the economy is doing well, one of the figures to watch closely is inflation: just as growth surprised us in 2017, so inflation might be the breakout variable in 2018, driving up interest rate expectations in the US and the euro area.

In Spain, we expect further growth in 2018, albeit at a slower pace than last year, leading to average GDP growth of about 3%. Growth will be aided by the momentum accumulated so far and the healthy economic outlook in peer economies. Downbeat scenarios looking to the political uncertainty in Catalonia are unlikely, and we think the situation will gradually return to normal. There are other sources of uncertainty, however. Domestically, the main risk is a relaxation in fiscal consolidation, and the drive to improve wage competitiveness and to follow through with the reforms needed to enhance flexibility while addressing the economy's weak points. Furthermore, the international environment could turn out to be tougher than expected, with a sharper rise in oil prices or a swifter-than-expected tightening of monetary policy.

In this business environment, considerable challenges lie ahead for the financial sector, as institutions' business margins in 2018 will remain under pressure due to the low level of interest rates and a still tenuous rebound in economic activity. However, the growth path for the Spanish economy should continue to spur new lending, which in 2017 already registered significant growth, especially in loans to households and SMEs.

Business outlook for Bankia

As regards, in 2018, Bankia will continue to work on consolidating the business, with the overriding aim of becoming more competitive and profitable, and expanding the more recurring business so it can generate capital organically. To do so, it will focus targets on the following:

- With 2010-2017 Restructuring Plan having been completed and its restrictions removed, Bankia shall start up new lines of activity from January 1, 2018. These activities include financing real estate development at a time when the economic cycle is on a rise; long-term financing to large companies able to access the capital markets in Spain and elsewhere; project finance; and funding for M&A activity. Whereas these activities were restricted in recent years, Bankia will now be able to explore new business opportunities. The Group will be on an equal footing with its competitors, and the new businesses will provide business drivers in this new growth stage now starting for the bank.
- A key strategy will be to put of the focus on the customer, understand their needs and offering the best combination of service excellence and competitive pricing in the market. In this respect, one of the Bankia top priorities in 2018 will be to strengthen the loyalty of existing customers and lay foundations for Bankia to bolster their relationship and loyalty.
- Continue making improvements in profitability and maintain efficiency levels that are among the highest in the Spanish financial sector. For this, Bankia will continue with its technology transformation process: expanding the multi-channel approach and redesigning branch office processes and information systems will be vital to ensure an optimally efficient and competitive operational model.
- Increase lending to consume, SMEs and self-employed as a means of boosting revenue and improving margins, with the objective of gaining market share while controlling the cost of risk.
- Continue reducing the stock of problem assets organically and through the sale of NPL portfolios in order to free up liquidity and funds so new loans can be granted in strategic segments.

To achieve these objectives, Bankia is working on a second strategic plan 2017-2019 with the objective of maintaining its leadership in efficiency, balance sheet strength and profitability among Spain's large banks. Moreover, over the next two years, the Entity will periodically roll out new initiatives, all of which will be designed to meet customers’ needs and provide excellent services, combining quality with reasonable prices.

The growth stage that Bankia is now entering will enable us to grasp the major opportunities arising from the increase in the customer base seen in recent years and further reinforced by the integration of BMN. The resulting entity is the fourth-largest bank in Spain by assets, and the merger will enable us to bolster our franchise in highly attractive territories where Bankia so far had only a limited presence. The Bankia Group will embark on this new plan from a solid financial position, strong capitalized and an ability to enhance solvency organically and on a recurring basis, with a healthy efficiency ratio and a considerable level of profitability. These strengths will be crucial for the Entity to rise to the challenge of a new growth stage, against a background that will continue be tough for the banking industry in 2018, owing to stiffer capital requirements in response to regulatory pressure, low interest rates, and fierce competition.

15.- OTHER NON-FINANCIAL INFORMATION

15.1.- Responsible management

Following the approval by the Board of Directors of the Responsible Management Policy in early 2015, in 2017, work continued on the rollout of and compliance with the 2016-2018 Responsible Management Plan. The Plan revolves around the Entity's values (professionalism, integrity, commitment, closeness and achievement orientation) and is underpinned by two key cornerstones. The first entails listening to and maintaining dialogue with stakeholders; the second entails ongoing supervision and performance assessment of the planned actions. The plan was approved by the Board of Directors on 26 February 2016. The Board is responsible for ensuring the management, monitoring and control of the plan, through the Appointments and Responsible Management Committee.

The objectives of the Bankia Responsible Management Plan are aligned with the 10 principles of the UN Global Compact and the Sustainable Development Goals approved by UN members in September 2015.

The following table summarizes the objectives and strategic lines of Responsible Management Plan 2016-2018:

STRATEGIC LINE	OBJECTIVES	Policies Areas
Corporate governance	Integrate and encourage responsible management to help foster a culture of transparency and integrity that safeguards the interests of all stakeholders.	• Integration of the CSR function into Bankia's governance. • Promoting responsible management and recognition of good governance in Bankia • Identifying and managing non-financial risks
Customers	Maintain respectful relationships tailored to the customer's needs so Bankia stands out for the service received and the trust built as a respectful and transparent entity.	• Adapting to the needs of customers, offering products and services that respond to their requirements. • Promoting responsible marketing based on transparency, simplicity and relevance in the information provided
Professionals	Consolidate the corporate identity through a project in which Bankia's success is everyone's success and the responsible management culture is present in every area of the business.	• Promoting values-based management • Fostering diversity and equality
Society	Be recognized as a driver of social and economic development in the areas near the business, pro-actively addressing the main concerns of society and seeking to maximize the positive impact.	• Supporting employability • Contributing to the most pressing needs of our community • Generating a portfolio of products/services that contributes to social development and care for the environment
Shareholders and investors	Reinforce transparency with analysts and investors regarding the Entity's non-financial performance, disclosing transparent and clear extra-financial information.	• Providing access to non-financial information • Pro-actively communicating with ESG analysts and investors
Suppliers	Promote responsible management in the supply chain, assessing counterparty risks and encouraging improvement plans to help spread responsible commitment and drive economic development in other sectors of production.	• Managing ESG risks in the supply chain • Supporting economic growth through management efficiency and excellence
Environment	Minimise impact and reduce costs through more efficient use of resources and correct environmental management in all processes.	• Environmental training and awareness-for the bank's employees • Environmental management • Energy efficiency and climate change

In 2017, Bankia was once again a constituent of the Dow Jones Sustainability Index (DJSI), which recognises the bank as one of the world's most sustainable companies. The DJSI is a selective index which includes only companies that have demonstrated sustainable management performance based on evidence and results, with profitability as the first filter of eligibility.

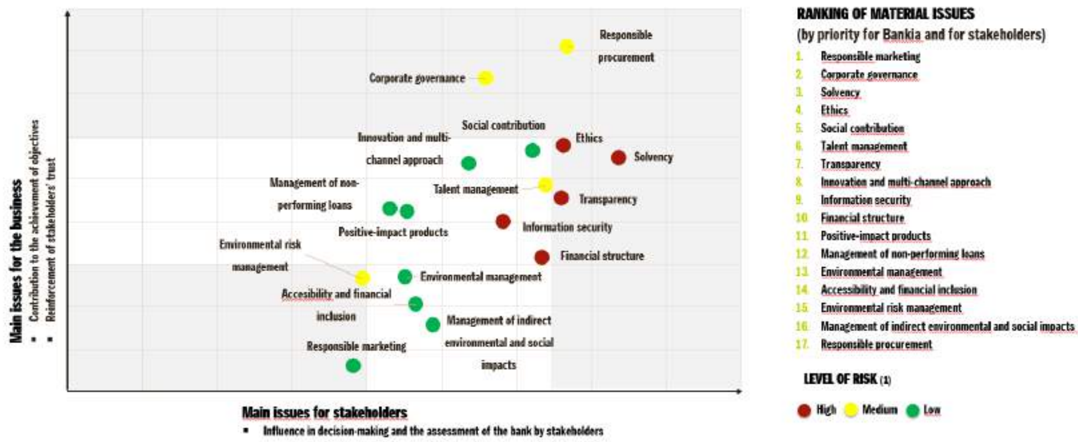
Since December 2016, Bankia has also been a member of the FTSE4Good IBEX Index and the FTSE4Good Index, which was created in 2001 and includes companies from around the world that meet certain environmental, social and corporate governance criteria. This index is intended the showcase organisations that have integrated ESG (environmental, social and good performance) criteria in their risk policies and risk management.

- **Engagement and active listening**

Bankia carried out a materiality assessment in 2017 with a view to identifying the key aspects of responsible management of the Bank through active listening of its stakeholders from both an internal and an external perspective.

First, it identified a series of issues based on their economic, environmental and social impact from a variety of sources, such as Bankia's reputational risk map, and using international think tanks in the area of sustainability, such as the Global Reporting Initiative, the Sustainability Accounting Standard Board and the Dow Jones Sustainability Index. Based on this identification, Bankia conducted a broad consultation of its stakeholders through a number of channels (telephone and in-depth face-to-face interviews, debates and online surveys) to prioritise those issues.

Identification of the priorities gave rise to the materiality assessment summarised in the following chart:



(1) The level of risk relates to stakeholders' reaction or attitude towards Bankia if their expectations are not met for each issue by the bank.

The external perspective provides insight into the influence of each issue on stakeholders' decision-making and opinion of Bankia. The internal perspective reflects the importance for the business in terms of delivering its targets and garnering the confidence of stakeholders; that is, the impact of each issue on the ability to create value for the organisation.

The main change in the 2017 matrix was the addition of the risk variable, which identifies stakeholders' tolerance, current level of confidence and their attitudes towards a potential event that could come up short of their expectations. By anticipating their expectations, this helps improve the Bank's management.

15.2. - Compliance and control systems and crime prevention model.

The growing complexity of international, European and Spanish regulatory and supervisory rules to which financial institutions are subject has made internal control and compliance activities increasingly important, requiring more effective and efficient control and risk management mechanisms.

Bankia has numerous internal controls in place, set up to mitigate specific risks related to the business and/or to comply with various financial and internal control regulations (Crime Prevention and Detection Model, Policies and Procedures regarding Anti-money Laundering, Market Abuse, MiFID, personal data protection, IT security, etc.).

- **Internal audit**

Bankia also has an Internal Audit unit, whose activity is overseen by the Audit and Compliance Committee. Internal audit is an independent, objective assurance and consulting activity directorate designed to add value and improve the bank's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, corporate governance and information systems. It also verifies compliance with internal and external standards and works together with external auditors in audit service engagements and with supervisory bodies to ensure compliance with regulations.

Internal Audit reports periodically to the Audit and Compliance Committee and the Entity's senior management on the implementation and results of the Annual Audit Plan, and the audit recommendations and their degree of implementation. This reporting obligation is met by submitting a quarterly Audit Follow-up Report to the Audit and Compliance Committee. Internal Audit is also an active member of several bank control committees, such as the Regulatory Compliance Committee, the Ethics and Conduct Committee, the Operational and IT Risk Committee, the Regulatory Monitoring Committee, the Anti-Money Laundering Committee, and the Provisioning Committee.

- **Code of ethics and conduct**

Group has a Code of Ethics and Conduct, approved by the Board of Directors in August 2013, which sets forth the rules and guidelines of conduct all Bankia employees must assume and which guides their behaviour and professional conduct. The Code of Ethics and Conduct is mandatory for anyone with a professional relationship with Bankia.

The Code is proof that ethics are not an option for Bankia, but a matter of conviction enshrined in the Entity's principles and values: commitment, integrity, professionalism, closeness and achievement orientation. This principles are implemented in several ways:

- Corporate ethics. The code establishes the values that should guide the group’s relations with its professionals, customers, suppliers and society at large. In particular, it is intended to prevent institutional conflicts of interest by erecting barriers that will stop non-public information on its investment decisions and other activities from being used abusively or unlawfully.

- Ethics and integrity in the markets. Various procedures and controls have been designed and implemented to ensure compliance with international standards in this area. In particular, policies have been put in place to prevent market manipulation and misuse of inside information and to foster free market competition and transparency. Policies have also been developed to prevent corruption crimes. Bankia has various control mechanisms for this purpose and has training plans for managers and other professionals. There are also various specific recommendations to prevent corruption in supplier selection, incentives and credit risk.

- Personal ethics. Accepting gifts, presents, money or commissions of any kind for operations carried out by Bankia and influencing matters in which there are actual or potential conflicts of interest is expressly prohibited.

- Bankia's Ethics and Conduct Committee is in charge of overseeing compliance with the Code, and promoting ethical behaviour within the Entity. With this objective, it carries out cross-cutting actions to raise employee awareness about the need to avoid situations that could lead to a potential breach of the Code. Moreover, Bankia sends regular communications to employees to raise the knowledge and encourage compliance.

To help enforce the Code and facilitate the internal flow of information, the Audit and Compliance Committee approved the launch of the Confidential Whistleblowing Channel, through which any breaches of the Code can be reported through an in-house digital platform or by email. In line with the latest best practices, Bankia has outsourced management of this channel to a specialist firm outside the Entity (currently PwC), which is overseen by the Ethics and Conduct Committee, guaranteeing anonymity, that all reports are evaluated independently and treated confidentially, and that only those people who are strictly necessary to the investigation and resolution are notified.

The Code of Ethics and Conduct and the Confidential Whistleblowing Channel not only set high standards of ethical conduct by employees and directors, but they also allow for the detection and management of situations that infringe on the rules and criteria of professional conduct and help prevent criminal activity.

Employees called for training on the Code of Ethics and Conduct in 2017	678
Employees trained on the Code of Ethics and Conduct in 2017	247
Total number of meetings held by the Ethics and Conduct Committee.	12
Total number of reports received via the Whistleblowing Channel in 2017	7
Type of reports received via the Whistleblowing Channel	
Harassment in the workplace	1
Misconduct in relation to suppliers	1
Accounting and auditing issues	1
Queries / Suggestions	1
Other	3

- **Criminal risk prevention**

Bankia's criminal risk prevention model identifies the activities in which criminal offences may be committed and must be prevented and the necessary protocols and procedures to avoid any behaviour that could give rise to criminal liability. The model requires the implementation of controls (some general, others more specific, assigned to previously appointed officers) and adopts the rules of conduct contained in the bank's Code of Ethics and Conduct.

In this respect, 53 employees received training on Criminal Risk Prevention in 2017.

In line with criteria presented by the Attorney General and best practices in criminal prevention, in 2017, Bankia engaged an external expert to prepare an independent review of the Entity's crime prevention model. The Bank also has computer applications to systematise the risk map and crime prevention controls so that it can detect any circumstance that increases the threat of criminal liability.

In 2018, Bankia will adapt its crime prevention model to its new situation after the addition of BMN, updating the risk map and controls.

- **Anti-money laundering/combating the financing of terrorism (aml/cft)**

The Bankia Group collaborates actively with the institutions responsible for supervising and controlling compliance with the Spanish laws and regulations designed to prevent the laundering of the proceeds of criminal activities and the financing of terrorism, which faithfully reflect the EU directives on this matter. For this purpose, Bankia has established mandatory rules and procedures to:

- Ensure compliance with applicable AML/CFT laws and regulations and the recommendations of the national and international authorities.
- Assess the exposure to the risk of money laundering and terrorist financial related to its business.
- Implement the necessary rules of conduct and control and reporting systems to prevent the bank from being used to launder money.
- Establish appropriate customer acceptance and know-your-customer policies, ensuring that all employees are aware of and adhere to them.
- Train all employees to instill a compliance culture geared towards providing good customer service.

A total of 1,518 Bankia employees received Anti-money Laundering training in 2017.

In 2018, the European Union Fourth Anti-Money Laundering Directive is expected to be incorporated into Spanish law. The new directive includes, *inter alia,* a reduction in the threshold for cash transactions and the possibility of sharing information among countries to more effectively combat money laundering and, more importantly, terrorism financing. It is a priority on the European agenda following the terrorist attacks carried out in 2017.

- **Data protection and information security**

Bankia has adopted a set of measures to ensure appropriate application of data protection principles and protection of customers' rights in this regard. The rules include instructions and provisions concerning the information that must be provided when collecting data, the duty of secrecy and custody of data, the need to obtain consent for data processing, and the exercise of the rights of access, rectification and cancellation.

Customer information is one of Bankia's most important assets and data protection is one of the Entity's priorities, especially in light of new advances in technology and communication. As a financial institution at the service of the society that demands its services, Bankia directly assumes a substantial part of the responsibility for ensuring comprehensive security.

In this respect, 78 employees received training on Data Protection in 2017.

The bank also has a legal and ethical duty to protect information concerning its customers, collaborating institutions and the competent official bodies on the same terms.

In 2017, the Group embarked on a project to adapt to the new General Data Protection Regulation (GDPR), effective from 25 May 2018, which affects the entire organisation. The aim is to assess the potential legal, organisational and technological implications of the new regulation and gradually undertake the necessary actions or measures to ensure compliance.

The main purpose of the GDPR is to unify principles, rules and standards in personal data protection (rights of data subjects and responsibilities of data controllers) adapted to the digital environment. The new legislation brings a sweeping change from the previous regulation and poses a challenge for the entity.

- **Tax risk**

Promoting responsible tax, working to prevent and combat fraud and implementing transparency programmes are principles that help to ensure effective, sustainable development and have become essential for building trust among stakeholders.

To preserve these principles, Bankia takes specific measures to manage and control tax risks, has internal control systems in place and has established policies to guide conduct in various areas, including corporate tax policy and tax risk management, transparency, corporate responsibility and corporate governance.

The Board of Directors sets tax strategy, approves the risk policy, including the policy on tax risks, supervises internal reporting and control systems, approves investments that entail special tax risk and authorizes the creation of, or acquisition of interests in, entities domiciled in tax havens. The Audit and Compliance Committee, for its part, supervises the tax risk management system and reports to the Board on the creation of, or acquisition of interests in, entities domiciled in countries or territories that are considered tax havens.

The tax principles governing Bankia's activity are as follows:

- Transparency. Bankia adheres to a transparent policy on tax management and the payment of its taxes, thus complying with regulatory requirements regarding access to the activity of credit institutions and prudential supervision.
- Compliance with obligations. Bankia applies at all times the tax regulations applicable in Spain, which is the tax jurisdiction in which all its activity takes place, as well as the pertinent international guidelines and standards, such as the guidelines and action plans of the Organisation for Economic Cooperation and Development (OECD). Bankia files all the tax returns required by tax regulations, settles its tax liabilities and pays its tax debts in Spain in a timely manner.
- Risk exposure. When analysing transactions involving special tax risk, Bankia takes into account their short and long-term impact on the bank's reputation, its shareholders and customers, its relationship with governments and tax authorities and other areas of the organisation.

Approval by the Board of Directors is required for related-party transactions, all of which are carried out at arm's length; operations in tax havens (Bankia does not operate in tax havens for tax avoidance purposes); the creation of tax structures (Bankia does not use artificial tax avoidance structures or structures that do not comply with the spirit of regulations); divestitures of companies; the use of tax incentives; relationships with authorities and governments; and the engagement of external tax advisers.

As an expression of Bankia's firm intention to collaborate with public agencies, the bank is an active participant in the Large Businesses Forum, aimed at promoting a more cooperative relationship between Spanish companies and the tax authorities. The Forum advocates a tax policy based on the principles of transparency and mutual trust, through the pooling of knowledge and the sharing of any general problems that may arise in putting the tax system into effect.

Furthermore, in March 2016 the Board of Directors of Bankia agreed that the bank should become a member of the Code of Best Tax Practices (CBTP) of the Spanish Tax Agency (Agencia Tributaria). This code contains recommendations – which are followed voluntarily by the Tax Agency and member companies – aimed at improving the application of the tax system through increased legal certainty, reciprocal cooperation between the Tax Agency and companies based on good faith and legitimate trust, and the application of responsible tax policies in companies, with the knowledge of the Board of Directors.

Looking to 2017, Bankia, as a CBTP member company, intends to prepare an Annual Tax Transparency Report. This report will include information on certain aspects of the bank's economic activity and funding structure, an explanation of the most significant corporate transactions, details of the group tax strategy approved by the governing bodies and a list of transactions referred to the Board of Directors. It will also establish the extent to which the bank's tax policy is consistent with the principles of the OECD's BEPS package, which is intended to fight tax fraud, erosion of tax bases and the shifting of profits to low-tax jurisdictions.

In collaborating with the Tax Agency to enhance tax transparency, the bank aims to foster early knowledge of tax policy and facilitate tax risk management. All this will lead to increased legal certainty, lower compliance costs and fewer disputes with the Tax Agency, besides enhancing the Banks's reputation.

Elsewhere, the Immediate Supply of Information (SII) regulations in Spain entered into force on 1 July 2017, upgrading, improving and encouraging the use of electronic means for VAT management. The new system implies keeping VAT books through the AEAT's website, furnishing their invoice records almost immediately and daily. Bankia has complied with its obligations in this respect since the changes became effective.

15.3.- <u>People and means</u>

15.3.1.- People

After the merger with BMN, Bankia has a workforce of 17,217 professionals, (13.122 prior to the merger with BMN), Note 34 to the consolidated financial statements for the interim financial statements ended 31 December 2017 provides a breakdown of bank´s employees by gender and professional category.

Bankia's approach to its employees and professionals seeks to create value by means of responsible talent management. The key is to achieve success and excellence across the organisation with high performing teams, while assuring appropriate succession within the entity.

In 2017, our people management focused on the bank's digital transformation and on implementing the new distribution models set in motion in 2016, such as Contacta ya (Contact Now) and Servicio +Valor. Another highlight of the year was the ongoing growth of the multichannel management model, with the opening of 25 new centres in six regional head offices, and 281 hires from other units. The multi-channel business division now has a staff of 564.

We have evolved our retail customer portfolio allocation model to make relationships more efficient, basing it on consulting. The rollout started in the Madrid, Valencia and Castellón regional head offices. Bank executives were supported in their roles through leadership talks with their teams, in line with the Bankia Management Style.

Combined, these actions generated 3,271 workplace changes, thereby helping to optimise the fit between profiles and existing positions, especially at executive levels

- **Talent management**

Bankia has a Talent Model for detecting, developing and managing its employees' potential, so as to have people who are able to help grow the business, reinforcing differential and sustainable competitive advantages that are consistent with the bank's values.

Talent identification and development translated into 1,563 assessment interviews and 166 appointments: 24 within the top 300 group, 29 within the top 600, 67 branch managers and 46 branch deputy managers. We took the following actions to develop our talent:

- *Senior Management Programme (SMP).* From February to September 2017, a total of 151 executives took part in the third edition of the Senior Management Programme, involving 151 executives. The bank's top 300 segment has already benefited from the programme.
- *Career Development Plans (CDPs).* The 51 plans of the first edition were completed in the first half of 2016. The 50 plans within the second edition were set in motion in mid-2016 and are now at an advanced stage.
- *Management support coaching.* This initiative involves 22 executives from central services and the branch network. The programme is run by external coaches who specialise in career development processes, and has an approximate duration of six months.

- *Central Service Management Development Programme.* The sixth edition of the programme was completed in the first quarter of 2017, and the seventh started in April. Both classes comprised 15 participants drawn from the bank's diverse functional areas.
- *Branch Manager Development Programme.* The on-site workshops of the programme's 11th edition were held in the last quarter, and involved 15 branch managers.
- *Senior Management Candidate Development Programmes.* In 2017, we staged eight editions of the programme, five for senior management candidates within the branch network (75 participants) and three for central services (47 attendees).
- *Mentoring Programme.* The second edition of the programme ended in late 2017, involving 30 mentors within the top 300 and 30 mentees (branch and central services managers within the talent pool). The success of the programme on the two occasions on which it has been staged has made it one of the main career development activities now in motion at the bank.
- *Communication Coaching Programme.* This programme was created in 2017 to enhance executive skills with a view to effective creation and delivery of persuasive messages and to support secure, natural and effective interpersonal communication. The programme involves 10 executives within the bank's top 300.
- *Transformational Leadership.* Two of our "top 300" executives attended the 11th and 12th editions of the annual programme run by the International Center for Leadership Development (ICLD), attached to the CEDE Foundation. In April 2017, the auditorium at the Torre Bankia building was the venue for a reading of projects submitted by participants in the 10th edition of the programme, which was sponsored by the bank.
- *Lidera-T event.* In September, a new career development initiative was set in motion. Attendees reinforced a range of self-management skills using an experience-based method. The first edition involved two different types of event addressing performance in diverse environments and lateral leadership. The programme was attended by 45 executives and 46 executive-track juniors. Topics addressed at the meetings themselves were reinforced with one-to-one sessions conducted by career development experts.
- *Grants for Excellence.* Created in May 2017, these grants are aimed at professionals who propose highly specialised and quality training projects, mainly related to the new digital era and the ongoing transformation of Bankia's business. In 2017, we received 102 applications and awarded 15 grants for an amount of up to EUR 10,000 each.
- *Bankia Dual Education Programme.* The first class of the programme, which started in 2015, graduated in late June 2017. 17 graduates joined the bank's permanent staff as branch-based sales managers (6 in Madrid and 11 in Valencia). A second year of 50 students continues to progress towards completion.
- *Business Academy.* In September 2017, we completed the second edition of a project that helps professionals further their knowledge in different business clusters (the corporate Capital Markets, Corporate Banking, Corporate Finance and Specialised

Business divisions) through temporary stays at those departments. This edition involved 10 professionals who have acquired a broader overall vision and strengthened their financial and market know-how, making them more employable.

These actions enabled us to cover almost all vacancies arising in 2017 through internal promotion. External recruitment was limited to filling specific technical or technological positions in certain areas, such as technology strategy and innovation, systems development and new distribution models. In this channel, we hired 15 people to fill management vacancies and 66 people for other positions. At year-end, 13 external selection processes remained open.

- **Training**

In 2017, we provided more than 900,000 training hours, of which 40% was face-to-face. The bank ties its training programmes to a qualification process involving university degrees and top professional certificates. We upgraded our training platform, considerably enhancing access to the range of training programmes by enabling our professionals to learn in a flexible environment equipped with the latest functionalities.

Key training activities in 2017 included:

- *MiFID II.* A highlight was the training process set up in response to the entry into force of MiFID II. Our programme was endorsed by the Spanish Securities Market Commission, CNMV, and involved 5,500 bank employees over the course of more than seven months. 94% of attendees were awarded the professional certificate Financial Advice Expert, issued by the Spanish Institute of Financial Analysts (IEAF), and the university qualification Banking and Financial Advice Specialist, issued by Colegio Universitario de Estudios Financieros (Cunef). Bankia started up these specific training plans to ensure that the information provided to customers on financial instruments and the related advice are consistent with the highest standard of service.
- *Branch network.* One of the training milestones of 2017 was our plan aimed at the entire branch network to enhance our people's awareness and usage of the new processes offered by operating systems. More than 150 specialised courses were run for central services staff.
- *Management Style Programme.* The programme covers topics addressing responsible management at Bankia and bolsters the bank's values, especially in terms of team relationships. The Risks School hones technical skills in risk, while the Digital Talent School focuses on new technologies.
- First Procurement Management Expert university certificate, and Advanced Procurement Management Programme (La Salle University).
- University award, Executive Coaching Expert (Universidad de Deusto).
- University certificate, Point of Contact Customer Experience (La Salle University).

- Project Management Professional certificate (Project Management Institute).
- European Financial Advisor certificate (European Financial Planner Association).
- Certified Information Security Manager (Information System Audit and Control Association).

Training hours provided to male employees	439,509
Training hours provided to female employees	477,926
Training hours provided to senior managers	9,129
Training hours provided to middle managers	340,221
Training hours provided to other staff	568,086

Number of completed training initiatives	916
Number of employees trained	12,336
% online training	59.07
Number of employees taking personalised training plans	13,054

- **Occupational health and safety**

Bankia promotes a working environment based on the health and safety of its staff, implementing a consistent and coordinated health and safety policy. The occupational health and safety system encompasses all activities aimed at preventing, eliminating or minimising occupational risk. These activities come under the annual preventive activity programming, which is approved by the National Health and Safety Committee.

In 2017, the efforts made in recent years to implement the occupational risk assessment update plan for all workplaces within the branch network and to integrate it with the occupational risk prevention management app were completed, thereby standardising and cementing our preventive management model.

The communication improvement projects and activities in 2017 included the creation of the Empresa Saludable ("healthy company") feature within the *Somos Bankia* magazine, the updating of the website on the corporate intranet, and the AHA! programme, which provides information and tips on healthy nutrition, lifestyle habits and physical exercise to nurture a culture of all-round health. These initiatives are designed to raise awareness and provide facts and tips about key topics in the realm of risk prevention and health and safety.

Over the course of the year, Bankia took part in a range of specific "healthy company" events and stated its goal of integrating psychosocial improvement actions within its People Strategy. This will allow for monitoring and tracing the assessment of psychosocial factors and their related preventive actions.

Furthermore, Bankia is a signatory of the Luxembourg Declaration, which sets out four fundamental pillars: healthy work environment, emotional well-being, promotion of healthy habits, and prevention and safety services and activities. The bank is also a member of Aespla, a non-profit that helps companies to improve occupational risk prevention service performance.

In partnership with the Spanish cancer research charity, AECC, the bank has supported actions within the “Tu Salud es lo Primero” ("your health comes first") programme under the European Code against Cancer. In addition, Bankia cooperates on an annual basis with the Spanish Red Cross for its blood donor campaigns.

- **Diversity and equality**

In July 2016, the bank signed a labour agreement establishing Bankia's equality plan and a protocol for the prevention of sexual harassment and workplace or gender bullying.

With this agreement, Bankia seeks to nurture a healthy and productive work environment that enables our people to achieve their full potential. Bankia has made a commitment to promoting equal opportunities in hiring and career promotion decisions and to avoiding discrimination or inequality by reason of origin, gender, ethnicity, social background, sexual orientation, marital status, religion, union membership or any other personal or social circumstance. In addition, the bank seeks to encourage a working environment that supports personal development, and works with employees so as to reach the best possible work-life balance among job commitments, family responsibilities and personal needs.

Male employees (*)	5,953
Female employees (*)	7,169
Male employees promoted internally	83
Female employees promoted internally	83
Employees opting to take maternity/paternity leave	669
Male new entrants	57
Female new entrants	28
Training hours provided to male employees	439,509
Training hours provided to female employees	477,926
Average turnover of male employees (%)	0.41
Average turnover of female employees (%)	0.33

(*)Figures for the Entity for 2017 reported after the merger between Bankia and BMN.

15.3.2.- Suppliers

Bankia is guided by the best practices set out in the UNE 15896 Standard on value-added procurement management, which promotes best corporate practices in purchasing. It was the first bank to achieve this certification, which was renewed in 2017.

Bankia sponsors and cooperates with the Aerce Foundation (the Spanish association of purchasing, procurement and supply professionals), whose goal is to produce, publish and transfer knowledge and research results on topics in the area of business procurement.

In 2017, Bankia ranked among the top 5 Ibex 35 companies regarded as the best places to work in the procurement department, according to research conducted by CPOnet, the first business social network for purchasers and suppliers.

The Bankia has consolidated its procurement policy in 2017, which remains committed to business deal and bids from a variety of companies to ensure a diversified range of offers from different suppliers.

Transparency in supplier selection is achieved through a system of authorisations and delegated powers governing scaled decision-making with knowledge at all levels involved.

In engaging suppliers, Bankia gives priority to those that show a commitment to, inter alia, their own employees, quality, the environment and human rights. It avoids dealing with suppliers that fail to comply with legal, tax, employment, environmental, health and safety, or human rights requirements. Supplier contracts also include environmental clauses and an annex related to occupational risk prevention if the service is being provided at the Bank's own facilities.

The Bank also establishes its own criteria for the procurement function in accordance with the Code of Ethics approved by the Board of Directors and with the provisions of the International Federation of Purchasing and Supply Management (IFPSM). These criteria are based on mutual benefits, loyalty and honestly, objectivity in decision-making, transparency and equal opportunities, confidentiality, integrity and independence in relations and corporate social responsibility, among other factors

The supplier certification process is a pre-requisite for establishing commercial dealings with Bankia Group. This is based on the best social responsibility practices, with a special 30% weighting for corporate social responsibility, human resources and environmental criteria, while breaches of various requirements results in exclusion.

We require our suppliers to comply with the laws and regulations prevailing wherever the bank operates. We place value on suppliers' alignment with the principles of the UN Global Compact, the Universal Declaration of Human Rights and the fundamental conventions of the International Labour Organization (ILO).

We give a higher score to suppliers who demonstrate a commitment to their employees, quality, the environment and human rights. We avoid dealing with suppliers who break the law or fail to meet their tax, employment, environmental or social obligations.

The certification process assesses economic, social and environmental risks. Suppliers must achieve an appropriate economic risk score and provide the compulsory information.

At year-end December 2017, Bankia had 859 certified suppliers.

Alongside a more stringent selection policy, Bankia practises active listening of suppliers through various channels that have become firmly established throughout 2017:

Confidential whistleblowing channel: confidential, but not anonymous, communication channel managed by an independent third party, PwC, for reporting potential irregular financial- or accounting-related conduct.

Supplier Service Department: for filing complaints, claims and suggestions in relation to the payment of invoices and the provision of services associated with supplier contracts, and voicing disagreement with supplier selection processes.

Satisfaction surveys: in the form of the Supplier Perception Study, which examines aspects such as friendliness and courtesy, the negotiation process, contracting flexibility and fulfilment of payment commitments.

Finally, as part of the initiatives undertaken to strengthen relations with suppliers, in 2017, in 2017 we staged the second edition of our Supplier Day at Bankia's head office in Madrid, drawing 300 attendees. The event showcased the bank's commitment to fostering a relationship of trust and ongoing engagement with our suppliers, who are vital to our value chain.

In 2017, the average payment period of commercial and service providers of Bankia was 9.98 days.

- **15.4. Environmental disclosures**

Bankia works to achieve sustained and sustainable growth in an environmentally-friendly way. Therefore, integrates environmental impact in the organisation's decision-making, aligning it with the business strategies and including environmental governance in its overall management. Therefore, it has an environmental policy underpinned by the values defined by the Entity for the stakeholders it engages. These values are:

- Commitment to combatting climate change, eco-efficiency and prevention of waste generation, all under the framework of a certified environmental management system.
- Professionalism, through training and awareness raising among all employees to bring them on board and through competent, objective-based management.

- Achievement orientation, with systems of environmental performance indicators in place to ensure continuous improvement in the the entity´s environmental management.
- Integrity, based on ethical, responsible and transparent behaviour focused on complying with prevailing legislation.
- Closeness to suppliers in order to encourage responsible environmental conduct.

- **Environmental risk**

Given the nature of its business, Bankia has a limited direct environmental impact. However, it exerts a considerable indirect influence through its investment and financing decisions. Therefore, the goal of environmental risk management is to protect the quality of bank assets by overseeing customer loan portfolios and monitoring our investment decisions regarding financial and/or physical assets.

Environmental risk can be transferred to the bank in two ways:

- Credit risk. Through environmental impact on the viability of a customer's business (environmental regulations or permits), higher technology investment, regulatory risk, loss of cash flow, impairment of assets accounted for as collateral, or civil and criminal liability tied to internal or external performance bonds or bail.
- Reputational risk. Higher awareness of environmental issues prompts customers and society at large to scrutinise the repercussions of the bank's business, and this raises reputational risk. The threat of climate change exacerbates this risk.

Bankia considers environmental criteria in the course of its risk management and recognises the significance of the indirect environmental impact of approving loans and investment projects. The Credit Risk Policy includes environmental risk-related criteria, bearing in mind the environmental impact of business activities and requiring companies to comply with prevailing legislation. On this premise, we assess the environmental risks surrounding lending transactions at the acceptance and monitoring stages of approved transactions.

To manage environmental risk, Bankia uses a tool that assigns an environmental rating to corporate customers, thereby providing qualitative information that supplements financial assessment. Environmental ratings can be used to assess the environmental impact of a business, how it might affect the business viability of the company, and, therefore, its influence on the credit risk faced by the bank.

The rating tool uses a questionnaire based on the Equator Principles. Together with the sector rating and the financial rating, this produces a rating on a scale of 5 levels, from "very low" to "very high" risk for the company or project being assessed. Since 2011, work has been under way to broaden our commitment to environmental risk management. We have identified 50 key environmentally-sensitive sectors and created a specific questionnaire for each. This enables us to pinpoint where a serious environmental impact might occur, so that we can implement the necessary mitigation measures.

The degree of environmental risk associated with a company is assessed on the basis of a specific method developed by an external provider.

We use the tool to produce a general rating of large and medium-sized companies' portfolios. The assessment shows that 81% of borrowers or customers and 74.2% of exposure are within portfolios rated as displaying "low" or "very low" environmental risk. 98% of authorised exposure in the specialised loan portfolio is concentrated in OECD countries.

Bankia is also committed to helping preserve the environment by taking steps to reduce the environmental impact of its own activities. The bank helps implement best practices and encourages its employees to take the required training.

In the fourth quarter of 2017, we set up a working group to analyse potentially controversial sectors and identify and manage environmental and social risks and opportunities – in sectors such as energy, agriculture, mining or defence, among others.

Our aim for 2018 is to use the outcome of that work to create a series of guidelines on the high-risk sectors identified. This will enhance our financing decisions to avoid and/or minimise the social and environmental impact of Bankia's activity on the transactions in which it is involved.

Future lines of work include analysing the recommendations released in June 2017 by the Task Force on Climate-related Financial Disclosures (TFCD) (a UN working group set up in 2015 within the Financial Stability Board (FSB), to implement the recommendations and continue moving forward in the fight against climate change.

- **Eco-efficiency and climate change plan**

Bankia's Responsible Management Policy, approved by the Board on 28 April 2016, sets out Bankia's general commitments facing climate change. Our aim is to fight climate change by managing resources efficiently and monitoring and assessing the environmental impact of the bank's own activities and of the transactions it finances.

Specifically, Bankia is committed to:

- Minimising its environmental impact and lowering the related costs through more efficient resource usage.
- Ensuring suitable environmental management in all processes.
- Raising awareness among our employees and training them to use resources efficiently.
- Developing environment-friendly products and services that help fight climate change.

- Including clauses on environmental commitments in contracts with suppliers.

Bankia sees measuring the environmental impact of its activity as fundamental, and works proactively to mitigate any such effect. It focuses efforts on the environmental management of its work centres, boosting eco-efficiency vis-à-vis the use of natural resources, helping to tackle climate change, and fostering environmentally-responsible attitudes among its staff, suppliers and customers.

In line with this commitment to the environment, on 6 April 2017, Bankia's Responsible Management Committee approved the 2017-2010 Eco-efficiency and Climate Change Plan, this plan will cover a 4-year period (2017-2020) and entails ambitious, yet achievable objectives to pave the wave for Bankia to deliver one of the main objectives of the 21st century: CO2 emission neutrality by 2050.

The Bankia's **Ecoefficiency and Climate Change Plan** is structured based diferent of strategic action, each of which, in turn, is designed to achieve specific quantitative and qualitative objectives:

- Certified environmental management: increasing up to 7 the number of Bankia's emblematic buildings with certified environmental management systems, according standards of new ISO14001:2015.

- Internal governance of climate change: reducing a 20% the Group's CO2 emissions to offset unavoidable emissions.
- Energy ecoefficiency: using own resources undertaking the necessary actions to slash energy consumption by 19% while also reducing consumption of resources, such as water, paper and toner by 5%.

- A 5% reduction in waste generation and the search for alternatives to the main types of waste generated within the context of the circular economy.
- Promoting environmental protection and transition towards a low-carbon economy via purchases and contracts that reduce environmental risk and impact.
- Spreading a culture of environmental commitment across the organisation through environmental training and awareness-raising.

- **Actions in the areas of climate change and eco-efficiency**

Within its Eco-Efficiency and Climate Change Plan, in the course of 2017 Bankia undertook a range of initiatives, such as:

- Bankia voluntarily registered its carbon footprint for 2014, 2015 and 2016 in the Ministry of Agriculture and Fisheries, Food and Environment's register of carbon footprints, offset schemes, and carbon dioxide absorption projects. This willingness to register has earned us the Calculo seal, which acknowledges the entity's commitment, the effectiveness of steps taken in recent years to reduce greenhouse gas emissions, and the effort made to offset emissions via carbon capture projects carried out in Spain. For the fifth straight year, Bankia has renewed its commitment to acquire all of the renewable power from guaranteed sources. Bankia also has a photovoltaic solar energy capture system at its headquarters in Valencia.

- The bank designed and implemented a specific greenhouse gas reduction plan involving the entire organisation. Initiatives taken include fossil fuel replacement, an overhaul of our climate control equipment, and running on electricity from certified 100% renewable sources.
- Bankia offset 8% of its total carbon dioxide emissions by purchasing carbon credits. In Spain, we purchased tonmes of carbon dioxide available from the REFO-RESTA CO2 FASE V project, which is on record in "Section b" of the Ministry of Agriculture and Fisheries, Food and Environment's register of carbon footprints, offset schemes and carbon capture projects. Internationally, we purchased carbon dioxide from three Gold Standard-certified projects, which carry the added value that each project contributes to at least three Sustainable Development Objectives.
- Contracting terms for renting vehicles for executives were negotiated, whereby new vehicles added to the fleet will by low CO2-emission hybrids.
- We rolled out new technologies to all workstations so that employees can communicate using video calls and online presentations, without the need to travel.
- Bankia continued to apply highly innovative solutions such as heat recovery from refrigeration systems for subsequent use in the heating boilers at the Las Rozas building. The bank also updated or replaced refrigeration systems to enhance efficiency and installed LED lighting at branch offices and high-consumption workplaces.
- In 2017, we completed our project to monitor the bank's printers. Monitoring allows real-time control of paper and toner consumption, helping to achieve considerable savings in both costs and consumption. As part of the project, printers are programmed by default to print on both sides of each sheet, allocation of printers to workplaces is limited according to certain criteria, and awareness-raising messages are sent to employees to encourage them to save paper.
- In late 2017, the bank's three largest buildings, at Pintor Sorolla 8 (Valencia), Paseo de la Castellana 189 (Madrid) and Las Rozas (Madrid), successfully certified to the new requirements of the ISO 14001 environmental protection standard. This proves that we have implemented a system that helps prevent environmental impact by deploying the means necessary to avoid, reduce or control it.
- Bankia continues to create financial solutions that support the transition to a low-carbon economy. One example is our Crédito Sostenible ("sustainable credit facility"), which

finances ecological car purchases, low consumption household appliances, and energy efficiency projects at residential properties.

- Bankia offers the impact investment fund Bankia Futuro Sostenible, which applies socially responsible investment criteria and incorporates the UN's Sustainable Development Objectives to its investment policy.

Bankia's effective performance in this area has earned recognition from the CDP Climate Change 2017 analysts, who awarded us the highest score (A). This makes the bank one of 112 world leaders in the fight against climate change.

- **Waste management**

We continued our campaigns to donate furniture, electrical and electronic systems and writing materials. In 2017, the total number of donations was 23. Donations support the "circular economy", giving what would otherwise be waste a second lease life and significantly contributing to the social role of the recipients; non-profit organisations.

- **Sustainable procurement**

Bankia undertook an in-depth analysis of its procurement of goods and services, identifying those that might carry a higher risk of environmental impact or carbon emissions. We pinpointed the environmentally critical supplies and specified the environmental criteria to be included from 2018 onwards in the highest-impact service contracts.

- **Training and awareness-raising**

In 2017, the individual training plans for 13,094 employees included an onlin environmental-management course to spread an environmental culture among our professionals.

The course focuses on the main environmental issues (climate change, water, energy, atmospheric pollution, waste) and the steps taken by Bankia to minimise them.

During the course, good environmental practices are suggested for both the workplace and personal settings.

In March, Bankia internally released a carbon footprint calculator which employees can use to measure the carbon footprint of their daily activities. In 2018, the tool is now available to customers and non-customers on our websites Bankia.es and Enaccion.bankia.com.

- **Alliances and initiatives**

Bankia believes it is vital to become involved in domestic and international initiatives and forge alliances to raise environmental awareness and share experiences, successes and concerns in the fight against climate change and in biodiversity conservation. Highlights include:

- Spain. Clúster de Cambio Climático de Forética, Grupo Español de Crecimiento Verde, Comunidad por el Clima, Fundación Empresa & Clima.
- Internationally. Earth Hour (WWF), and RE100. RE100, created by BDP and The Climate Group, bings together the world's most committed companies to renewable power and have clearly defined and publicly stated renewable energy use targets.

Challenges for 2018 include the possibility of certifying our building at Triana, 20 in Las Palmas to the ISO 14001:2015 standard and moving forward with fulfilling the goals of the Eco-Efficiency and Climate Change Plan. Work will also go to offsetting carbon emissions through direct purchase of carbon tonnes or support of offset projects.

EMISSIONS (tonnes) (1)	2017	2016	2015
Scope 1 emissions (2) (3)	4,545.7	4,448.5	4,409.1
Direct CO2e emissions from natural gas consumption	595.2	616.6	717.9
Direct CO2e emissions from fuel consumption	354.3	316.8	274.0
Direct CO2e emissions from refrigerant gas recharging	2,914.5	2,810.1	2,640.4
Direct CO2e emissions from business trips (4)	681.7	705.0	776.8
Scope 2 emissions	0.0	0.0	0.0
Indirect CO2e emissions from electricity consumption (5)	0.0	0.0	0.0
Scope 3 emissions (2)	4,001.2	3,866.5	4,228.1
Indirect CO2e emissions from business trips (6)	2,352.0	2,366.5	2,538.2
Indirect CO2e emissions from commutes (Ofibus shuttle service)	298.2	294.4	325.0
Indirect CO2e emissions from commutes (shared transport)	7.9	8.2	9.2
Indirect CO2e emissions from consumption of paper (DIN A4) and printer cartridges	1,236.5	1,087.1	1,227.1
Indirect CO2e emissions from water consumption	82.7	84.1	96.5
Indirect CO2e emissions from waste management	23.9	26.2	32.1
Other emissions (7)			
CO emissions	0.19 €	0.19 €	0.21 €
NOx emissions	1.40	1.41 €	1.55 €

(1) Data for Bankia, S.A.
(2) Sources of emission factors used: IPCC 2006/2013, CORINAIR 2007, U.S. EPA, Spain - HGH Inventory Report 1990-2015 (2017), DEFRA 2017, Guide for GHG emissions (2017) - Catalan Office for Climate Change, Environmental Paper Network (2012) and Carbon Impact Studies: Toner Refills at Cartridge World-Comparative Carbon Footprints (2008).
(3) Global warming potentials for 100 years published in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) (2013) have been considered.
(4) Includes emissions from business travel of employees using lease fleet vehicles. In 2017, following MAPAMA criteria for registration of Bankia's carbon footprint, these emissions were reclassified from Scope 3 to Scope 1 emissions.
(5) 100% of electric energy acquired was generated from renewable energy sources (green energy). This has prevented emission of 31,295.02 tonnes CO2. Source: Electricity Labelling and Source Guarantee Syste (2016). National Markets and Competition Commission.
(6) Includes emissions from business travel of employees by plane, train, city bus and boat, as well as the emissions related to the mileage travelled by employees in their own vehicles, for work purposes.
(7) Source: CORINAR 2007.

ENERGY AND WATER (tonnes and %) (1)	Units	2017	2016	2015
Total primary energy consumption	Gigajoule	15,580	14,874	16,182
Natural gas consumption	Gigajoule	10,465	10,841	12,644
Fuel consumption	Gigajoule	5,115	4,033	3,538
Electricity consumption (2)	Gigajoule	312,950	326,127	379,638
Water consumption (3)	Cubic meter	240,538	244,516	280,446

(1) Data for Bankia, S.A
(2) Figure for total electricity consumption. 100% of electric energy acquired was generated by from renewable energy sources (green power).
(3) Total water supplied by mains networks. Buildings: Las Rozas, Pº Castellana, 189 and Pº Castellana, 259-A, Madrid. Other premises: Consumption estimated based in billing.

CONSUMPTION OF MATERIALS (tonnes and %) (1)	2017	2016	2015
Total paper consumption (DIN A4)		652.94	743.13
Total recycled paper consumption (DIN A4) (2)	736.92	651.39	741.50
Consumption of white paper made from virgin pulp with a low environmental impact (DIN A4) (3)	1.66	1.55	1.63
% consumption of paper made from ECF virgin pulp (DIN A4)	100.00%	100.00%	100.00%
Consumption of paper rolls	373.95	472.10	689.80
% of paper used that is recycled (DIN A4)	99.77%	99.76%	99.78%
Consumption of printer cartridges	13,871	15,057	14,575

(1) Data for Bankia, S.A.

(2) The recycled paper has the following guarantees: European Ecological Label, Ángel Azul and CradletoCradle (Silver)

WASTE (tonnes) (1)	2017	2016	2015
Non-hazardous waste sent from reuse or recycling	**1,096.2**	**1,246.2**	**1,522.5**
Paper waste (2)	613.9	689.0	683.1
Electronic waste (3)	419.0	498.3	785.8
Toner waste	35.4	38.4	37.2
Battery waste	0.1	0.2	0.3
Packaging waste	26.9	19.8	15.1
Glass waste	0.9	0.5	1.1
Vegetable oil waste	0.1	0.1	0.0
Non-hazardous waste sent to landfill	**0.7**	**0.1**	**2.0**
Portable electronic device waste	0.7	0.1	2.0
Card waste	0.0	0.0	0.1
Hazardous waste generated	**0.6**	**0.7**	**0.8**
Hazardous waste handled by an authorised waste management company and recycled	0.5	0.7	0.8
Hazardous waste handled by an authorised waste management company and sent to secure landfill	0.0	0.0	0.0

(1) Data for Bankia, S.A.

(2) In 2016, Bankia undertook several extraordinary, one-time projects that entailed the generation of 269.9 t of paper, which was sent to be recycled.

(3) In 2016, Bankia undertook several extraordinary, one-time projects that entailed the generation of 18,5 t of electronic waste, which was sent to be recycled.

15.5.- Human rights and social action

- **Human rights**

Bankia's significant presence in society at large and its direct and indirect influence on the behaviour of the people, groups, companies and organisations with which it interacts, mean that the bank is aware of the importance of remaining publicly committed to principles and initiatives in support of respect for human rights.

Bankia expressly states its commitment to human rights in its Code of Ethics and Conduct. We further specified our commitment in the Respect for Human Rights Memorandum, which the Board adopted in October 2016. The commitment is based on the United Nations Guiding Principles for Business and Human Rights, on the State duty to protect human rights, the corporate responsibility to respect human rights, and the need to provide access to remedy for victims of business-related abuses.

Moreover, by embedding human rights responsibility within our strategy through the lines of action under the 2016-2018 Responsible Management Plan, Bankia delivers on its commitment to apply the United Nations Guiding Principles on Business and Human Rights, as set out in the National Action Plan on Business and Human Rights.

Bankia has integrated the United Nations Sustainable Development Objectives in its business strategy, and contributes to fulfilling the targets set by the UN so that is successfully meets the challenges of Agenda 2030.

As an employer, Bankia's employment policies are governed by prevailing Spanish law. Employees' working conditions are set out in the 2015-2018 collective agreement for savings banks; unions are actively involved in all negotiations towards workplace agreements.

100% of our staff are protected by the workplace terms and conditions set out in the collective agreement. The collective agreement and our employment policies ensure that no one is discriminated against and that uniform work conditions apply to all employees, regardless of gender, age, ethnicity, religion, sexual orientation, marital status or social background.

The bank is respectful of freedom of association and social dialogue. 400 employees within the branch network and central services are union members and provide an initial point of contact between staff and the unions for any issue, query or complaint that might arise in the course of their work.

As a provider of products and services, Bankia's human rights responsibility arises on a number of fronts. As for *data protection*, Bankia preserves and safeguards customer data privacy with respect to use for marketing purposes and ensures that all necessary measures are taken to prevent data leakage or unauthorised use of customer financial data. Going beyond data protection regulations, protecting customers' information is an ethical duty for us.

As for *customers*, we do not apply any criterion that would discriminate against any person or group by reason of gender, age, ethnicity, religion, sexual orientation, marital status, social background or place of residence. In addition to providing access to banking services and supporting customers' understanding of financial products and services via our bankia.es website, Bankia also has in place a responsible marketing code, which we disclose to the public and safeguards our promise to customers to meet their general needs and create lasting relationships based on a straightforward, friendly approach and transparency. Furthermore, Bankia's Customer Service Departments (CSD) enables any bank customer to raise a complaint or make suggestions in response to any violation of his or her fundamental rights as a person and as a consumer.

As for *product offering*, in its banking business Bankia abides by its respect for and commitment to human rights by including in its catalogue a range of socially- and environmentally-oriented products that enable vulnerable and underprivileged groups and environmentally-aware customers to benefit from especially attractive terms. Highlights include:

- *Non-profit Organisations programme*: Aimed at associations and foundations concerned with humanitarian aid, cooperation for development, social action and environmental protection. Bankia donates a fixed amount for each card signed up. The cardholder can choose the recipient of the donation from a list of subscriber organisations at no additional cost.

- *Sustainable loan*. This environment-committed loan offers improved terms and conditions for financing sustainable products, such as energy-efficient household appliances, electric cars, hybrid cars that use alternative fuels, and energy-efficient improvements to home properties.
- *Bankia Futuro Sostenible ("Bankia sustainable future") investment fund*. The fund applies socially responsible investment criteria that exclude businesses that harm human life or dignity and take an evaluative stance (fight against poverty, famine, and inequality, support for health, well-being, responsible consumption, environmental protection, and human and labour rights). The (direct and indirect) investment universe is analysed by an independent expert who uses screening filters to select companies that are compliant with the ethical requirements.

Bankia also establishes controls to mitigate the social and environmental impact of its lending business. It has a policy for financing controversial sectors that restricts investment and financing so as to exclude borrowers who violate human rights.

In the General Statement on Credit Risk Policies, Methods and Procedures adopted by the Board in November 2016, Bankia sets out its criteria on environmental and social risk. We assess the environmental impact of a business, especially in the higher-impact sectors (energy, chemicals, etc), and we require companies to comply with environmental laws and regulations. For investment projects we assess compliance with the Equator Principles and prioritise reduced-impact projects and ventures supported by action plans to mitigate undesired social and environmental consequences.

In procurement, Bankia has specified a supplier management filter to support, promote and safeguard human rights. The Procurement Policy approved by the Board of Directors in February 2016 aims to create a partnership framework between the bank and its suppliers that is consistent with Bankia's values and supports the bank's strategic plans. Under this policy, Bankia requires compliance with the laws and regulations prevailing in the supplier's own territory and places value on adherence to the UN Global Compact principles, the Universal Declaration of Human Rights and the fundamental conventions of the ILO.

The supplier certification process looks at social, environmental and good governance aspects. Corporate social responsibility, human rights and the environment are weighted at 33% of the overall assessment. The weighting of human rights compliance is reviewed on a regular basis.

As a social actor, Bankia's social action strategies are implemented in the areas of housing, new poverty, employment and training, local development, and disabilities. The initiatives ahve a direct impact on human rights where Bankia operates and support access to housing, decent employment, social integration of vulnerable groups, and eradication of poverty and social inequality:

- *Housing and new poverty:* Bankia provides housing for vulnerable persons and families through a "social rent" programme.
- *Employment and training:* Bankia helps people get jobs and improve their employability via training initiatives.
- *Local development:* Bankia carries out its social actions by supporting local, neighbourly social organisations that focus on employment, diversity, ageing and caregiving.
- *Disability:* Bankia supports the social and labour integration of people with disabilities via programmes enhancing employment and educational prospects.

Bankia is also a signatory of the Code of Good Practice created by Royal Decree-Law 6/2012 of 9 March on urgent measures to protect mortgagors undergoing hardship. It also applies voluntary measures to resolve housing repossession and foreclosure situations for vulnerable families.

- **Social action**

Social investment in 2017 exceeded EUR 19.3 million, and encompassed initiatives in social action, dual occupational training and social sponsorship.

Bankia continues to pursue a collaborative and participative strategy in its charitable activities. The key investment areas last year were housing and new poverty, employment, training, local development and disabilities. Through social programmes, Bankia supported a total of 768 foundations and associations.

Our activities in this domain focused on caring for immediate needs, involving stakeholders with our projects, and searching for corporate social responsibility cooperation programmes.

Regarding **social rents and affordable housing**, in 2017 Bankia increased its offering of housing for vulnerable persons, who pay rent on special terms in accordance with their specific circumstances. We now have 2,921 properties under this scheme across Spain. The features of this housing are published on our corporate website. We signed 554 specially protected leases last year. The bank earmarks a significant budget for repair and maintenance of protected housing so that the homes remain in good condition, thereby lowering the cost for tenants. The expense in this connection in 2017 was EUR 2.34 million. Bankia has agreements in place with local government bodies so that their social service units can speed up housing award processes in Madrid, Castilla-La Mancha, the Canary Islands, Catalonia, Valencia and La Rioja.

In **education**, last year the bank contributed EUR 4 million to the Fundación Bankia por la Formación Dual (Bankia foundation for dual training and education), which promotes combined training across vocational schools and businesses. In 2017, the foundation focused on:

- *Reinforcing and enhancing dual occupational training* by entering into partnership with regional governments, business associations and other stakeholders to implement specialised programs (Sanec, Comex and Ditec), in addition to the Dual Bankia programme for financial education and training, which is unique in Spain.
- *Occupational, academic and personal orientation*, by creating an integrated guidance platform to help articulate personal vocations, support the education system and address the needs of economic sectors.
- *Research and innovation in dual training*, implementing projects such as the Spanish occupational training research agenda, publication of the first occupational training report relating to "smart" productive specialisation in Castilla y León and its extension to other regions, and the occupational training strategic and operational plan in Valencia.
- *Dual occupational training support, promotion and awareness-raising*. Highlights included the Third Forum of the Dual Occupational Training Alliance, the Fourth Occupational Training/Business Congress and the Fifth Public-Private Education Partnership Convention in Madrid.

Our efforts in this field are now beginning to reap benefits. For example, in June 2017, 44 students within the first class of the Bankia dual occupational training course completed their training. 17 joined Bankia branches as marketing managers under permanent contracts. Also in June, 50 students in the second class started their first training period at Bankia. After the summer break, they rejoined in December, and will continue to train through to June 2018. In September 2017, the third class of the Bankia dual occupational training course started to train at their respective workplaces, and are on track to join Bankia in June 2018.

One of the upcoming challenges that the Bankia dual occupational training programme will face is to partner with other companies to support this approach to education and training. Highlights include cooperation with FPempresa, and ongoing research efforts. We publish papers to help improve awareness of dual occupational training and strengthen our presence at dual occupational training events and forums.

For **employment**, the priority in Bankia's social projects is to help people overcome their vulnerabilities by getting a job or improving their employability through training. Actions supported by Bankia in 2017 included:

- *The Spanish Red Cross* programme to help young people get jobs and improve qualifications among the jobless by means of professional certificates involving internships at businesses and institutions. The initiative involved 401 attendees from 23 Spanish towns and cities, who received 7,355 hours of education and training. More than 80 companies collaborated with the programme.
- *Spanish Red Cross Programme co-financed by the European Social Fund*, which set itself the target of at least half of participants, all over 45, finding jobs. Over 2,265 people from 20 Spanish provinces benefited from the initiative.

- *Cáritas Española programme* to organise training and employment pathways at labour integration businesses for 2,529 jobless people from 24 towns and cities.

In addition to these activities, the bank took the strategic decision to support self-employment via microcredit. Accordingly, approval was given to acquire a stake in the specialist finance firm IMF Oportunitas, which plans to operate throughout Spain. Beneficiaries are supported and advised by the association of senior voluntary professionals Secot.

Our employment programmes are also aimed at involving two stakeholder groups, customers and suppliers, in a social responsibility approach that seeks to address the issues nearest to the community. Therefore:

- *The networked employment programme* catered to 153 Bankia customers, who completed guidance and active jobseeking pathways. Since it was first set up in 2013, a total of 1,338 people have completed the programme, and 49% found jobs.

- *The bank undertook a pilot social responsibility partnership* with one of its suppliers, the service multinational ISS, offering jobs to vulnerable people living in protected housing and cared for by the Fundación Randstad, la Fundación Tengo Hogar and Cáritas. Jobs were found for 17 people.

In 2017, Bankia undertook 59 employment and labour integration projects, and 17,098 people benefited directly from our initiatives.

As to **local development**, in 2017 Bankia continued its efforts to "capillarise" and distribute its charitable aid among small local bodies. Pursuing this strategy, Bankia has partnered with eight foundations: Fundación Montemadrid (in Castilla-La Mancha and Madrid), Fundación Bancaja (Valencia), Fundación Caja de Ávila (Ávila), Fundación Caja Segovia (Segovia), Fundación Iluro (Maresme, Barcelona), Fundación Caja Canarias (Canary Islands), Fundación Caja Castellón (province of Castellón) and Fundación Caja Rioja (region of La Rioja).

By means of requests for proposals and other programmes set in motion in partnership with these foundations, in 2017 we granted EUR 1.96 million to 341 foundations and charities, most of which focus on employment projects, but also on diversity, ageing, caregiving and local development.

Requests for proposals aimed at foundations in 2017

Foundations	No .of beneficiaries	Entities supported by agreements
Caja de Ávila	6,495	42
La Caja de Canarias	7,131	40
Caja Castellón	8,998	47
Caja Rioja	3,148	22
Iluro	1,368	8
Bancaja (ccopera)	34,000	51
Bancaja (Capaces)	n,d,	10
Caja Segovia	6,362	44
Montemadrid	83,584	77
Total	**151,086**	**341**

Bankia's social projects leverage the bank's "solidarity network". Under this scheme, bank employees select non-profit organisations close to their branch offices and grant them up to EUR 10,000, based on the fulfilment of objectives. In 2017, we invested EUR 1.4 million through this programme.

Another key line of social action at Bankia focuses on **labour integration of people with disabilities** through employment support programmes. In 2017, we supported 39 programmes, catering to 4,224 beneficiaries. Bankia also continued to support the following initiatives in 2017:

- Postgraduate scholarships for students with disabilities, managed by Fundación ONCE.
- Engagement of services from suppliers affiliated with special employment centres, where a high proportion of staff are people with disabilities.
- Agreement with the Grupo Konecta special employment centre to provide services to Bankia's customer service desk and digital contact centre.
- Financial education programme for people with disabilities, involving 75 training days and contributions from 72 bank employees as voluntary teachers and trainers.

Bankia's key social investment challenge in 2018 is to ensure that it remains sustainable and is consistent with a circular economy that achieves real solutions in the medium term. The bank will also cooperate with the projects set in motion by the new foundations joining the group after the merger with BMN: Fundación Caja Murcia, Fundación Caja Granada and Fundación Sa Nostra.

- **Social risk surrounding Bankia's business**

In 2017, Bankia expanded on its policy to enhance and reinforce its framework for protecting borrowers who have been severely affected by supervening events and are now undergoing hardship.

Since 2012, when a range of legislative measures were taken to protect mortgage borrowers, the bank has been sensitive to the vulnerability of many Spanish households, and has introduced initiatives and solutions in line with the spirit of that change in the law. Bankia became a signatory of the Code of Good Practice created by Royal Decree-Law 6/2012 of 9 March on urgent measures to protect mortgagors undergoing hardship and its subsequent amendments.

In addition, Bankia voluntarily makes efforts to resolve situations that might otherwise involve home repossession and to prevent vulnerable families from being left without any housing options. These measures are available at the request of customers and when the issue is channelled by social actors (local government services, non-profit organisations, various charitable bodies, etc) with which we have a relationship of trust.

Under this policy, in 2017 we rescheduled 1,236 mortgages, granting more flexible terms to adapt loan repayments to households' ability to pay. 5,628 mortgages were similarly modified in

2016. In addition, we accepted 665 transfers of title in lieu of money payment, under agreements to discharge the mortgage in exchange for delivery of the property. In 2016, we signed 550 agreements of this kind.

In all cases, we negotiated solutions to avoid evictions and repossessions affecting vulnerable groups, while preserving the bank's interests as far as possible. Since 2012, Bankia has accepted 8,592 transfers of title in lieu of payment, and has modified the terms of 75,511 mortgage loans. In this way, the bank has helped mitigate the loss of main dwellings where supervening circumstances prevent borrowers from discharging the burden of the credit financing their homes.

In 2017, the bank was awarded 1,823 repossessions and foreclosures in the courts, as compared to 1,971 in 2016.

Bankia's support to its customers who undergo hardship also extends to other kinds of loan. In 2017, we renegotiated the terms of 1,549 consumer loans, compared to 1,809 in 2016, and 793 loans to self-employed professionals and businesses, compared to 1,005. The totals since 2012 are 61,824 and 17,932, respectively.

16.- EVENTS AFTER THE REPORTING PERIOD

As a result of the merger between Bankia and BMN, on 15 February 2018, a Workforce Agreement was signed, with 92% representation of the Bank's trade unions. The Workforce Agreement contains a series of voluntary redundancy measures to implement the required restructuring after the merger between Bankia and BMN. The Workforce Agreement also sets the framework for working conditions of the Entity's employees and the conditions under which BMN employees will be taken on, as well as other labour-related issues.

No other significant events took place between 31 December 2017 and the date of formulation for issue of Bankia Group's financial statements with a significant impact on those financial statementsf

17.- ANNUAL CORPORATE GOVERNANCE REPORT

In accordance with article 61 bis of the Spanish Securities Market Act (Ley del Mercado de Valores), the 2017 Annual Corporate Governance Report was prepared. It forms part of this director's report and is attached as a separate document. It includes a section on the degree of compliance by the Bank with the corporate governance recommendations existing in Spain.

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

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULAR

END OF RELATIVE FINANCIAL YEAR	12/31/2017

COMPANY TAX ID NO. (C.I.F)	A-14010342
CORPORATE NAME	
BANKIA, S.A	
REGISTERED OFFICE	
PINTOR SOROLLA Nº 8, 46002, VALENCIA	

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/24/2017	2,879,332,136,00	2,879,332,136	2,879,332,136

Indicate whether different types of shares exist with different associated rights:

Yes ☐ No ☒

A.2 List the direct and indirect holders of significant ownership interests in your organisation at year-end, excluding Board members:

Personal or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
FROB	0	1,747,181,979	60.68%
NORGES BANK	87,260,523	0	3.03%
INVESCO LIMITED	0	30,115,041	1.05%

Name or corporate name of the indirect owner of the participation	By: name or company name of the direct owner of the participation	Number of votings rights
FROB	BFA, TENEDORA DE ACCIONES, S.A.U.	1,747,181,979
INVESCO LIMITED	INVESCO ASSET MANAGEMENT LTD	29,893,189
INVESCO LIMITED	INVESCO POWERSHARES CAPITAL MANAGEMENT LLC	126,690
INVESCO LIMITED	INVESCO HONG KONG LIMITED	95,162

Indicate the most significant movements in the shareholding structure during the financial year:

Personal or corporate name of shareholder	Transaction date	Transaction description
NORGES BANK	12/18/2017	It has exceeded 3% of the share capital.
INVESCO LIMITED	12/11/2017	It has exceeded 1% of the share capital (only tax heaven).

A.3 Complete the following tables detailing the members of the Board of directors who own voting shares in the company:

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	259,170	0	0.01%
MR. JOSÉ SEVILLA ÁLVAREZ	55,012	0	0.00%
MR. ANTONIO ORTEGA PARRA	75,000	0	0.00%
MR. JOAQUÍN AYUSO GARCÍA	55,015	0	0.00%
MR. FRANCISCO JAVIER CAMPO GARCÍA	50,315	0	0.00%
MRS. EVA CASTILLO SANZ	25,000	0	0.00%
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	21	30,268	0.00%
MR. JOSÉ LUIS FEITO HIGUERUELA	49,452	0	0.00%
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	16,358	0	0.00%
MR. ANTONIO GREÑO HIDALGO	20,750	0	0.00%

Name or corporate name of the indirect owner of the participation	By: name or company name of the direct owner of the participation	Number of votings rights
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	QUINTORGE, S.L.	30,268

% of total of voting rights held by Board of directors	0.01%

Complete the following tables on members of the company's Board of Directors that hold rights over company shares:

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Personal or corporate name of related party
BFA, TENEDORA DE ACCIONES, S.A.U.
BANKIA, S.A.

Tipe of relationship: Contractual

Brief description:

Framework agreement governing the relations between BFA, Tenedora de Acciones S.A.U. (BFA) and Bankia, setting out the mechanisms necessary to, within the legal limits, ensure at all times an appropriate level of coordination between Bankia and BFA and group companies, and to manage and minimise any situations that may give rise to potential conflicts of interest between the two entities, while ensuring due observance and protection of the rest of the shareholders in an atmosphere of transparency in relations between the two entities.

Personal or corporate name of related party
BFA, TENEDORA DE ACCIONES, S.A.U.
BANKIA, S.A.

Tipe of relationship: Contractual

Brief description:

Service level agreement, development of the framework agreement, enabling BFA to manage its activity adequately using Bankia's human and material resources to prevent duplications.

Personal or corporate name of related party
BFA, TENEDORA DE ACCIONES, S.A.U.
BANKIA, S.A.

Tipe of relationship: Contractual

Brief description:

Cost-sharing agreement for lawsuits related to preferred participating securities and subordinated bonds.

Personal or corporate name of related party
BFA, TENEDORA DE ACCIONES, S.A.U.
BANKIA, S.A.

Tipe of relationship: Contractual

Brief description:

Agreement establishing an access mechanism allowing BFA, through Bankia, to avail of the liquidity and funding mechanisms set up by the ECB for credit institutions, as well as private deals inherent in the business of credit institutions.

Personal or corporate name of related party
BFA, TENEDORA DE ACCIONES, S.A.U.
BANKIA, S.A.

Tipe of relationship: Contractual

Brief description:

Cost-sharing agreement for lawsuits related to the IPO.

Personal or corporate name of related party
BFA, TENEDORA DE ACCIONES, S.A.U.
BANKIA, S.A.

Tipe of relationship: Contractual

Brief description:

Master Agreement between BFA and Bankia. Article 11 (2) of the CRR, to govern the relations between BFA and Bankia with respect to defining and implementing the necessary mechanisms and procedures so that Bankia can comply with the obligations laid down in 11.2 of Regulation (EU) No 575/2013 and, in particular, verify that BFA complies with the capital requirements imposed in applicable legislation.

A.6 Indicate whether the company has been notified of any shareholders' agreements affecting the company in accordance with Article 530 and 531 of the Corporations Act ("LSC"). If so, provide a brief description and list the shareholders bound by such agreement:

Yes ☐ No ☒

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes ☐ No ☒

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

Not apliccable.

A.7 Indicate whether any individual or bodies corporate currently exercise control over the company pursuant to Article 4 of the Spanish Securities Market Act (Ley del Mercado de Valores). If so, please identify:

Yes ☒ No ☐

Personal or corporate name
BFA, TENEDORA DE ACCIONES, S.A.U.

Comments
At 31 December 2017, BFA, Tenedora de Acciones, S.A.U. held shares representing 60.68% of Bankia, S.A.'s share capital. FROB held shares representing 100% of BFA, Tenedora de Acciones, S.A.U.'s share capital.

A.8 Complete the following tables on the company's treasury stock:

At financial year-end:

Number of direct shares	Number of indirect shares (*)	% of total capital stock
20,023,158	0	0.70%

(*) Held through:

Explain any significant changes during the year, in accordance with Royal Decree 1362/2007:

Explain any significant changes
Notice to the CNMV dated 05/18/2017 regarding the fact that acquisitions made using treasury shares totalled the 1% threshold at 05/17/2017. At said date, the total position of treasury shares totalled 0.508% of share capital.

A.9. Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

On 24 March 2017, a resolution was adopted at the Ordinary General Shareholders' Meeting of Bankia, S.A. "*to grant authorisation to the Board of directors for the derivative acquisition of own shares in accordance with the limits and requirements established in the Corporations Act. Delegation of authority to the Board to implement this resolution, annulling the delegation granted by the previous General Meeting"*:

Authorisation for the Board of Directors, in the broadest terms possible, to engage in the derivative acquisition of own shares of Bankia, directly or through companies in its Group, subject to the following limits and requirements:

a. Forms of acquisition: acquisition by way of purchase, by way of any other "intervivos" act for consideration or any other transaction permitted by Law, including out of profits for the financial year and/or unrestricted reserves.

b. Maximum number of shares to be acquired: the acquisitions may be made, from time to time, on one or more occasions, up to the maximum permitted by Law.

c. The price or consideration will vary from a minimum equal to the lesser of par value or 75% of the stock market price on the date of acquisition, and a maximum equal to up to 5% more than the maximum price achieved by the shares in free trading (including the block market) in the Continuous Market session on the date of acquisition.

d. Duration of the authorisation: five (5) years from the date of this resolution.

The conduct of these transactions also will be in compliance with the rules in this regard contained in the Bankia Internal Code of Conduct.

To authorise the Board of Directors so that it may sell the shares acquired or use the own shares acquired, in whole or in part, for implementation of remuneration schemes that have delivery of shares or option rights on shares as their purpose or result therein, in accordance with the provisions of section 1 a) of article 146 of the Corporations Act.

This delegation of authority to the Board of Directors replaces the delegation granted by the General Meeting of Shareholders of the Company held on 15 March 2016, which will therefore be rendered void.

The Board of Directors is authorised, on the broadest terms, to use the authorisation covered by this resolution for full implementation and development thereof, being entitled to delegate this authority, without distinction, to the Executive Chairman, to any of the directors, to the General Secretary and to the Board or any other person the Board expressly authorises for this purpose, with such breadth as it deems to be appropriate.

A.9. Bis Estimated free float:

	%
Estimated free float	38.60

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market

Yes ☒ No ☐

Description of legal restrictions
There are no restrictions on the transfer of securities of the entity except for legal restrictions. Pursuant to article 17 of Law 10/2014 of 26 June 2014, on Governance, Supervision and Solvency of Credit Institutions any natural person or body corporate which, acting alone or in collaboration with others, decides to directly or indirectly acquire a significant share in a Spanish credit institution or directly or indirectly increase its interest therein whereby the percentage of voting rights or capital held therein equals or exceeds 20%, 30% or 50%, or where control of the credit institution is gained through the acquisition, must first notify the Bank of Spain, indicating the amount of the expected investment and any other information required by regulations. This information must be relevant for the evaluation, and proportional and appropriate to the nature of the potential acquirer and the proposed acquisition. There are no legal or bylaw restrictions on the exercise of voting rights. Article 32.2 of the Bylaws states that those attending the General Meeting will be entitled to one vote for each share entitled or represented.

A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent public takeovers bid by virtue of the provisions of Act 6/2007.

Yes ☐ No ☒

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☐ No ☒

If applicable, indicate the different types of shares, and the rights and obligations they confer.

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate and detail the differences, if any, between the required quorum and that set forth in the Corporations Act (LSC) for convening the General Shareholders' Meeting.

Yes ☐ No ☒

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes ☐ No ☒

Detail differences with regards to the system contemplated in the LSC.

B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

The rules governing amendments to the Company's Bylaws are those set forth in the Corporations Act. Any amendment to the Bylaws is the responsibility of the General Meeting of Shareholders and will require, at first call, shareholders holding at least fifty percent of the share capital conferring voting rights to be present in person or by proxy. At second call, shareholders representing twenty-five percent of the share capital shall be sufficient.

Also, article 3.1 of the Bylaws stipulates that the Board of Directors is competent to agree on change of registered address within the same municipality.

B.4 Indicate the attendance figures for General Shareholders' Meetings held during the current and previous year:

	Attendance data				
Date of General Shareholders' Meeting	% in person	% by proxy	% of absentee voting		Total
			Electronic voting	Other	
03/15/2016	65.18%	10.60%	0.00%	0.92%	76.70%
03/24/2017	66.97%	12.21%	0.00%	0.61%	79.79%
09/14/2017	67.81%	14.25%	0.01%	0.41%	82.48%

B.5 Indicate whether there are any restrictions in the Bylaws establishing a minimum number of shares needed to attend the General Shareholders' Meetings:

Yes ☒ No ☐

Number of shares required to attend the General Shareholders' Meeting	500

B.6 Section removed.

B.7 Indicate the address of and how to access the company's website to obtain corporate governance and General Shareholders' Meeting information that should be made available to the shareholders through the Company's website.

The Company´s website address is: www.bankia.com, the domain name of which is entered at the Commercial Registry.

In accordance with article 52 of the Bylaws of Bankia, S.A., the Company will have, for the purposes envisaged in the applicable laws, a website (www.bankia.com) through which its shareholders, investors and the market will be generally advised of material or significant matters related to the Company, and the notices legally required to be published.

On the Company´s website, upon call of general meetings, there must be an electronic shareholder forum, to which both individual shareholders and such voluntary associations as they may establish on the terms contemplated by law may have appropriately secure access, to facilitate their communication prior to the holding of general meetings.

In this respect, the www.bankia.com home page includes a menu entitled "Shareholders and Investors" with a "Corporate Governance and Remuneration Policies" section containing information on the entity's corporate governance. This section contains a specific sub-section providing access to the entity's annual corporate governance reports, and one providing access to documentation regarding the general meeting of shareholders.

The Company's website is available in Spanish and English.

C STRUCTURE OF COMPANY MANAGEMENT

C.1 Board of directors

C.1.1 Indicate the maximum and minimum number of Board members stipulated in the company Bylaws:

Maximum number of Board members	15
Minimum number of Board members	5

C.1.2 Complete the following table with Board members details:

Personal or corporate name of director	Representative	Category of Board member	Seat on the Board	Date of first appointement	Date of last appointment	Election procedure
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE		Executive	CHAIRMAN	05/09/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MR. JOSÉ SEVILLA ÁLVAREZ		Excutive	CHIEF EXECUTIVE OFFICER	05/25/2012	03/15/2016	SHAREHOLDER MEETING AGREEMENT
MR. ANTONIO ORTEGA PARRA		Executive	DIRECTOR	06/25/2014	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MR. JOAQUÍN AYUSO GARCÍA		Independent	DIRECTOR	05/25/2012	03/15/2016	SHAREHOLDER MEETING AGREEMENT
MR. FRANCISCO JAVIER CAMPO GARCÍA		Independent	DIRECTOR	05/25/2012	03/15/2016	SHAREHOLDER MEETING AGREEMENT
MRS. EVA CASTILLO SANZ		Independent	DIRECTOR	05/25/2012	03/15/2016	SHAREHOLDER MEETING AGREEMENT
MR. JORGE COSMEN MENÉNDEZCASTAÑEDO		Independent	DIRECTOR	05/25/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MR. JOSÉ LUIS FEITO HIGUERUELA		Independent	DIRECTOR	05/25/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS		Independent	DIRECTOR	25/25/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MR. ANTONIO GREÑO HIDALGO		Independent	DIRECTOR	03/15/2016	03/15/2016	SHAREHOLDER MEETING AGREEMENT

Total number of Board members	10

Indicate the removals/dismissals that occurred on the Board of directors during the period being reported:

Personal or corporate name of director	Personal or corporate name of director	Leaving date
MR. ÁLVARO RENGIFO ABBAD	Independent	10/17/2017

C.1.3 Complete the following tables on the Board members and their different conditions:

EXECUTIVE BOARD MEMBERS

Personal or corporate name of director	Position within the company structure
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	EXECUTIVE CHAIRMAN
MR. JOSÉ SEVILLA ÁLVAREZ	CHIEF EXECUTIVE OFFICER
MR. ANTONIO ORTEGA PARRA	EXCUTIVE DIRECTOR, AND GENERAL MANAGER OF PEOPLE, RESOURCES AND TECHNOLOGY

Total number of executive Board members	3
Total % of Board	30.00%

EXTERNAL PROPRIETARY DIRECTORS

EXTERNAL INDEPENDENT DIRECTORS

Name or corporate name of director:

MR. JOAQUÍN AYUSO GARCÍA

Profile:

He was born in 1955, he holds a degree in Civil Engineering from Universidad Politécnica de Madrid. He is a member of the Board of Directors of Bankia and in March 2016 he was appointed as Lead Director. He is chairman of the Appointments and Responsible Management Committee and a member of the Remuneration Committee and the Audit and Compliance Committee. In addition, he is the Chairman of the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process.

Further, he is vice-chairman of Ferrovial, where he has worked his entire career, and is a member of its Executive Committee. He is chairman of Autopista del Sol, Concesionaria Española, and a member of the boards of directors of National Express Group PLC and Hispania Activos Inmobiliarios. He is a member of the Executive Board of Círculo de Empresarios, of the Advisory Board of the Instituto Benjamin Franklin at the Universidad de Alcalá de Henares and of the advisory board of AT Kearney.

He is also a member of the Fundación Integra and the Fundación Créate and vice-chairman of the management board of the Real Sociedad Hípica Española Club de Campo.

Name or corporate name of director:

MR. FRANCISCO JAVIER CAMPO GARCÍA

Profile:

He was born in 1955, he holds a degree in Industrial Engineering from Universidad Politécnica de Madrid. He is a member of Bankia’s Board of Directors, chairman of its Risk Advisory Committee and a member of the Board Risk Committee and the Appointments and Responsible Management Committee. In addition, he is also a member of the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process.

He is president of Asociación Española del Gran Consumo (AECOC) operators, and holds a directorship in Meliá Hotels International. He is also a member of the Advisory Board of AT Kearney (senior advisor) and of the Advisory Board of the Palacios Food Group (senior advisor).

He is a director of the Asociación para el Progreso de la Dirección (APD), and a trustee of the Fundación Bankia por la Formación Dual, the Fundación F. Campo and the Fundación Iter.

Mr. Campo began his professional career in Arthur Andersen and served as worldwide chairman of the Día Group and as a member of the Worldwide Executive Committee of the Carrefour Group and chairman of Zena Group and Cortefiel Group.

Name or corporate name of director:

MRS. EVA CASTILLO SANZ

Profile:

She was born in 1962, she holds a degree in Law and Business Studies from Universidad Pontificia de Comillas (E-3) in Madrid. She is a member of Bankia's Board of Directors since May 2012, chairs its Remuneration Committee and member of the Board Risk Committee and Risk Advisory Committee. In addition, she is also a member of the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process.

She is a director of Telefónica, S.A., chairwoman of the Supervisory Board of Telefónica Deutschland.

She is also a member of the Boards of Trustees of Fundación Comillas-ICAI, Fundación Telefónica and Fundación Entreculturas. Previously Ms. Castillo worked in Merrill Lynch, where she became chairwoman of its Spanish subsidiary.

Name or corporate name of director:

MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO

Profile:

He was born in 1968, he holds a degree in Business Administration and an Master MBAI from Instituto de Empresa. He is a member of the Board of Directors of Bankia and of its Audit and Compliance Committee and Remuneration Committee.

Chairman of ALSA and vice-chairman of National Express Group, PLC, he is also a member of the Fundación Consejo España-China and of Fundación Integra.

Previously he worked in companies in tourism, banking and international trade in Spain, Switzerland, Hong Kong and China.

Name or corporate name of director:

MR. JOSÉ LUIS FEITO HIGUERUELA

Profile:

He was born in 1952, he holds a degree in Economics and Business from Universidad Complutense de Madrid. He is a member of the Board of Directors of Bankia and of its Audit and Compliance Committee since June 2012.

Qualified as a State Trade Expert and Economist and former ambassador of the Kingdom of Spain, at present he is member of the Economic and Financial Policy Commission of the CEOE and chairman and general manager of the Institute for Economic Studies (IEE). He is also an independent director of Red Eléctrica Corporación and he is a trustee of the Fundación Carlos III and the Fundación José Ortega y Gasset.

Previously he worked in the Spanish Ministry of the Economy, the International Monetary Fund, the OECD, the Banco de España and AB Asesores Bursátiles.

Name or corporate name of director:

MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS

Profile:

He was born in 1956, he holds a doctorate in Economics. He is a member of the Board of Directors of Bankia and of its Board Risk Committee, Risk Advisory Committee, Appointments and Responsible Management Committee and Remuneration Committee. He has been a member of the Board of Directors of BFA Tenedora de Acciones, S.A.U. and a member of its Audit and Compliance Committee and its Appointments and Remuneration Committee.

He is a lecturer in economics at the IE Business School specialised in Macroeconomics, International Economics and Financial Stability and holds a directorship in Red Eléctrica.

He has served as Chief Economist of the International Monetary Fund and as Chief economist and head of the Research Service at Banco Central Hispano and Banco Santander.

Name or corporate name of director:

MR. ANTONIO GREÑO HIDALGO

Perfil:

He was born in 1956, he holds a degree in Business Science and is a Certified Public Accountant. He is a member of the Board of Directors of Bankia and chairman of the Audit and Compliance Committee, having been appointed the committee's Financial Expert. In addition, he is also a member of the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process. Previously, he was a member of the Board of Directors of BFA Tenedora de Acciones, S.A.U. and chairman of both its Audit and Compliance Committee and its Appointments and Remuneration Committee.

He has made his career at PricewaterhouseCoopers (PwC), where in 1995 he was appointed International Partner and from 2003 to 2010 was the partner responsible for the financial sector at PwC in Spain and he was a member of the PwC EMEA (Europe, Middle East and Africa) Financial Sector Management Committee.

He is also an independent director of Liberty Seguros.

He has served as a director representing the Deposit Guarantee Fund in Catalunya Bank.

Total number of independent directors % of the Board	7
% of the Board	70.00%

Indicate whether any director classified as independent receives any amount or benefit from the company or from his/her own group, in any concept other than the remuneration as a Board member, or whether he/she maintains or has maintained a business relation with the company or with any company within its group during the last financial year, in his/her own name or as significant shareholder, Board member or top executive of a company that maintains or has maintained such relationship.

Yes.

As the case may be, the Board shall include a statement outlining the reasons why it deems that said Board member can perform his/her duties in the capacity as independent Board member.

Personal or corporate name of director:

MR. JOAQUÍN AYUSO GARCÍA

Description of the relationship:

Financing agreements between Bankia and the Ferrovial Group and Service agreements between Bankia and the Group Alsa (Group National Express) and Financial Leasing Agreements between Bankia and the Real Sociedad Hípica Española Club de Campo.

Reasons:

The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee considers that Joaquín Ayuso García, member of the Board of Directors of Ferrovial, S.A, Autopista del Sol Concesionaria Española S.A. -AUSOL- (Ferrovial Group), National Express Group PLC, and member of the management board of the Real Sociedad Hípica Española Club de Campo can continue to be classified as an independent director of Bankia S.A. despite the commercial relations between Bankia, S.A. and the Ferrovial Group , the Alsa Group (National Express Group), and la Real Sociedad Hípica Española Club de Campo given (i) the ordinary nature of the relations, with business conducted under general market terms; (ii) Bankia, S.A.'s generally rigorous procedures for engaging construction and services, which were applied in this case; (iii) the nonintervention by this director in the negotiations and decisión making processes of either party; and (iv) in this case, the express intervention of the Board of directors and the Audit and Compliance Committee given the related-party nature of the relationship.

Personal or corporate name of director:

MR. FRANCISCO JAVIER CAMPO GARCÍA

Description of the relationship:

Financing agreements between Bankia and the groups Meliá Hotels International, and Group Empresarial Palacios Alimentación and Agreement of guarantee between Bankia and AECOC.

Reasons:

The Board of Directors of Bankia, S.A., based on report by the Appointments and Responsible Management Committee considers that Mr. Francisco Javier Campo García, member of the Board of Directors of Meliá Hotels International, Group Empresarial Palacios Alimentación (until June 2014)) and chairman of AECOC on behalf of Bankia, can continue to be classified as an independent director of Bankia, S.A. despite the commercial relations between Bankia, Meliá Hotels International, and Group Empresarial Palacios Alimentación and AECOC, and the companies of the Group, given (i) the ordinary nature of the relations, with business conducted under general market terms;(ii) Bankia, S.A.'s generally rigorous procedures for engaging construction and services, which were applied in this case; (iii) the nonintervention by this director in the negotiations and decisión making processes of either party and ; and (iv) in this case, the express intervention of the Council and the Audit and Compliance Committee given the related-party nature of the relationship.

Personal or corporate name of director:

MRS. EVA CASTILLO SANZ

Description of the relationship:

Financing and services agreements between Bankia and Telefonica Group.

Reasons:

The Board of Directors of Bankia, S.A., based on report by the Appointments and Responsible Management Committee considers that Mrs. Eva Castillo Sanz, member of the Board of Directors of Telefónica, S.A., can continue to be classified as an independent director of Bankia, S.A. despite the commercial relations between Bankia and Telefónica S.A or group companies, given (i) the ordinary nature of the relations, with business conducted under general market terms; (ii) Bankia, S.A.'s generally rigorous procedures for engaging construction and services, which were applied in this case; (iii) the nonintervention by this director in the negotiations and decisión making processes of either party; and (iv) in this case, the express intervention of the Board of Directors and the Audit and Compliance Committee given the related-party nature of the relationship.

Personal or corporate name of director:

MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO

Description of the relationship:

Financing and services agreements between Bankia and the ALSA Group. (Group National Express).

Reasons:

The Board of Directors of Bankia, S.A., based on report by the Appointments and Responsible Management Committee considers that Mr. Jorge Cosmen Menéndez-Castañedo, a member of the Board of Directors of the National Express Group PLC, , can continue to be classified as an independent director of Bankia, S.A. despite the commercial relations between Bankia, S.A. and the ALSA Group (group National Express), given (i) the ordinary nature of the relations, with business conducted under general market terms; (ii) Bankia, S.A.'s generally rigorous procedures for engaging construction and services, which were applied in this case; (iii) the nonintervention by this director in the negotiations and decision making processes of either party; and (iv) in this case, the express intervention of the Board of Directors and the Audit and Compliance Committee given the related-party nature of the relationship.

Personal or corporate name of director:

MR. JOSÉ LUIS FEITO HIGUERUELA

Description of the relationship:

Finance and services agreements between Bankia and Mundigestión. And financial agreement between Bankia and Ortega and Gasset Foundation.

Reasons:

The Board of Directors of Bankia, S.A., based on report by the Appointment and Responsible Management Committee considers that Mr. José Luis Feito Higueruela, significant shareholder of Mundigestión and member of the Ortega and Gasset Foundation, can continue to be classified as an independent director of Bankia, S.A. despite the commercial relations between Bankia, S.A. and Mundigestión, as well as the agreement between Bankia and Ortega and Gasset Foundation, given (i) the ordinary nature of the relations, with business conducted under general market terms; (ii) Bankia, S.A.'s generally rigorous procedures for engaging construction and services, which were applied in this case; (iii) the nonintervention by this director in the negotiations and decision making processes of either party.

Personal or corporate name of director:

MR. ANTONIO GREÑO HIDALGO

Descripción de la relación:

Ownership asset operation (credit account cancelled in April 2017)

Declaración motivada:

The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee, considers that Antonio Greño Hidalgo may continue to be classified as an independent director of Bankia, S.A. despite the relations with Bankia, S.A. given (i) that they entail agreements and/or transactions arranged before he joined the board whose terms and conditions have not been modified since; (ii) the ordinary nature of the relations, with business conducted under general market terms; (iii) the rigorous contracting procedures for works and services followed by Bankia, S.A. in general and in this case in particular; and (iv) the non-intervention by this director in the negotiations and decisión making processes of either party.

<u>OTHER EXTERNAL BOARD MEMBERS</u>

Identify other external directors and the reasons why can not be independent or propietary and ties will be detailed, either with the company, its directors or its shareholders:

Indicate the variations, if applicable, that occurred during the period in the typology of each Board member:

C.1.4 Complete the following table with the information on the number of female Board members for the last four financial years and their category:

	Number of female Board members				% of total of Board members in each typology			
	Year 2017	Year 2016	Year 2015	Year 2014	Year 2017	Year 2016	Year 2015	Year 2014
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Propietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	1	1	1	1	14.29%	12.50%	12.50%	12.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	1	1	1	1	10,00%	9,09%	9,09%	9,09%

C.1.5 Explain the measures, if applicable, taken by the company to ensure the inclusion of females onto the Board of Directors in an amount that may ensure the male/female equilibrium.

Explanation of the measures

Article 8 of the Board of Directors Regulations ensure that the selection procedures for directors encourage diversity of experience and knowledge, facilitate the selection of female directors and, in general, are not subject to implicit biases that may lead to discrimination.

Furthermore, and in accordance with Article 15 of the Board of Directors Regulations, the Appointment and Responsible Management Committee is responsible for setting a target representation of the least represented sex on the Board of Directors and for drawing up guidelines on how to increase the number of persons of the least represented sex with the view to reach said target. Moreover, the Committee shall ensure that, when filling new openings, the selection procedures are not marred by implicit biases that may hinder the selection of the least represented sex.

To this end, the Board of Directors Regulations establish that the Council will approve a director selection policy that is to be concrete and verifiable and that ensures the appointments or re-elections are based on a prior analysis of the needs of the Board of Directors and that favours a diversity of knowledge, experience, and gender in accordance with best corporate governance practices.

In the Director Selection Policy was approved by the Board of Directors, stipulates that selection procedures shall avoid any implicit bias that could imply discrimination and, in this respect, it shall not establish any requirements and/or apply any criteria that in any way could result in any type of discrimination.

In compliance with previous forecasts and in adherence to Recommendation 14 of the Good Governance Code of Listed Companies, which establishes that the director selection policy must pursue the goal of having at least 30% of total Board places occupied by women directors before the year 2020, the Bankia Board of Directors, at its meeting on 9 February 2017 and at the proposal of the Appointment and Responsible Management Committee, agreed to amend the Director Selection Policy, which was approved on 26 November 2015 and which forms part of the Company's Corporate Governance System.

In October 2017 a vacancy became available on the Board of Directors as a result of the resignation submitted by Independent Director, Mr. Álvaro Rengifo Abbad. At the Appointment and Responsible Management Committee meeting held on 27 October 2017, in fulfilment of the Director Selection Policy and the provisions of the Board of Directors Regulations, the beginning of the search and selection process to cover said vacancy was announced, where this selection process gave priority to the principle of diversity.

C.1.6 Explain the measures taken, if applicable, by the Appointments to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

Explanation of the measures

As stated in the previous section, both the Board of Directors Regulations and the Director Selection Policy stipulate that the Board of Directors and the Appointment and Responsible Management Committee must ensure that, when filling new vacancies, the selection procedures are not marred by implicit biases that may hinder the selection of the least represented sex. In this respect, establishing requirements and/or applying criteria that in any way may entail any type of discrimination will be avoided.

In this respect, the Bankia Director Selection Policy was amended in the 2017 period, taking into account Recommendation 14 of the Good Governance Code of Listed Companies, which establishes that said director selection policy must pursue the goal of having at least 30% of total Board places occupied by women directors before the year 2020.

If albeit the measures implemented, as the case may be, the number of female Board members is still scarce or non-existent, explain the reasons to justify such scarcity:

Explanation of reasons
At the 2017 reporting date, of the ten directors on the Company's Board of Directors, there was one woman director, representing 10% of all Directors and 14.29% of Independent Directors. Said woman director was the Chairwoman of one of the Committees of the Board of Directors and a member of three. In compliance with the Company's Director Selection Policy and as a result of the resignation of Independent Director Mr. Álvaro Rengifo Abbad, the search and selection process to cover said vacancy has begun, where the principle of diversity has a preferential role.

C.1.6 bis Explain the conclusions of the Appointments on the verifiability of the director selection policy. In particular, explain how this policy pursues the goal of having at least 30% of total Board places occupied by women directors before the year 2020.

Explain the conclusions

As set forth in the Director Selection Policy and pursuant to the Board of Directors Regulations, the Appointments and Responsible Management Committee is the body responsible for periodically reviewing the Policy, submitting to the Board of Directors its findings or making the proposals for amendments or improvements it deems appropriate. The Appointments and Responsible Management Committee is also responsible for running an annual check, based on the report submitted to the People, Resources and Technology General Department, on compliance with the policy.

Accordingly, the Board of Directors, at the proposal of the Appointment and Responsible Management Committee, at its meeting held on 9 February 2017, approved the amendment to the Bankia S.A. Director Selection Policy, ensuring the inclusion of the following criteria:

- Objective, verifiable and transparent process.
- Balanced membership, with a large majority of non-executive directors and an appropriate mix of independent, proprietary and executive directors.
- Diverse membership, with directors who have different professional and personal profiles (age, gender, nationality, etc.) who enrich and contribute a variety of points of view to debates and decision-making.
- Pursuit of having at least 30% of total Board places occupied by women directors before the year 2020.

In this respect, to cover the vacancy on the Board of Directors resulting from the resignation submitted by Independent Director Mr. Álvaro Rengifo Abbad in October 2017, the search and selection process to cover said vacancy has begun, where the principle of diversity has a preferential role.

C.1.7 Explain how shareholders with significant shares are represented on the Board.

There are no proprietary directors on Bankia, S.A.'s Board of Directors. At December 2017, of the 10 directors making up the Board, 3 are executive and 7 are independent.

At December 31, 2017, BFA, Tenedora de Acciones S.A.U (BFA) held 1,747,181,979 shares of Bankia, representing 60.68% of its share capital.

Since June 27, 2012, BFA is wholly owned by FROB, an institution under public law with its own legal personality and full public and private capacity to pursue its objectives, which is to manage credit institution restructuring and resolution processes.

At any rate, at the General Meeting of Shareholders of Bankia, S.A. held on June 29, 2012, on item 3 of the Agenda, the proposed appointments and ratification of directors were approved with 95% votes in favour of all valid votes and abstentions, equivalent to 57% of Bankia, S.A.'s share capital at the date of the meeting.

At the General Shareholders' Meeting held on March 15, 2016, a new independent director had been appointed, as well as the re-election of four directors, three independent directors and one executive director.

Furthermore, at the Annual General Meeting of Shareholders held on 24 March 2017 and in order to continue with the partial renewal of the membership of the Board of Directors begun in the previous period, the resolution was adopted to re-elect six directors: two executive directors and four independent directors.

C.1.8 Explain, if applicable, the reasons why proprietary members were appointed upon the request of shareholders with stakes amounting to less than 3 % of the share capital:

Detail any failure to address formal requests for Board representation from shareholders with stakes equal to or exceeding that of others at whose request proprietary members were appointed. If so, explain the reasons why the request was not entertained:

Yes [ ] No [X]

C.1.9 Indicate whether any Board member has resigned from his/her post before the end of his/her term of office, whether reasons were given to the Board and how, and, if in writing to the entire Board, at least explain the reasons given by the Board member:

Personal or corporate name of director:

MR. ÁLVARO RENGIFO ABBAD

Brief description:

Mr. Álvaro Rengifo Abbad submitted his resignation as Company director by virtue of the writ dated 17 October 2017 and effective that same day.

The written notification submitted by Mr. Rengifo Abbad in which he resigned from the Company stated that his resignation from the position was the result of his appointment to Executive Chairman of CESCE (Compañía Española de Seguro de Crédito a la Exportación). The resignation was in response to the expectation that his new obligations would not allow him to dedicate the time required to properly perform his duties as Bankia Director.

C.1.10 Indicate, if any, the powers delegated by any Chief Executive Officers:

Personal or corporate name of director:

MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE

Brief description:

The Chairman of the Board of Directors has broad powers of representation and administration in accordance with the characteristics and requirements of the position of executive chairman of the entity, with all authority vested in him except for those that cannot be delegated by law or the Bylaws.

Personal or corporate name of director:

MR: JOSÉ SEVILLA ÁLVAREZ

Brief description:

Mr. Sevilla has been delegated jointly and severally all authorities than can be delegated to him by Law or the Bylaws in the areas of financial and risk management, financial control and internal audit, as well as real estate and investees and legal and tax and regulatory compliance advice.

C.1.11 Identify, if any, the Board members that hold administrator or directive positions in other companies making up the group of companies listed on the stock market:

C.1.12 List if any company Board members who likewise sit on the Boards of other non-group entities that are listed on the Spanish Stock Exchange, of which the company is aware

Personal or corporate name of the Board member	Corporate name of the listed company	Post or duties
MR. JOAQUÍN AYUSO GARCÍA	FERROVIAL, S.A.	VICE-CHAIRMAN
MR. JOAQUÍN AYUSO GARCÍA	NATIONAL EXPRESS GROUP, PLC.	DIRECTOR

MR. JOAQUÍN AYUSO GARCÍA	HISPANIA ACTIVOS INMOBILIARIOS, S.A.	DIRECTOR
MR. FRANCISCO JAVIER CAMPO GARCÍA	MELIÁ HOTELS INTERNATIONAL, S.A.	DIRECTOR
MRS. EVA CASTILLO SANZ	TELEFÓNICA, S.A.	DIRECTOR
MRS. EVA CASTILLO SANZ	TELEFÓNICA DEUTSCHLAND GMBH	CHAIRWOMAN
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	NATIONAL EXPRESS GROUP, PLC.	VICE-CHAIRMAN
MR. JOSÉ LUIS FEITO HIGUERUELA	RED ELÉCTRICA CORPORACIÓN, S.A.	DIRECTOR
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	RED ELÉCTRICA CORPORACIÓN, S.A.	DIRECTOR

C.1.13 Indicate and, where appropriate, explain whether the Board regulations establishes rules about the maximum number of Boards on which its Directors may sit:

Yes [X] No [ ]

Explanation of rules
Bankia, S.A., as a credit institution, is subject to the restrictions contained in Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, which sets out the rules for incompatibilities and restrictions to which members of the Board of directors and general managers or similar of a credit institution are subject, and which regulates the number of Boards on which the directors of credit institutions may sit at the same time. In this respect, article 8 of the Board of Directors Regulations states that the number of Boards on which directors may sit at the same time shall not exceed that set out in banking and company laws applicable at any given time.

C.1.14 Apartado derogado.

C.1.15 Indicate the total remuneration of the Board of Directors in the year:

Comprehensive remuneration of the Board of Directors (thousands of Euros)	3,180
Amount of accumulated pension rights held by current directors (thousands of Euros)	0
Amount of accumulated pension rights held by former directors (thousands of Euros)”	1,479

C.1.16 Identify any senior management staff that is not also an executive Board member, and indicate the total remunerations paid to them staff during the financial year:

Personal or corporate name	Post
MRS. AMALIA BLANCO LUCAS	DEPUTY GENERAL MANAGER OF COMMUNICATION AND EXTERNAL RELATIONS
MR. GONZALO ALCUBILLA POVEDANO	DEPUTY GENERAL MANAGER ATTACHED TO BUSINESS BANKING
MR. FERNANDO SOBRINI ABURTO	DEPUTY GENERAL MANAGER ATTACHED TO RETAIL BANKING
MR. MIGUEL CRESPO RODRÍGUEZ	GENERAL SECRETARY
MR. IÑAKI AZAOLA ONAINDIA	INTERNAL AUDIT CORPORATE MANAGER

Total remuneration for senior executives (thousands of Euros)	3,274

C.1.17 Identify, if any, the members of the Board of Directors who are likewise members of the Board of Directors of companies that hold significant shares and/or group entities:

Personal or corporate name of Board member	Corporate name of significant shareholder	Post
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	BFA, TENEDORA DE ACCIONES, S.A.U.	CHAIRMAN
MR. JOSÉ SEVILLA ÁLVAREZ	BFA, TENEDORA DE ACCIONES, S.A.U.	DIRECTOR
MR. ANTONIO ORTEGA PARRA	BFA, TENEDORA DE ACCIONES, S.A.U.	DIRECTOR

Provide details of any relevant relations, as the case may be, other than those contemplated in the previous section, between members of the Board of Directors and significant shareholders and/or group entities:

C.1.18 Indicate whether any of the rules and regulations of the Board were amended during the financial year:

Sí ☒ No ☐

Description of amendments

The Board of Directors, following a favourable report by the Audit and Compliance Committee, agreed on 9 February 2017 to amend Article 8 (on qualitative composition) of the Board of Directors Regulations, in order to include a shareholding requirement for members of the Board of Directors, as a means of aligning their interests with those of the shareholders.

Furthermore, the Board of Directors agreed on 24 March 2017, following a favourable report by the Audit and Compliance Committee, to include a Final Provision in the Board of Directors Regulations, in order to establish the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process.

The text of the Board of Directors Regulations is available for consultation on the entity's website (www.bankia.com).

C.1.19 Indicate the procedures for, appointing, re-electing, evaluating and removing Board members. Provide details of the competent bodies, the processes and criteria used for each procedure.

Directors shall be appointed, re-elected and ratified by the General Meeting of Shareholders or by the Board of Directors in conformity with the provisions set forth in prevailing legislation and in articles 37 to 40 of the Company's Bylaws and article 21 of the Board of Directors Regulations.

In particular, the Board of Directors may appoint among the shareholders as directors by cooption to cover vacancies arising during the term of office of the directors. Directors appointed by co-option shall provisionally hold the post until the date of the first General Meeting of Shareholders after being appointed by co-option, inclusive, which may resolve to ratify their appointment, whereby the appointment as director shall become permanent. In any event, from the date of appointment, directors appointed by co-option shall have the same rights and obligations as directors appointed directly by the General Meeting of Shareholders.

Directors appointed by co-option shall immediately stand down if their appointment is not ratified in the first General Meeting of Shareholders after they are appointed. Moreover, should any vacancies arise once a General Meeting is called but before it is held, the Board of Directors may appoint a director to fill the vacancy until the new General Meeting of Shareholders.

Any proposals for the appointment, re-election and ratification of directors which the Board of Directors lays before the General Meeting of Shareholders and any appointment decisions made by the Board itself under its powers of co-option are the responsibility of the Appointments and Responsible Management Committee, in the case of independent directors, or the Board itself, in the case of all other directors, and must be preceded by a Board report assessing the competence, experience and merits of the proposed candidate, which will be attached to the general meeting or Board meeting minutes.

In selecting directors, care will be taken to select persons of recognised business and professional good standing, competence, reputation and experience in the financial sector who are equipped to exercise good governance of the Company, in accordance with applicable laws and regulations in the matter.

The persons appointed as directors must satisfy the conditions imposed by Law or the Bylaws, at the time of taking office formally covenanting to fulfil the obligations and duties contemplated therein and in the Board of Directors Regulations.

Any legal person who is appointed a director must appoint a single natural person to perform the director's functions on a permanent basis. Any revocation of such an appointment by the legal person director will have no effect until a replacement is appointed. In addition, the appointment of a natural person to act as representative will be subject to a report by the Appointments and Responsible Management Committee.

A natural person who is permanently appointed to perform the functions of a legal person director will meet the same suitability requirements, is subject to the same rules of incompatibility, has the same duties and is jointly and severally liable with the legal person director.

There is no age limit for appointment to or serving in this position.

Regarding the evaluation of directors, article 18 bis to the Board of Directors Regulations expressly govern the evaluation of the performance of the Board and that of its committees, as well as the performance of the Chairman. The performance of Board members and their individual contribution are evaluated annually, with special attention paid to the chairmen of the various committees.

The Chairman will organise and coordinate the periodic evaluation of the Board with the chairmen of the Audit and Compliance Committee, and the Appointments and Responsible Management Committee. Evaluations of Board committees shall be based on the reports presented by them to the Board of Directors. In addition, based on the report prepared by the Appointments and Responsible Management Committee, the Board will evaluate the chairman's performance on a yearly basis. Evaluation of the chairman is overseen by the Lead Independent Director.

At least every three years, to aid in the evaluation process the Board of Directors should engage an external facilitator, whose independence should be verified by the Appointments and Responsible Management Committee.

According to article 23 of the Board of Directors Regulations, directors will cease to serve as such when the term for which they were appointed elapses, when so decided by the General Meeting or when they are to resign.

Directors who give up their place before their tenure expires, through resignation or otherwise, shall state their reasons in a letter to be sent to all members of the Board of Directors. The motivating factors shall be explained in the annual corporate governance report.

(Keep on section H)

C.1.20 Explain to what extent the annual evaluation of the Board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments
Various actions were initiated throughout the 2017 period and since the latest assessment exercise was performed, such as the following: - The review and updating of the Corporate Governance System and specifically the Director Selection Policy in order to achieve various improvements. - The review of the succession plans in relation to all the members of the Board of Directors. - The establishment of a Corporate Governance System management procedure that provides for the control and monitoring of various aspects of the system and specifically the scheduling of matters intended to be addressed at the meetings of the governing bodies. - The continuation of improvements made to the information given to members of the Board, both in terms of quality and the advanced delivery thereof. - The continued progress in talent management and specifically in the analysis and development of the remuneration policies needed to attract and retain managerial talent.

C.1.20.bis Describe the evaluation process and the areas of the Board evaluated by an external facilitator with respect to the diversity of Board membership and competences, the performance and membership of its committees, the performance of the chairman of the Board of directors and the company's chief executive, and the performance and contribution of individual directors.

In relation to the 2017 period, an internal assessment was performed, based mainly on surveys performed on the members of the Board of Directors for the assessment of the Chairman, the Chief Executive Director, the Lead Director and the Board functioning and the individual assessment of directors. The internal evaluation links and complete the previous external evaluations - the external evaluation is mandatory every three years as established in the Bylaws of Bankia - and allows to develop a framework of assessment of the Board and their most relevant positions and it has focused main way in the following areas:

Chairman:

- The Chairman's performance in the 2017 period.
- Degree of fulfilment of the objectives established in the previous assessment.
- Establishment of objectives for the following assessment.

Chief Executive Officer:

- The Chief Executive Officer's performance in the 2017 period: strategy and management style.
- Overall assessment.
- Degree of fulfilment of the objectives established in the previous assessment.
- Establishment of objectives for the following assessment.

Evaluation of the chairmen of the Commitees of the Board: performance and objectives 2018.

Evaluation of the Lead Director: performance.

Functioning of the Board and individual Directors:
- Assessment of Council Operation: overall assessment.
- Individual Director assessments.

C.1.20.ter Detail any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group.

Not Applicable. The assessment for the 2017 period was performed internally.

C.1.21 Indicate the cases in which Board members must resign.

According to article 23 of the Board of Directors Regulations, directors will cease to serve as such when the term for which they were appointed elapses, when so decided by the General Meeting or when they are to resign.

Directors who give up their place before their tenure expires, through resignation or otherwise, shall state their reasons in a letter to be sent to all members of the Board of Directors. The motivating factors shall be explained in the annual corporate governance report.

Any proposal by the Board of Directors to dismiss an external director before the period of appointment stipulated in the Bylaws has elapsed should be based on and supported by a corresponding report from the Appointments and Responsible Management Committee. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the Appointments and Responsible Management Committee. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in Board membership ensue from the proportionality criterion set out in good corporate governance recommendations.

Without prejudice to the above, directors must place their offices at the Board of Directors' disposal and, if the Board deems it appropriate, tender their resignation in the following cases:

a) When they are affected by any of the rules on incompatibility or prohibition or unsuitability prescribed by law.
b) When they are tried for alleged criminal offenses or subject to disciplinary proceedings for serious or very serious infractions brought by the supervisory authorities.
For these purposes, any director of the Company must advise the Board of Directors of the existence of circumstances that could be detrimental to the credit and reputation of the Company, in particular of criminal actions in which the director is an accused, as well as subsequent procedural developments.
If a director is indicted or tried for any of the crimes specified in article 213 of the Corporations Act, the Board will examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not it is appropriate for the director to remain in the position.
c) When they are seriously admonished by the Audit and Compliance Committee for violating their duties as directors.
d) When their remaining as Directors could present a reputation risk to the interests of the Company.
e) When they cease to hold the positions, offices or functions with which their appointment as executive directors was associated.
f) In the case of proprietary directors, when the shareholder at whose initiative they were appointed disposes of its interest in the Company or reduces its interest to a level that requires a reduction in the number of proprietary directors.
g) In the case of independent directors, when they no longer satisfy the conditions for being considered independent directors.

If a natural person representing a legal person director is in any of the situations described in the previous section, that person will be disqualified from acting as representative.

C.1.22 Section removed.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?:

Yes ☐ No ☒

If applicable, describe the differences.

C.1.24 Explain whether there are specific requirements other than those relating to Board members to be appointed Chairman.

Yes ☐ No ☒

C.1.25 Indicate whether the Chairman has the casting vote:

Yes ☒ No ☐

Matters in which there is a deciding vote
The final point of article 42.1 of the Bylaws states that in the event of a tie, the Chairman will have the casting vote.

C.1.26 Indicate whether the Bylaws or Board regulations set any age limit on Board members:

Yes ☐ No ☒

C.1.27 Indicate whether the Bylaws or Board regulations set a limited term of office for independent Board members, other than set in the law:

Yes ☐ No ☒

C.1.28 Indicate whether the Bylaws or the Board of Directors regulations stipulate specific regulations for delegating voting rights on the Board of Directors, how it is done and, in particular, the maximum number of delegations that may be conferred on a Board member, as well as whether there is any limitation on the classes to which proxies can be delegated in addition to any legal limitations. If so, provide brief details of said regulations.

According to article 18.1 of the Board of Directors Regulations, 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. Proxies will be granted on a special basis for the meeting of the Board of Directors in question, when possible with instructions. Notice thereof may be given in any of the ways contemplated in the section 2 of article 17 of the Board of Directors Regulations, although non-executive directors may only grant proxies to another director in accordance with applicable legislation.

Similarly, article 30.4.b) of the Board of Directors Regulations states that a director is required to attend the meetings of the bodies of which he is a member and actively participate in the deliberations so that his judgment effectively contributes to decision-making. If, for a justified reason, a director is unable to attend meetings to which he has been called, he to the extent possible must instruct the director who will represent him.

According to article 17.6 of the Board of Directors Regulations, the agendas of Board meetings shall clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need to make a decision.

C.1.29 Indicate the number of Board meetings held during the financial year. Likewise indicate, if any, the number of times the Board met without the chairman in attendance. Proxies granted with specific instructions for the meeting shall be counted as attendances.

Number of Board meetings	28
Number of Board meetings without the attendance of the Chairman	3

If the chairman is also the company's chief executive, indicate the number of meetings held without the attendance, in person or by proxy, of any executive Board member chaired by the lead independent director.

Number of meetings	3

Indicate the number of meetings held by the different Board Committees during the financial year:

Committees	Nº meetings
AUDIT AND COMPLIANCE COMMITEE	20
APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTE	17
REMUNERATION COMMITEE	12
RISK ADVISORY COMMITEE	36
BOARD RISK COMMITTE	36
MONITORING AND SUPERVISORY COMMITTE FOR THE BANKIA AND BANCO MARE NOSTRUM MERGER PROCESS	12

C.1.30 Indicate the number of Board meetings held during the year with the attendance of all its members. Proxies granted with specific instructions for the meeting shall be counted as attendances.

Number of Board meetings attended by all members	23
% of attendances of the total votes cast during the year	96.07%

C.1.31 Indicate whether the individual and consolidated financial statements submitted for authorisation to the Board of Directors are certified previously:

Yes ☒ No ☐

Identify, where applicable, the person or persons who certified the company's individual and consolidated financial statements, for their authorisation by the Board:

Name	Post
MR. SERGIO DURÁ MAÑAS	CORPORATE FINANCIAL CONTROLLER MANAGER

C.1.32 Explain the mechanisms, if any, put in place by the Board of Directors to ensure that Board-prepared individual and consolidated financial statements are not presented at shareholders' general meetings with qualified audit report.

Article 53.3 of the Bylaws of Bankia, S.A. states that the Board of directors will arrange for definitive preparation of the accounts in a manner that will not result in qualifications by the statutory auditor. Nevertheless, when the Board believes it must maintain its position, it will, through the Chairman of the Audit and Compliance Committee, publicly explain the substance and scope of the difference and, also, will arrange for the statutory auditor also to state its comments in this regard.

Through the Audit and Compliance Committee, the Board of Directors oversees the entire process of preparing and issuing the financial statements of the Bank and its Group, and any quarterly and half-yearly financial reports that are prepared. One of the aims of this control and on-going contact with the auditor is to avoid qualifications in the Audit Report.

Bankia's Audit and Compliance Committee, all of whom will be non-executive directors and a majority, independent, shall perform all the duties set forth in applicable legislation. In particular but not exclusively, its basic responsibilities include the following:

- Report to the General Meeting of Shareholders on questions that are posed regarding matters within the competence of the committee and, in particular, on the audit findings, explaining how the audit has contributed to the integrity of the financial information and the Committee's role in this process.

- Supervise the effectiveness of the internal control of the Company, the internal audit, the regulatory compliance and risk management systems, and discuss with the statutory auditor any material weaknesses of the internal control system that may have been detected in the audit, without comprising its independence. To this end, where appropriate the Committee may make recommendations or submit proposals to the Board of Directors, along with the related follow-up period.

- Supervise the preparation and filing of regulatory financial information and submit to the Board of Directors recommendations or proposals designed to safeguard the integrity of the financial information and, in particular:

  - report to the Board of directors, in advance, on the financial information that the Company must publish periodically;
  - review the Company's accounts, to ensure compliance with legal requirements and proper application of generally accepted accounting principles, and report on changes to accounting principles and criteria proposed by management; and
  - review issue prospectuses and any periodic financial information the Board is required to provide to the markets and market supervisory bodies.

- Make recommendations to the Board of directors for the selection, appointment, reelection and removal of the statutory auditor, and oversee the selection process in accordance with EU legislation and the terms and conditions of engagement.

- Establish appropriate relations with the external auditors so as to receive information on matters that could jeopardise the external auditor's independence, so that they may be examined by the Committee, and on any other matters arising from the auditing of the Company's accounts and, as appropriate, authorise the services permitted under the terms of EU legislation and regulations regarding independence, and make any other disclosures required under applicable legislation and auditing standards. In particular:

  - act as a communications channel between the Board of directors and the auditors, 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;
  - receive regular information from the external auditor on the audit plan and the results of the audit and ensure that senior management acts on the external auditor's recommendations;
  - ensure that the external auditor meets, at least once a year, with the Board in full to inform it of the work undertaken and developments in the Company's risk and accounting positions;
  - supervise 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;
  - ensure the independence of the external auditor in the exercise of its functions, as set out in section C.1.35 of this Report.

- Issue a report each year, prior to the release of the auditors' report, expressing an opinion on whether the independence of the external auditor or audit firms has been compromised. This report will contain a reasoned assessment of any additional non-audit services provided considered individually and in the aggregate, other than that of the legal audit and in relation to the auditors' independence and compliance with auditing standards.

C.1.33 Is the Board Secretary also a Board member?

Yes ☐ No ☒ X

Fill out the following table if the Board Secretary is not a Board member.

Personal or corporate name of the Board secretary	Representative
MR. MIGUEL CRESPO RODRÍGUEZ	

C.1.34 Section removed.

C.1.35 Indicate, as the case may be, the mechanisms implemented by the company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.

As stipulated in article 14 of the Board of Directors Regulations, the Audit and Compliance Committee is responsible, inter alia, for ensuring the independence of the external auditor and therefore:

- Make recommendations to the Board of Directors for the selection, appointment, reelection and removal of the internal auditors, oversee the selection process in accordance with EU legislation and the terms and conditions of engagement, and receive regular information from the external auditor on the audit plan and the results of the audit and ensure that senior management acts on the external auditor's recommendations, and ensure the independence of the external auditor in the exercise of its functions, seeking to ensure that the opinion on the annual accounts and the principal content of the auditor's report are drafted clearly and precisely.

- Maintain relations with the statutory auditor in order to gather information on any matters that may call the auditor's independence into question, as well as any other matters relating to the audit process, and engaging in such other communications with the statutory auditor as are provided for in the audit legislation and technical standards for audits;

- Ensure 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; and

- Ensure that the remuneration of the external auditor does not compromise its quality or independence;

- In the event of resignation of the external auditor, investigate the reasons for the resignation; and

- Ensure that the Company notifies any change of external auditor as a material disclosure, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

In any event, the Audit and Compliance Committee will also receive an annual statement from the external auditors certifying their independence in relation to the Company or entities directly or indirectly related to it, as well as detailed and individualised information about any additional services of any kind provided and the fees received from these entities by the independent auditor, or by individuals or entities related to it, in accordance with the laws on auditing.

The Committee shall issue a report each year, prior to the release of the auditors' report, expressing an opinion on whether the independence of the external auditor or audit firms has been compromised. This report will contain a reasoned assessment of any additional non-audit services provided considered individually and in the aggregate, other than that of the legal audit and in relation to the auditors' independence and compliance with auditing standards.

Article 38 of the Board of Directors Regulations states that the Board of Directors will establish mechanisms for the regular sharing of information with institutional investors who are among the Company's shareholders, and that the relations between the Board of Directors and institutional shareholders may not result in delivery to such shareholders of information that could given them a privilege or advantage over other shareholders.

Also, article 36.5 of the Board of Directors Regulations establishes that the Board of Directors shall draw up and implement a policy of communication with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

In this respect, the Policy of Information, Communication and Contacts with shareholders, institutional investors and proxy advisors approved by the Board of Directors and which forms part of the Company's Corporate Governance system, aims to engage and encourage permanent dialogue with the Company's stakeholders, particularly its shareholders, institutional investors and proxy advisors, in order to forge stable, strong and trusting relations and promote transparency within the framework of corporate interest, acting in accordance with the following principles: (i) transparent communication, (ii) information and ongoing dialogue, (iii) equal treatment and non-discrimination, (iv) commitment and integrity in the dissemination, communication and management of corporate information, (v) innovation, sustainability and development in the use of new technologies, and (vi) compliance with the Law and the Corporate Governance System.

C.1.36 Indicate whether the company has changed its external auditor during the financial year. If so, identify the incoming and outgoing auditors:

Yes [ ] No [X]

Explain any disagreements with the outgoing auditor and the reasons for the same:

C.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its business group. If so, state the total fees paid for such work and the percentage this represents of the fees billed to the company and/or its business group:

Yes ☒ No ☐

	Company	Group	Total
Fees for non-audit work (in thousands of Euros)	1.184	24	1,208
Fees for non-audit work/total amount invoiced by the audit firm (in %)	38.29%	11.92%	36.69%

C.1.38 Indicate whether the audit report on the financial statement for the previous financial year contains reservations or qualifications. If so, detail the reasons given by the Chairman of the Audit Commission to explain the content and scope of such reservations or qualifications.

Yes ☐ No ☒

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statement of the company and/or its group. Likewise indicate the percentage of years the current audit firm has been auditing the accounts over the total number of years the financial statement have been audited:

	Company	Group
Number of consecutive years	5	5
Number of years audited by the current auditing company / number of years the Company has been audited (in %)	22.73%	71.43%

C.1.40 Indicate and give details of any procedures by which directors may seek external consultancy:

Yes ☒ No ☐

Details of the procedure

Directors of Bankia, S.A. have a duty to demand, and a right to request, from the Company all the information they need in order to perform their duties and have the broadest authority to seek information on any aspect of the Company, to examine its books, records, documents and other evidence of the Company's transactions, and to inspect all its facilities, according to article 26 of the Board of Directors Regulations.

The exercise of information rights will be channelled through the Chairman or Secretary of the Board of Directors. They will respond to director inquiries by providing the information directly, making the appropriate spokesmen within the organisation available as appropriate, or arranging for appropriate on-site review and inspection.

The Chairman or Secretary may refuse information if they consider that: (i) the information is not necessary for the proper performance of the director's functions; (ii) the cost of the information is unreasonable given the importance of the problem and the Company's assets and revenue; or (iii) the requested technical assistance may be adequately provided by Company experts and technicians.

Moreover, according to article 9.3 of the Board of Directors Regulations, the Chairman, as the person responsible for the efficient functioning of the Board of Directors, will draw up and submit to the Board, the estimated planning of ordinary and/or recurring issues to be addressed, oversee management of the Board and its effective operation, ensure that sufficient time is spent discussing strategic matters and agree and review refresher programmes for each director when circumstances dictate, and ensure that the directors receive sufficient information to be able to perform their function. Directors may request any additional information or advice they may require for the performance of their functions and may apply to the Board of Directors for assistance from independent experts where the special complexity or importance of the matters submitted for their consideration so require.

To give new directors a knowledge of the Company and its corporate governance rules, article 21.8 of the Board of Directors Regulations provides for an orientation and support programme. When circumstances so advise, the Company may also establish continuing professional development programmes for directors.

In addition, independent directors may channel through the Lead Independent Director all the matters and concerns they raise. Its mission is, inter alia, to voice the concerns of non-executive directors, organising any common positions of the independent directors and acting as a channel of communication or spokesperson for any such common positions. The Lead Independent Director may request that a meeting of the Board of Directors be convened and that items be included in the agenda.

Regarding Board committees, the Audit and Compliance Committee, the Appointments and Responsible Management Committee, the Remuneration Committee and the Risk Advisory Committee, for better performance of their duties, may seek the advice of outside professionals on matters within their remit (articles 14.9, 15.9, 15 bis.9, and 16.4, respectively, of the Board of Directors Regulations).

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes ☒ No ☐

Details of the procedure

The procedure for providing directors of Bankia, S.A. with the appropriate information to prepare meetings of the governing bodies is regulated in article 17.2 of the Board of Directors Regulations, which states that the Board of Directors will be called by individual notice, stating the agenda for the meeting in sufficient detail. This notice will be sent by fax, e-mail or letter to each of the directors, at least five (5) days in advance of the date contemplated for the meeting, unless, in the judgment of the Chairman, the urgency of the matters to be considered requires an urgent call, which may be made by telephone, fax, email or any other remote means, sufficiently in advance to allow the directors to fulfil their duty to attend.

The agenda of the meetings shall clearly indicate the matters on which the Board of Directors must adopt a decision or an agreement so that, prior to the meeting, directors can study or gather the information needed to make such adoption.

In addition, in the case of an urgent call, the Chairman wishes to submit for approval by the Board resolutions that are not included in the agenda, prior and express consent of a majority of directors in attendance is required, which must be duly noted in the minutes.

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.

For purposes of both call of the Board and any communication with directors, the e-mail address the director provides to the Company of the time of accepting the position will apply, the director being required to notify the Company of any change in this regard.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the Board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes ☒ No ☐

Details of the procedure

According to article 40 of the Bylaws, the members of the Board of Directors of Bankia, S.A. must satisfy the requirements of banking regulation to be considered to be honourable persons, suitable for exercise of that function. In particular, they must be of high commercial and professional integrity, have knowledge and experience appropriate to the performance of their duties and be willing to exercise good governance of the Company. Supervening failure to satisfy those requirements will be grounds for removal of the director.

As per article 23 of the Board of Directors Regulations, directors must place their directorships at the disposal of the Board of Directors and formally tender their resignations, if the Board deems it to be desirable, in the following circumstances:

a) When they are affected by any of the rules on incompatibility or prohibition or unsuitability prescribed by law.

b) When they are tried for alleged criminal offenses or subject to disciplinary proceedings for serious or very serious infractions brought by the supervisory authorities.

For these purposes, any director of the Company must advise the Board of Directors of the existence of circumstances that could be detrimental to the credit and reputation of the Company, in particular of criminal actions in which the director is an accused, as well as subsequent procedural developments.

If a director is indicted or tried for any of the crimes indicated in article 213 of the Corporations Act, the Board will examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not it is appropriate for the director to remain in the position.

c) When they are seriously admonished by the Audit and Compliance Committee for violating their duties as directors.

d) When their remaining as directors could present a reputation risk to the interests of the Company.

e) When they cease to hold the positions, offices or functions with which their appointment as executive directors was associated.

f) In the case of proprietary directors, when the shareholder at whose initiative they were appointed disposes of its interest in the Company or reduces its interest to a level that requires a reduction in the number of proprietary directors.

g) In the case of independent directors, when they no longer satisfy the conditions for being considered independent directors.

In addition, if a natural person representing a legal person director is in any of the situations described in the previous sections, that person will be disqualified from acting as representative.

C.1.43 Indicate whether any member of the Board of Directors has notified the company that he/she was tried or formally accused of any of the offences stipulated in Article 213 of the Corporations Act:

Yes ☐ No ☒ X

Indicate whether the Board of Directors has analysed the case. If the answer is yes, explain the reasons for the decision taken on whether or not the Board member should continue to hold its post or, as the case may be, state the actions that the Board of Directors have taken up to the date of this report or the report intended to be issued later.

C.1.44 List the still valid significant agreements signed by the company, whether modified or terminated in the event of a change in the company's control through a hostile takeover bid, and its effects.

Not applicable.

C.1.45 Identify in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees posts with compensations, guarantees or protection clauses, in the event of resignation or unlawful dismissal or if contractual relationship is abruptly halted because of a hostile takeover bid or other kinds of transactions.

Number of beneficiaries: 7

Type of beneficiary

EXECUTIVE DIRECTORS AND MEMBERS OF THE MANAGEMENT COMMITTEE

Agreement description

EXECUTIVE DIRECTORS:

The contracts of the three executive directors contain a termination benefit of one year of fixed remuneration if the Company decides to terminate their employment unilaterally or in the event of a change of control of the Company. The contracts also contain a post-contractual non-compete clause equal to one year of fixed remuneration. Pursuant to prevailing legislation, Bankia has amended these contracts, establishing that any compensation and/or amounts received by the executive directors shall comply with Royal Decree-Law 2/2012, Law 3/2012, and Law 10/2014.

MEMBERS OF THE MANAGEMENT COMMITTEE:

The contracts of four senior executives included clauses that set compensation for all items if they are dismissed for legal reasons, except for disciplinary reasons considered legally valid, equivalent to two years' fixed compensation. Pursuant to prevailing legislation, Bankia has amended these contracts, establishing that any compensation and/or amounts received by the senior executives must comply with Royal Decree-Law 2/2012, Law 3/2012 and Law 10/2014.

Indicate whether the governing bodies of the company or its group must be informed of and/or must approve such contracts:

	Board of Directors	General Meeting
Governing body	**Yes**	**No**

	Yes	No
Is the General Meeting informed about the clauses?	X	

C.2 Committees of the board of directors

C.2.1 Give details of all Committees of the Board of Directors, their members and the proportion of executive, proprietary, independent and other external Board members on such Committees:

AUDIT AND COMPLIANCE COMMITTEE

Name	Post	Tipology
MR. ANTONIO GREÑO HIDALGO	CHAIRMAN	Independent
MR. JOAQUÍN AYUSO GARCÍA	COMMITTE MEMBER	Independent
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	COMMITTE MEMBER	Independent
MR. JOSÉ LUIS FEITO HIGUERUELA	COMMITTE MEMBER	Independent

% of proprietary Board members	0.00%
% of independent Board members	100.00%
% of other external	0.00%

Explain the duties attributed to this committee, describe and provide a summary of its main actions carried out by the committee during the year.

The Audit and Compliance Committee of Bankia has attributed to it all the duties required in company law and banking regulations, as well as those set out in the Good Governance Code of Listed Companies which, given their length, are presented in section H of this Report.

With respect to its rules of organisation and functioning, article 14 of the Board of Directors Regulations states that the Audit and Compliance Committee will have no fewer than three (3) and no more than five (5) members, all of whom will be non-executive directors and a majority, independent. Where the members of the committee expressly so agree, its meetings may also be attended by other directors, including executive directors, senior managers and any other employee. The members of the Audit and Compliance Committee will be appointed by the Board of Directors taking account of their knowledge, aptitudes and experience in accounting or auditing or both, and the overall technical expertise in relation to the banking industry.

The Committee will be chaired by a non-executive director that, in addition, has knowledge, skills and experience in 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. The Chairman of the Committee may, at any time, apply to the senior manager responsible for the Company's internal audit for information on internal audit activities. Also, independently of organisational reporting lines, the head of internal audit will maintain a functional relationship with the Audit and Compliance Committee and its Chairman. In any event, the Committee shall oversee the performance of the internal audit unit.

The Committee will have a Secretary and, optionally, an assistant secretary, who need not be directors and may be other than the secretary and assistant secretary of the Board of Directors, respectively.

The Committee will meet as often as called by resolution of the Committee itself or its Chairman, at least four times per year. Any member of the management team or employee of the Company that is required to do so must attend its meetings, to cooperate with it and provide access to any information it may have. The Committee also may require the attendance of the statutory auditor. One of its meetings will be used to evaluate the efficiency of and compliance with the Company's governance rules and procedures, and prepare the information the Board must approve and include in the annual public documentation.

Meetings of the Audit and Compliance 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. The resolutions of the Audit and Compliance Committee will be maintained in a minutes book, each entry in which will be signed by the Chairman and the Secretary.

In terms of the most important actions taken in the 2017 period, the Audit and Compliance Committee mainly acted in the following areas:

- Financial and non-financial information and associated internal control mechanisms.
- The regulatory compliance.
- Corporate governance
- Related-party transactions.
- Risk management and control.
- The activity of internal audit.
- The activity of the external auditors.
- Monitoring of Committee action plans.

Every year the Audit and Compliance Committee draws up a report on the activities it has carried out each period and makes said report available to the shareholders when the Annual General Meeting is called. The report for the 2017 period contains the terms of the Technical Guide 3/2017 of the CNMV on audit Committees at public interest entities.

(Keep in Note H)

Identify the member of the Audit Committee who was appointed based on their knowledge and experience in accounting or auditing or both, and report the number of years during which the Chairman of this committee has held the post.

Name of director with experience	MR. ANTONIO GREÑO HIDALGO
Number of years the Chairman has held his/her post:	2

APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTE

Name	Post	Tipology
MR. JOAQUÍN AYUSO GARCÍA	CHAIRMAN	Independent
MR. FRANCISCO JAVIER CAMPO GARCÍA	COMMITTE MEMBER	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITTE MEMBER	Independent

% of proprietary Board members	0.00%
% of independent Board members	100.00%
% of other external	0.00%

Explain the responsibilities attributed to this committee, describe and provide a summary of its main highlights during the year.

The Appointments and Responsible Management Committee of Bankia has attributed to it all the duties required in company law and banking regulations, as well as those set out in the Good Governance Code of Listed Companies which, given their length, are presented in section H of this Report.

With respect to its rules of organisation and functioning, article 15 of the Board of Directors Regulations states that the Appointments and Responsible Management Committee will have no fewer than three (3) and no more than five (5) members, all of whom will be non-executive directors and a majority, independent. Where the members of the committee expressly so agree, its meetings may also be attended by other directors, including executive directors, senior managers and any employee.

The members of the Appointments and Responsible Management Committee will be appointed by the Board of directors taking account of their knowledges, skills and experience and the Committee's tasks. The Committee will be chaired by a non-executive 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.

The Committee will have a Secretary and, optionally, an assistant Secretary, who need not be Directors and may be other than the Secretary and Assistant Secretary of the Board of Directors, respectively.

The 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.

A majority of the members of the Committee, present in person or by proxy, constitute a quorum.

The 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.

Regarding the main actions carried out in 2017, the Appointments and Responsible Management Committee focused its efforts primarily on six areas:

- The assessment of the Board and its Committees, the performance assessment on the Chairman, the Lead Independent Director and the General Secretary, and the individual director assessments.
- Annual verification of the nature of directors.
- Preparation of reports on appointments of directors and the management team.
- The directors and senior managers training plan.
- The directors and senior managers recruitment plan.
- Review, monitoring and evaluation of the Responsible Management Policy and Plan.
- Monitoring of the activities of the Ethics and Conduct Committee.
- Procedure for assessing suitability.
- The Annual Corporate Governance Report in the area of its remit.

The Appointment and Responsible Management Committee draws up a report on the activities it has carried out each period and makes said report available to the shareholders when the Annual General Meeting is called.

(Keep in Note H)

REMUNERATION COMMITTEE

Name	Post	Tipology
MRS. EVA CASTILLO SANZ	CHAIRWOMAN	Independent
MR. JOAQUÍN AYUSO GARCÍA	COMMITTE MEMBER	Independent
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	COMMITTE MEMBER	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITTE MEMBER	Independent

% of proprietary Board members	0.00%
% of independent Board members	100.00%
% of other external	0.00%

Explain the responsibilities attributed to this committee, describe and provide a summary of its main highlights during the year.

The Remuneration Committee of Bankia has attributed to it all the duties required in company law and banking regulations, as well as those set out in the Good Governance Code of Listed Companies which, given their length, are presented in section H of this Report.

With respect to its rules of organisation and functioning, article 15 bis of the Board of Directors Regulations states that the Remuneration Committee will have no fewer than three (3) and no more than five (5) members, all of whom will be non-executive directors and a majority, independent. Where the members of the committee expressly so agree, its meetings may also be attended by other directors, including executive directors, senior managers and any employee.

The members of the Remuneration Committee will be appointed by the Board of Directors, taking account of their knowledges, skills and experience and the Committee's tasks. The Committee will be chaired by a non-executive 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.

The Committee will have a Secretary and, optionally, an assistant Secretary, who need not be directors and may be other than the Secretary and assistant Secretary of the Board of directors, respectively.

The 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.

A majority of the members of the Committee, present in person or by proxy, constitute a quorum.

The 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.

Regarding the main actions carried out in 2017, the Remuneration Committee focused its efforts primarily on the following areas:

- The remuneration policy for directors and senior managers.
- The Annual Report on Director Remuneration.
- The Annual Corporate Governance Report in the area of its remit.

The Remunerations Committee draws up a report on the activities it has carried out each period and makes said report available to the shareholders when the Annual General Meeting is called.

(Keep in Note H)

RISK ADVISORY COMMITTEE

Name	Post	Tipology
MR. FRANCISCO JAVIER CAMPO GARCÍA	CHAIRMAN	Independent
MRS. EVA CASTILLO SANZ	COMMITE MEMBER	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITE MEMBER	Independent

% of proprietary Board members	0.00%
% of independent Board members	100.00%
% of other external	0.00%

Explain the responsibilities attributed to this committee, describe and provide a summary of its main highlights during the year.

The Risk Advisory Committee of Bankia has attributed to it all the duties required in by law, especially banking regulations. Given their length, they are presented in section H of this Report.

With respect to its rules of organisation and functioning, article 47 ter of the Bylaws and article 16 of Board of Directors Regulations states that the Risk Advisory Committee will be comprised of a minimum of (3) and maximum of (5) directors, who may not be executive directors, without prejudice to attendance, when so expressly resolved by the members of the Committee, of other directors, including executive directors, senior managers and any employee. In any event the number of members of the Risk Advisory Committee will be determined directly by way of establishment of that number by express resolution, or indirectly by way of filling vacancies or appointment of new members within the established maximum.

The members of the Risk Advisory Committee must have the appropriate knowledges, skills 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. 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.

The members of the Risk Advisory Committee will be appointed by the Board of directors, taking into account the directors' knowledge, skills and experience and the committee's duties.

There will be a quorum for the 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.

Regarding the main actions carried out in 2017, the Risk Advisory Committee advised the Board of Directors on the following key matters:

- Advice on the definition of the Company's and Group's overall propensity of risk, set out in the Risk Appetite and Tolerance Framework and in the risk budget.
- Advice on the approval of the Company's and the Group's risk control and management policy, identifying the various types of risk assumed by the Company and the Group, the levels of risk they are willing to take and the necessary corrective measures to limit their impact.
- Advice on the approval of Risk Manuals and Policies.
- Regular monitoring of the loan portfolio and the risks assumed by the Company and the Group, in the broadest sense, proposing to the Board the necessary corrective measures to adapt the risk assumed to the approved risk profile.

(Keep in Note H)

BOARD RISK COMMITTEE

Name	Post	Tipology
MR. JOSÉ SEVILLA ÁLVAREZ	CHAIRMAN	Executive
MR. FRANCISCO JAVIER CAMPO GARCÍA	COMMITTEE MEMBER	Independent
MRS. EVA CASTILLO SANZ	COMMITTEE MEMBER	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITTEE MEMBER	Independent

% of executive Board members	25.00%
% of proprietary Board members	0.00%
% of independent Board members	75.00%
% of other external	0.00%

Explain the responsibilities attributed to this committee, describe and provide a summary of its main highlights during the year.

The Board Risk Committee is governed by article 16 bis of the Board of Directors Regulations. 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. A list of this Committee's functions is provided in section H of this Report.

As regards the rules of organisation and functioning, article 16 bis of the Board of Directors Regulations states that 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.

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

The Board Risk Committee will have the specific delegated authority contemplated in the delegation resolution.

Also, copies of the minutes of meetings of this Committee will be made available to all directors.

Regarding the main actions carried out in 2017, the Board Risk Committee's principle activity is the approval of risks within the authority delegated to it and overseeing and administering the exercise of the authority delegated to lower-ranking bodies.

Given the executive nature of the Board Risk Committee, at its meeting the Committee analyses and, where appropriate, approves all specific risk transactions, finance programmes and the overall limits of prequalification attributed to it within the scope of authority delegated by the Board of Directors. It shall also assess and put forward, as appropriate, proposals of this nature which must be approved by the Board of Directors.

(Keep in Note H)

Indicate if executive composition reflects the participation in the Board of director’s diferent directors depending on their category:

Yes ☒ No ☐

MONITORING AND SUPERVISORY COMMITTE FOR THE BANKIA AND BANCO MARE NOSTRUM MERGER PROCESS

Name	Post	Tipology
MR. JOAQUÍN AYUSO GARCÍA	CHAIRMAN	Independent
MR. FRANCISCO JAVIER CAMPO GARCÍA	COMMITEE MEMBER	Independent
MRS. EVA CASTILLO SANZ	COMMITEE MEMBER	Independent
MR. ANTONIO GREÑO HIDALGO	COMMITEE MEMBER	Independent

% of proprietary Board members	0.00%
% of independent Board members	100.00%
% of other external	0.00%

Explain the responsibilities attributed to this committee, describe and provide a summary of its main highlights during the year.

The Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process is regulated by the Final Provision of the Board of Directors Regulations.

Without prejudice to the specific tasks that may be assigned to the Board of Directors during the Bankia and Banco Mare Nostrum Merger Process, the Committee shall have information, consultancy, and proposal powers and specifically the key role of continuously monitoring and supervising the Bankia and Banco Mare Nostrum merger process, both during its preliminary study and analysis phase and, where appropriate, with regard to compliance with the legal requirements established in applicable national and community regulations that, after approval by both entities' boards of directors and general meetings of shareholders, allow for the conclusion of the merger process. The Committee shall inform the Board of Directors of the development of said studies and analysis and of the compliance with said requirements, specifically looking after the interests of the Company, and therefore the interests of all its shareholders, guaranteeing autonomy and independence in the development of the merger process, both in the preliminary phase and, where appropriate, during the decision-making phase.

All this will be understood without prejudice to the competency of the Audit and Compliance Committee to be informed on the structural and corporate change operations the Company intends to carry out for its preliminary report and analysis for the Board of Directors on the economic conditions and the accounting impact and, specifically, on the proposed exchange ratio, in conformity with the terms of Article 14.8 of the Board of Directors Regulations.

In terms of the organization and operation rules, the Final Provision of the Board of Directors Regulation stipulates that the Committee shall exclusively comprise independent directors, specifically the Lead Independent Director and the chairman of the Appointment and Responsible Management Committee, who will act as chairman thereof, and the chairmanof the Audit and Compliance Committee, the chairman of the Remunerations Committee and the chairman of the Risk Advisory Committee, without prejudice to the attendance, when expressly agreed by the members of the Committee, of other directors, including executive directors and any employees, consultants or experts that may collaborate in the Bankia and Banco Mare Nostrum merger process.

The Committee shall have a Secretary and, optionally, an assistant Secretary, who may not be directors and who may be individuals other than the Secretary and the assintant Secretary of the Board of Directors, respectively.

The Committee shall meet as often as called to do so by an agreement of the Committee itself or the Chairperson thereof. Any member of the management team or staff member that is requested to do so must attend the meetings and collaborate and grant access to any information at said member's disposal. The Committee may also require the attendance of the accounts auditor.

The required quorum for the Committee is at least the majority of the members thereof and the Committee shall adopt its decisions by absolute majority of the Committee members in attendance or represented at the meeting. In the event of a draw, the Chairperson shall have the casting vote. Committee members may choose another member to represent them. The Committee's decisions shall be recorded in a minutes book, where the Chairman and the Secretary shall sign all meeting minutes.

The Committee shall dissolve once the Bankia and Banco Mare Nostrum merger process has concluded.

In terms of the most important actions taken in the 2017 period, the main activity of the Committee was to effect the monitoring and supervising of the Bankia and Banco Mare Nostrum Merger process, especially the analysis of all merger-related documentation, the hiring of an independent expert to analyse the reasonableness, from a financial point of view, of the merger exchange ratio, the review of communications and authorizations with the supervisors and the examination of the documents relating to the call for the Extraordinary General Meeting, proposals for Board of Directors decisions: (i) the period within which creditors can oppose the merger; (ii) the condition precedent and authorizations; (iii) the execution of the merger; (iv) the date for accounting purposes; (v) assumption of the absorbed company’s staff; (vi) assumption of the powers of the absorbed company; (vii) the entity agent and the odd-lot broker; (viii) the execution of a capital increase to satisfy the merger exchange ratio; and (ix) the delegation of powers, among others.

C.2.2 Complete the following table using the information relating to the number of female Board members who have served on the Board of Directors Committees over the past four financial years:

	Number of female Board members							
	Year 2017		Year 2016		Year 2015		Year 2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITEE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTE	0	0.00%	0	0.00%	0	0.00%	0	0.00%
REMUNERATION COMMITEE	1	25.00%	1	25.00%	1	25.00%	1	25.00%
RISK ADVISORY COMMITEE	1	33.33%	1	33.33%	1	33.33%	1	33.33%
BOARD RISK COMMITTE	1	25.00%	1	25.00%	1	25.00%	1	25.00%
MONITORING AND SUPERVISORY COMMITTE FOR THE BANKIA AND BANCO MARE NOSTRUM MERGER PROCESS	1	25.00%						

C.2.3 Section removed

C.2.4 Section removed.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the Board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

AUDIT AND COMPLIANCE COMMITTEE

The regulation of the Audit and Compliance Committee is set forth in the Bylaws (articles 44 and 46) and the Board of Directors Regulations (articles 12 and 14). Both documents, as well as the composition of the committee, are permanently available for consultation on the Bankia website: www.bankia.com.

In the 2017 period, the Audit and Compliance Committee regulations were not amended.

The Audit and Compliance Committee submitted a report on the Committee's activity to the Board of Directors, which report reflecting the tasks the Committee performed in relation to the duties thereof with regard to the 2016 period. This report was made available to the shareholders when the General Meeting was held on 24 March 2017.

APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE

The regulation of the Appointments and Responsible Management Committee is included in the Bylaws (articles 44 and 47) and the Board of Directors Regulations (articles 12 and 15). Both documents, as well as the composition of the Committee, are permanently available for consultation on the Bankia website: www.bankia.com.

In the 2017 period, the Appointments and Responsible Management Committee regulations were not amended.

The Appointments and Responsible Management Committee submitted a report on the Committee's activity to the Board of Directors, which report reflecting the tasks the Committee performed in relation to the duties thereof with regard to the 2016 period. This report was made available to the shareholders when the General Meeting was held on 24 March 2017.

REMUNERATION COMMITTEE

The regulation of the Remuneration Committee is included in the Bylaws (articles 44 and 47 bis) and the Board of Directors Regulations (articles 12 and 15 bis). Both documents, as well as the composition of the Committee, are permanently available for consultation on the Bankia website: www.bankia.com.

In the 2017 period, the Remuneration Committee regulations were not amended.

The Remuneration Committee submitted a report on the Committee's activity to the Board of Directors, which report reflecting the tasks the Committee performed in relation to the duties thereof with regard to the 2016 period. This report was made available to the shareholders when the General Meeting was held on 24 March 2017.

RISK ADVISORY COMMITTEE

The regulation of the Risk Advisory Committee is included in the Bylaws (articles 44 and 47 ter) and the Regulations of the Board of directors (articles 12 and 16). Both documents, as well as the composition of the Committee, are permanently available for consultation on the Bankia website: www.bankia.com.

In the 2017 period, the Risk Advisory Committee regulations were not amended.

The Risk Advisory Committee presented to the Board of Directors an annual report on its activities, in which is reported the tasks carried out by the Committee in relation to its specific functions regarding year 2016.

BOARD RISK COMMITTEE

The regulation of the Board Risk Committee is set forth in the Bylaws (articles 44 and 48) and the Board of Directors Regulations (articles 12 and 16 bis). Both documents, as well as the composition of the Committee, are permanently available for consultation on the Bankia website: www.bankia.com.

In the 2017 period, the Board Risk Committee regulations were not amended.

The Board Risk Committee presented to the Board of Directors an annual report on its activities, in which is reported the tasks carried out by the Committee in relation to its specific functions regarding year 2016.

MONITORING AND SUPERVISORY COMMITTEE FOR THE BANKIA AND BANCO MARE NOSTRUM MERGER PROCESS

The Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process regulations are governed by the Final Provision of the Board of Directors Regulations, which was added to the Regulations by virtue of a Board decision dated 24 March 2017. The Board of Directors Regulations and the membership of the Committee are permanently available for reference on the Bankia website: www.bankia.com.

C.2.6 Section removed.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain the procedure, if any, for approving related-party and intragroup transactions.

Procedure for reporting the approval of related-party transactions

According to article 35 of the Board of Directors Regulations of Bankia, S.A., the Board of Directors shall review the transactions the Company engages in, directly or indirectly, with directors, shareholders or persons related to them.

Engaging in such transactions will require authorisation of the Board, after a favourable report from the Audit and Compliance Committee. The aforesaid transactions will be evaluated from the point of view of equal treatment and market terms, and will be included in the periodic public reporting on the terms contemplated in applicable regulations.

There will be no obligation to advise the Board, or seek the authorisation contemplated in the preceding section, in the case of transactions with shareholders that simultaneously satisfy the following three conditions:

a) they are pursuant to contracts the terms of which are basically standardised and customarily are applied to customers contracting for the type of product or service in question;
b) they are at prices or tariffs established on a general basis by the one acting as the supplier of the goods or services in question or, when the transactions relate to goods or services for which there are no established tariffs, they are on customary market terms, comparable to those applied in commercial relationships maintained with customers having similar characteristics; and
c) the amount is no more than 1% of the Company's annual revenue.

Transactions with directors in any event will be subject to the authorisation referred to in this article, except in the case of credit, loan or guarantee transactions the amount of which is not more than the amount determined by the Board of directors, simultaneously satisfying conditions (a) and (b) as set forth in section above.

A director violates his duty of loyalty to the Company if, with prior knowledge, he allows or does not disclose the existence of transactions related thereto, undertaken by the persons indicated in Article 35 of the Board of Directors Regulations.

D.2 Give details of transactions deemed significant due to the amount or relevant due to the aspect between the company and companies of its group, and the significant shareholders in the company:

D.3 Give details of transactions that are significant due to amount or that are relevant due to the nature between the company and companies of its group, and the managers and directors of the company:

D.4 Report on the significant transactions between the company and other entities in the same group provided they are not eliminated in the process of preparing the consolidated financial statements, and are not part of the normal company transactions with regards to purpose and conditions.

At any rate, report shall be issued on any intra-group transaction with entities in countries or territories classified as tax havens:

D.5 Indicate the amount of the transactions with other related parties.

D.6 Provide details of any mechanisms in place to detect, determine and resolve possible conflicts of interest between the company and/or its group and its Board members, executives or significant shareholders.

Article 32 of the Board of Directors Regulations regulates the situation of conflicts of interest. This article place the obligation for directors to notify the Board of director's any situations of direct or indirect conflict of interest they, or persons related to them, may have the interests of the Bank. Also, article 31 of the Board of Directors Regulations, directors must refrain from deliberating or voting on resolutions or decisions in which they, or persons related to them, have a direct or indirect conflict of interest.

In addition, under the scope of the Internal Rules of Conduct for Securities Markets activities (RIC), article 37 establishes the duties of covered persons and article 38 the general rules for managing conflicts. The mechanisms for detecting conflicts of interest are based fundamentally on the obligation to disclose to Regulatory Compliance Department any situation of conflict of covered persons.

On the other hand, the Bankia Group has a Code of Ethics and Conduct which must be complied with by all persons who have any type of professional relation with the group. The purpose of the Code of Ethics is to establish ethical principles and general rules that shall shape the Group's activities and the individuals subject to the Code, both within the Group and in relations with clients, partners, suppliers and any individuals and public and private companies with which the Group has direct or indirect relations.

The Group has a Confidential Whistleblowing Channel, where the staff can report any irregularities they detect in the compliance with the Code of Ethics and Conduct, involving directors, employers or suppliers. The Ethics and Conduct Committee are ultimately responsible for resolving conflicts of interest and its decisions are binding.

To resolve possible conflicts of interest between BFA and other group companies, efforts have been made to promote best practices in good governance in respect of relations between BFA and Bankia, including the signing of a Framework Agreement in 2011, which was updated on 28 February 2014. The objectives of this agreement are (i) to establish relations between both entities and between their respective group companies and ensure an adequate level of coordination, thereby minimising and regulating each company's areas of activity - at arm's length - and potential conflicts of interest that could arise in the future, (ii) to regulate the procedure to be followed should the members of Bankia's Board of Directors find themselves in a situation that conflicts directly or indirectly with the interests of BFA, establishing the obligation to declare this situation of conflict and refrain from taking part in the deliberation and discussion of issues at the heart of the conflicto, (iii) to regulate information flows between Bankia and BFA to ensure both parties comply with their statutory accounting, tax and reporting obligations. In the event that a director is a member of the Boards of both BFA and Bankia, they shall refrain from being involved in the matters set forth in the Framework Agreement.

Regarding related-party transactions, the Framework Agreement establishes that related party transactions will be governed by the principles of transparency and the undertaking or render thereof on reasonable and equitable market terms, preferred treatment, and following diligence and confidentiality criteria. Bankia's Audit and Compliance Committee shall formally issue its opinion, by means of a report to the Company's Board of directors, on whether the related-party transactions are at arm's length. Following a favourable report from the Audit and Compliance Committee, the Board of directors shall aprove all related-party transactions. Section 6.6 of the aforementioned Framework Agreement establishes the requirements to be met in the event of Bankia were to grant financing to BFA.

In addition, on 17 December 2015, the Board of Directors approved the Conflict of Interests Policy of Bankia, S.A., which sets forth the procedures for preventing conflicts of interests.

The Conflict of Interest Policy was updated by the Board of Directors on 27 October 2017. In conformity with said Policy, a conflict of interest is understood to exist when a there is a direct or indirect contradiction, clash and/or incompatibility between the social interests of Bankia or any other Group company and the interest of its (i) directors; (ii) senior management personnel, (iii) shareholders, (iv) employees, (v) suppliers; or (vi) clients; or third parties directly or indirectly related thereto; or between clients.

D.7 Is more than one Group Company listed in Spain?

Yes ☐ No ☒

Identify the subsidiaries listed in Spain:

Subsidiarie Listed

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Define any business relationship between the parent Company and the subsidiary listed company, and between this and the other companies of the Group

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms to resolve any posible conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company's Risks Management System, including tax risks.

Risk management is a strategic pillar in the organisation. 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 appetite and risk tolerance levels set by the governing bodies To this end, the Organization provides tools that allow for the assessment, control and monitoring of the requested and approved risk, delinquency management and the recovery of non-payment risks.

The Group's risk strategy is implemented with the aim to guarantee stable and recurring earnings, with an overall medium-low risk profile. To this effect, the key pillars of this strategy are as follows:

1. General principles governing the risk function.

2. Efficient risk governance.

3. An organizational model consistent with the risk function's general principals. In this regard and in keeping with the ECB's regulatory guidelines, the risk function management structure was updated in December 2017, bringing its activity under two specialised Corporate Departments:

- The Corporate Risk Department is responsible for defining all of the bank's risk management policies, creating and validating all risk methodologies and models and constituting a powerful and structured second line of defence in risk management, an aspect that is crucial for the bank's corporate governance. The following departments report to the Corporate Risk Department: the Global Risk Management Dept., the Market Risk and Operational Risk Dept., and the Risk Oversight and Control Dept.

- The Corporate Credit Risk Department is responsible for loan authorisation, monitoring and recoveries and for managing the real estate assets foreclosed by the bank. The following departments report to the Corporate Credit Risk Department: the Corporate Retail Loan Approval and Monitoring Dept., the Corporate Wholesale Loan Approval and Monitoring Dept., the Corporate Recoveries Dept., the Wholesale Customer Restructuring Dept., the Property Management Dept., the Debt and Portfolio Management Dept. and the Powers and Committees Dept.

4. A Transformation Plan, aimed primarily at enhancing the quality of reporting and providing better risk management tools. The initiatives identified for implementation over the 2016-218 period are as follows:

- Recoveries model: to make recovery more efficient by focusing more on specialisation and outsourcing tasks that generate less value.

- Lending enhancement: to achieve integrated customer management through a variety of promotion tools, contribute to the growth of the Group's lending portfolio with solvent customers and provide better customer service by reducing transaction response times.

- Early warnings: to improve the detection of impairments in the risk quality of our customers sufficiently in advance so that they can be managed appropriately, thereby minimising expected loss.

- Asset Allocation: to promote business development planning that targets the maximisation of economic value within the Risk Appetite and Tolerance Framework (RATF) and, at the same time, make inroads in cascading the RATF down so the business units have the necessary benchmarks for assessing whether their decisions are consistent with the risk appetite and tolerance statement.

- Risk culture enhancement: to extend and improve the risk culture in the Bank, mainly in respect of businesses, spreading the knowledge, the allowable criteria and suitable tools to steer lending growth to the portfolios/customers that best meet the Group's objectives.

- Development of Data Science in the risk function: The Group has initiated a project to develop and operate Big Data infrastructure that will allow for the better classification of both customers and non-customers using conventional and unconventional data.

• Internal Control:

In 2017 the internal control framework was further developed with the aim to provide an integral view of risks to ensure effective control thereof and the proper assignment of any roles and responsibilities involved in the strengthening of the governance framework.

• Tax risk:

A tax risk control procedure has been in place since 2015. The associated process describing this control is documented. In accordance with this procedure, all transactions approved by centralised committees or governing bodies are backed, where necessary, by an opinion from a tax advisor or, in his absence, a certified, external tax advisor. This is also required by the New Products Committee for the launch of each new product or service. For the remaining Committees, the groups responsible for making proposals must verify whether a tax opinion has been issued if so required in accordance with the established criteria.

Work will continue on the planned activities in the Entity's transformation process in 2018.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including tax risks.

On 26 June 2013, the European Council approved a regulation which, from 1 January 2014, made application of the capital agreements known as BASEL III effective for the entire European Union. This regulation is articulated in a capital requirements directive and a capital requirements regulation, known as CRD IV and CRR, respectively.

One of the main features of this regulation compared to previous regulations is the introduction of corporate governance as a core element of risk management. In this regard, Bankia answers fully to the spirit of the new regulation, with its governing bodies assuming responsibility for the oversight and control of risks:

- The Board of Directors is the highest governing body. It determines and approves the general internal control strategies and procedures, as well as the policies for the assumption, management, control and reduction of risks to which the group is exposed. It has several internal Committees, attributed different risk control and monitoring responsibilities.
- The basic responsibilities of the Audit and Compliance Committee include overseeing the efficiency of the internal control of the entity, the internal audit, where appropriate, and the risk management systems. Specifically, it is responsible for regularly reviewing internal control and risk management systems in order to properly identify, manage and report the main risks.
- Risk Advisory Committee. Article 38 of the Law on the Regulation, Supervision and Solvency of Credit Institutions (LOSSEC) establishes the need to create a Risk Committee whose members do not have executive duties. Therefore, in 2014, the Board Risk Committee was relieved of functions not related to authorisation of transactions (non-executive). These have been transferred to

the new Risk Advisory Committee, whose functions included those from the Board Risk Committee and those in the draft Royal Decree 84/2015 implementing the LOSSEC. The Risk Advisory Committee is currently the body responsible for overall risk management, taking the related decisions in accordance with the authorities delegated to it and being responsible for establishing and supervising compliance with the control mechanisms for the various types of risk, without prejudice to the supervisory authority legally corresponding to the Audit and Compliance Committee.

- The Board Risk Committee, with executive power and authority to approve the most significant transactions, may establish, as authorised by the Board of Directors, the overall limits in order for lower-ranking bodies to approve the others. With respect to credit risk, the risk approval structure and the risks, which due to their amount, are reserved for the Board Risk Committee are determined by the existing risk segments at any given time and the levels catalogued in accordance with their credit rating ("rating" or "scoring") based on models endorsed by the supervisor.

Furthermore, the risk function is mainly performed by the Corporate Risk Department (CRD) and the Corporate Credit Risk Department (CCRD), both of which report directly to the Chief Executive Director.

The following departments report to the CRD:

1. The Global Risk Management Dept.
2. The Market Risk and Operational Risk Dept.
3. The Risk Oversight and Control Dept.

And the following are the main departments that report to the CCRD:

1. The Corporate Retail Loan Approval and Monitoring Dept.
2. The Corporate Wholesale Loan Approval and Monitoring Dept.
3. The Corporate Recoveries Dept.
4. The Wholesale Customer Restructuring Dept.
5. The Property Management Dept.
6. The Debt and Portfolio Management Dept.
7. The Powers and Committees Dept.

E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

Macroeconomic risks: lower economic growth than expected would, in general, have an adverse impact on the business performance, provisions and margins.

Political risks: political uncertainty (governance difficulties, territorial issues, a fragmented parliament) could theoretically have a significant impact on the risk premium or hinder further improvement of the sovereign rating with the consequent impact in terms of growth and the general rise in funding sources for Spanish entities.

Regulatory risks: as a response by authorities to the mistakes that led to the international financial crisis, the financial sector has been subject to myriad regulatory reforms, which have considerably changed the way banks do business. In this respect, the Group continues to reinforce its corporate governance structure, as well as its capital and liquidity position, so that it can adapt successfully to the new banking business model in an increasingly competitive environment.

Using the conventional classification of risks generally used in the financial sector, Bankia analyses, measures and manages the following risks:

Credit risk

Understood as the risk of loss arising from the failure of a counterparty to meet its contractual obligations. This is the entity's main risk.

The loans and advances to customers continuing the trend of the last year, 33% in the wholesale segment (including public sector) and 67% in the retail segment.

Personal mortgages portfolio account for 59% of gross lending.

The credit risk affecting the total loan investment in the property development portfolio is 0.7% and highly provisioned.

Counterparty risk

Counterparty risk is the risk of loss for the Bank in its dealings in financial markets from the probability of a default by a counterparty in its contractual obligations.

Market risk

Market risk is the risk of loss caused by adverse fluctuations in prices of the financial instruments in which Bankia operates. Another risk related to market risk is liquidity risk.

As a result of the obligations assumed under the Recapitalisation Plan, the Entity has ceased its proprietary trading activity, thereby decreasing market risk in terms of VaR and the capital charge to cover this risk. The Restructuring Plan gears the Entity's activity in financial markets towards achieving two main goals: to provide services to customers (Franchise Banking) and to manage its own structural risks.

Activity in financial markets also exposes the entity to market liquidity risk, which arises from difficulties closing or covering positions due to an absence of counterparties in the market which can cause the price to be negatively affected in the case of sale.

Structural balance sheet interest rate risk

Structural balance sheet interest rate risk relates to potential losses in the event of adverse trends in market interest rates. Interest rate fluctuations affect both net interest income and equity. The intensity of the impact depends to a large extent on the different schedule of maturities and repricing of assets, liabilities and off-balance sheet transactions.

Liquidity and financing risk

Structural liquidity risk is defined as uncertainty, in adverse conditions, regarding the availability of reasonably-priced funds that allow for punctual compliance with commitments undertaken by the entity and for the financing of investing activity growth.

In addition to the various metrics, the entity has a clearly established a Contingency Plan, which identifies the alarm mechanisms and the procedures to follow in the event said plan is activated.

Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but not reputation risk.

Reputational risk

The Entity's approach includes mechanisms to assess, measure and manage new risks, enabling the Entity to respond quickly and efficiently to adverse situations that could pose reputational risk and result in financial losses. In this respect, the new corporate risk culture has led to a more demanding and rigorous risk management model embedded in the Entity's strategy and organisation that ensures comprehensive treatment of risks under the slogan “We are all risks”.

Tax risk

In view of the possibility of sustaining a higher-than-expected tax effect on transactions, the reform to the Corporations Act included a series of measures designed to improve corporate governance, such as Tax Risk Management (TRM). Listed companies are obliged to manage tax risk appropriately and the Board of Directors of these companies is ultimately responsible in this respect.

E.4 Identify if the company has a risk tolerance level, including tax risks.

The entity has a Risk Appetite Framework that was approved by the Board of Directors.

Risk appetite is understood to be the level and type of risk that the Entity is prepared to accept in the course of its business to achieve its objectives, respecting regulatory restrictions and any commitments made. The Risk Appetite Framework establishes a set of elements that provide a complete view of the levels of appetite, tolerance and capacity for each of the risks and the comparison between same and the Entity’s risk profile.

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

The Recovery Plan (also approved and effective since February 2015) establishes the potential measures to be adopted in a hypothetical crisis situation. The measures would be triggered if the predefined level of any of the selected indicators in the plan were exceeded. They are consistent with those determined by the tolerance levels in the RAF.

Thus, the Board of Directors approved the necessary changes to the Risk Appetite statement, developing the relationship between the RAFT and the Strategic Plan, Business Model, Capital Planning, Recovery Plan and Budget, as well as the adaption of indicators, in order to adjust same to the various Supervisor requirements and to the risk control and monitoring needs.

E.5 Identify the risks, including tax risks that materialised during the financial year.

Credit Risk

The Bankia Group has reduced doubtful exposures, at 31 December 2017 amount EUR 12,117 million.

The decrease in the doubtful portfolio led to a reduction in the NPL ratio for loans and receivables to 8,89%.

Also worth noting is the breakdown of doubtful assets. At 31 December 2017, 45% of assets were classified in the doubtful category for subjective criteria or are in the "curing" period. Accordingly, no loans in this portfolio are past-due that imply subjective arrears, or refinancing agreements have been reached with the customers and, therefore, there is an apparent willingness to pay. This must be verified over a period of at least six months, but can be extended to the entire grace period where applicable.

Counterparty risk

To mitigate the risk of trading in derivatives with financial and non-financial institution counterparties, Bankia has entered into CMOF or ISDA framework contracts, which enable it to net negative and positive positions of the same counterparty. At 31 December 2017, there were 1,644 netting agreements. In adittion, Bankia has collateral agreements (Appendix III of CMOF and CSA) to mitigate exposure of collateralisation to the market value of positions with the contribution of cash or bonds. There are currently 206 collateral agreements signed (115 derivatives, 78 repos and 13 securities loans). These agreements reduced the credit risk of the derivatives activity by 93.14%.

The value adjustment was EUR 111.57 million at 31 December 2017.

Market risk

Bankia’s average VaR in 2017 was EUR 1.42 million, with a maximum of EUR 2.62 million and a minimum of EUR 0.78 million.

Interest rate VaR (EUR 1.13 million) follow FX VaR (EUR 0.23 million) accounted for the largest share of average VaR, both incorporate volatility VaR.

Structural balance sheet interest rate risk

In adverse movement in the yield curve could have a negative effect on the value of the Entity's assets and liabilities and its net interest margin. The rest of sensitivity measures calculated during the year were within the regulatory limits, which establish risk levels consistent with prudent management.

Liquidity and financing risk

The level of available liquid assets is very high and the reduction path of the commercial gap (loans less customer deposits) is allowing the Entity to cover its liquidity needs without needing to resort to the wholesale market. In addition, the Entity has sufficient liquidity contingency plans available for use in the hypothetical case of crisis of liquidity.

Operational risk

The operational risks materializing in the 2017 period is EUR 36.97 million. The most important operational risks relate to “execution, delivery and process management” (EUR 14.04 million) and “client practice” (EUR 12.03 million). These data do not include non-recurring losses relating to past behavioural risks (Annulled Shares, Preference Shares, Floor Clauses, etc.) with legal proceedings that are still in progress and are exceptional in nature.

E.6 Explain the response and monitoring plans for the most threatening risks, including tax risks, of the entity.

- Credit Risk. Credit risk is managed within the limits and guidelines established in the credit risk policy. It is supported by a set of tools that can be classified according to their functionality into the following categories:

  - Risk classification.
  - Risk quantification.
  - Risk projection.
  - Risk-adjusted return (RAR).
  - Business revitalisation.
  - Recovery management.
  - Concentration risk management.

- Counterparty risk. The following overall limits are established to control Counterparty Risk:

  Overall Risk Limit (risk ceiling from all of Bankia's operations with financial institutions), Fixed-income Underwriting Framework (covers underwriting for different issuers assuming final assumption of zero), Limit on Trading in Government Debt (ceiling on all Bankia's trading with an issuer that is a state-owned entity), Alco Portfolio Limit (structural portfolio allowing for fixed-income investment), and Derivatives Lines for Non-Financial Institutions (individual limits per counterparty).

  To mitigate counterparty risk, the Entity performs daily analysis of exposures to counterparties in order to assess cumulative risk and control potential excesses, reconciles the derivative portfolios of each counterparty regularly and calculates daily the margins to be exchanged with counterparties that have a collateral agreement signed. In addition, it calculates, on a daily basis, the credit value adjustment (CVA), which measures the adjustment we must make to the value of derivatives assuming that they are risk-free to obtain their value adjusted for the risk of the counterparty’s default.

- Market risk. Market risk is controlled through the establishment of limits based on VaR, calculated using the historical simulation method, sensitivity, maximum loss and size of the position. These limits are established according to maximum exposure approved annually by Senior Management and distributed among the different areas and business centres.

  The main tools used to measure and control market risk are VaR with a 1-day time horizon and a 99% confidence level and sensitivity. The main movements in market factors used in sensitivity analysis are interest rates, equity prices, exchange rates, volatility and credit spreads.

- Structural balance sheet interest rate risk. The Entity has a structural risk management policies and procedures framework under which it monitors regulatory and other, stricter internal limits. Based on this, it controls and monitors the sensitivity of the interest margin and the value of its assets and liabilities by simulating different interest-rate scenarios to complement regulatory scenarios. The measurement scheme covers the entire balance sheet (focusing on the impact of changes in interest rates on profit or loss) and on portfolios of held-to-maturity financial assets (mainly fixed-income).

- Liquidity and financing risk. To monitor this risk, the Entity has management policies and procedures in place that enable it to identify, measure, monitor and control the risks inherent in the management of liquidity and financing. The analysis includes different approaches, the liquidity gap in accordance with maturity and the financial structure, including the current/non-current ratio, as well as the calculation of different liquidity coverage ratios, underpinned by the regulatory liquidity ratio, based on different assumptions.

  In addition, the Entity has appropriate liquidity contingency plans in place it may use in the hypothetical event of a liquidity crisis.

- Operational risk. In 2013, the Entity chose the standardised approach for calculating its capital requirements, subsequently making improvements in operational risk management on several fronts, including the real loss database and the extension of the self-assessment to all Group companies.

  Bankia's operational risk management objectives are to foster a culture of operational risk management, especially with regard to risk awareness, assume responsibility and commitments, and service quality, ensure operational risks are identified and measured in order to prevent possible damages that could affect results.

  Bankia performs Operational and Technological Risk Management that not only covers the recognition of events that generate losses and the accounting thereof, but also promotes the control thereof, in order to minimize potential negative effects through the continuous improvement of the processes and the reinforcement of operational controls.

  Operational and Technological Risk Management must be implemented throughout the entity to contribute to the realisation of the institutional objectives, through the management, prevention and mitigation of associated risks.

  (Keep on section H)

F INTERNAL RISKS MONITORING AND MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING (ICFR) PROCESS

Describe the mechanisms entailed in the risks monitoring and management system in relation to the company's financial reporting (System of Internal Control over Financial Reporting) process.

F.1 The entity's control environment

Report, pointing out the main characteristics of at least:

F.1.1. The bodies and/or functions in charge of: (i) the existence and maintenance of an appropriate and effective System of Internal Control over Financial Reporting (ICFR); (ii) its implementation; and (iii) its monitoring.

Article 4 of the Board of Directors Regulations expressly states the Board of Directors shall provide the markets with prompt, accurate and reliable information ("particularly on ownership structure, substantial amendments to governance rules, trading in treasury shares and particularly significant related-party transactions"), and approve financial reporting the Company must regularly publish.

In addition, article 36.2 of the Board of Directors Regulations stipulates that "The Board will adopt the measures necessary to guarantee that quarterly, semi-annual and any other financial information that is disclosed to the markets is prepared in accordance with the same professional practices, principles and policies as the annual financial statements and is equally reliable".

Meanwhile, the Audit and Compliance Committee's responsibility include, inter alia, supervising the preparation and filing of regulatory financial information and, in particular, reviewing the Company's accounts.

The Board of Directors has delegated in the Audit and Compliance Committee responsibility for overseeing that ICFR operates correctly.

Lastly, Senior Management is responsible for designing, ensuring and fostering the ICFR through the Corporate Financial Controller's Department, which shall perform any activities required to ensure the ICFR operates correctly.

F.1.2. The following elements, if existing, especially in relation to the process of elaborating the financial report:

- Departments and/or mechanisms in charge of: (i) designing and revising the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of duties and tasks; and (iii) ensuring the existence of sufficient procedures for its correct announcement throughout the entity.

Organisation Management is responsible for defining and proposing for adoption, in accordance with established regulatory requirements, strategic guidelines and policies, structure, size and functions of the Bank's different organisational groupings, as well as the operational procedures that regulate the performance of these functions in order to achieve the most efficient distribution of functions and resources possible.

It is also responsible for defining and making any changes to the functions attributed to the Bank's groupings, upholding the principles of segregation of duties and organisational efficiency, as well as preparing and keeping up to date the Bank's Operations Manual and publishing the organisational chart on the website, both the organisational structure, the Process Map, which provides an overall view of the Bank's key processes. Specifically, the latter provides information on the activities carried out, the parties involved in carrying them out and the tools used in the financial information management process.

Such updates are duly approved by the pertinent authorised party in accordance with the prevailing system of authorities and delegated responsibilities in place for Human Resources and Organisational matters and and properly communicated to the organization.

- Code of conduct, body of approval, degree of publication and instruction, principles and values including (indicating whether there is specific mention of the recording of transactions and the elaboration of the financial report), body in charge of analysing breaches and of proposing the correct actions and sanctions.

The Bankia group has a Code of Ethics and Conduct, approved by the Board of Directors constituting one of the essential pillars of its System of Corporate Governance to create a corporate culture and extend behavior patterns based on corporate values: integrity, professionalism, commitment, and achievement orientation.

The Code of Ethics and Conduct is mandatory for all Bankia professionals and governs their relationships both within the Company and with customers, suppliers, shareholders and others that have dealings with Bankia. It sets the standards that must their behaviour in their daily work and in their decision making. It sets forth the rules and guidelines of professional conduct applicable to all employees and directors of the Entity and all the Bankia Group’s businesses and activities.

The objective of the Code of Ethics and Conduct is to regular permitted and prohibited conduct and set out the ethical principles and general rules that must guide the actions of the Group and the people within the scope of application.

Bankia's Board of Directors and governing bodies are responsible for ensuring all activities focus on this goal, dealing with potential breaches and, if needed, taking corrective measures as and when required.

All people to whom the Code of Ethics and Conduct applies have received a copy. It has also been published on the corporate intranet and on the Company's website. In addition, a specific training programme sets up for all professionals of the Entity. The objectives of this programme include teaching these professionals how to apply Code of Ethics and Conduct correctly and report any behaviour that breaches the Code by using the Confidential Whistleblowing Channel.

Bankia has an Ethics and Conduct Committee, whose functions are decided by the Board of Directors. These include operating the measures necessary to handle ethically questionable conduct; overseeing compliance with the Code of Ethics and Conduct; as well as performing annual assessments of the degree of compliance with the Code and drafting reports for senior management.

- Whistle-blowing channel, which enables reporting of irregularities of financial and accounting nature to the Audit and Compliance Committee, in addition to possible breaches of the code of conduct and irregular activities in the organisation. Notifying whether these are confidential.

The Bankia Group has a Confidential Whistleblowing Channel provided for by the Code of Ethics and Conduct, which all Entity employees and suppliers may use to file a confidential, written report on any possible financial or accounting irregularities that may potentially relevant or on any other behaviour breaching the Code of Ethics and Conduct.

The Confidential Whistleblowing Channel has a set of regulations approved by the Audit and Compliance Committee setting out the mechanisms for receiving, filtering, classifying and handling reports submitted, all in accordance with the criteria issued by the Spanish Data Protection Agency in this respect, and guaranteeing confidentiality as it is managed by an external firm with road experience in the field which refers complaints, queries or suggestions to the Ethics and Conduct Committee.

Both the Code of Ethics and Conduct and the confidential whistleblowing channel are core elements of the crime prevention and detection model.

The Committee on Ethics and Conduct provides the Audit and Compliance Committee an activity report at the end of each period.

- Training programs and regular updates for the personnel involved in the preparation and revision of the financial report, as well as in the evaluation of the System of Internal Control over Financial Reporting, which should at least cover accounting regulations, auditing, internal risks monitoring and management.

Bankia has established mechanisms to ensure individuals involved directly in collating financial information and preparing and reviewing financial reporting have the professional skills and competence to perform such duties. In this respect, these individuals are continuously updated on prevailing legal requirements and are sufficiently able to efficiently perform their tasks and duties.

The Personnel Strategy and Policy Division of Bankia's oversees the Group's training activities and programmes, and keeps an up-to-date record of all training courses provided and the content thereof. Specifically, regular training and refresher courses are provided to personnel involved in the ICFR and its oversight that cover at least accounting standards, auditing, internal control and risk management.

As well as induction training, during the year further training may be provided to attend to specific training needs not envisaged at the offset, such as training in response to regulatory changes or in response to specific requests from departments for certain courses.

F.2 Financial Reporting Risks Assessment

At least reporting the following:

F.2.1. What are the main characteristics of the process of identifying risks, including those of error or fraud, with regards to:

- Whether the process does exist and is documented.

Bankia has developed a procedure to identify material areas and relevant processes that provide for potential risk events (including the risk of errors and fraud) that may significantly affect the Group’s financial information.

This is process is documented, setting out the frequency, methodology, types of risks, controls performed, and the frequency and supervisors of such controls, where the Corporate Financtial Controller’s Department is responsible for implementing and updating said process.

- Whether the process covers the entire objectives of the financial reporting, (existence and occurrence; integrity; evaluation; presentation, breakdown and comparability; and rights and obligations), if updated and at what frequency.

This procedure, it has been designed taking into account all financial reporting objectives (existence, ocurrence integrity, valuation, presentation and disclosures, and rights and obligations), it is up dated once a year, using the latest financial information. However, this assessment will also be carried out whenever circumstances not previously identified arise that result in possible errors in the financial information or when substantial changes in transactions could lead to new risks.

- The existence of a process for identifying the consolidation perimeter, considering, among other things, the possible existence of complex corporate structures, instrumental or special purpose entities.

The Company therefore avails of a monthly procedure for updating and verifying the scope of consolidation performed by the - Corporate Financial Controller's Department. This procedure is based on the Group's consolidation tool and enables Bankia to ensure any variations in the scope of consolidation in the different reporting periods are correctly included in the Group's consolidated financial statements.

The Regulations of the Board of Directors also authorise the Board to approve resolutions concerning the creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the Company and the Group.

- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputation, environmental, etc.) in the manner in which they affect the financial statements.

The risk identification process takes account of the impact of other types of risks (e.g. operational, technological, financial, legal, tax, reputational, and environmental) to the extent that these could affect the Bank’s financial reporting.

- Which corporate governance body supervises the process?

The Audit and Compliance Committee's duties include supervising the effectiveness of internal control and, specifically, periodically reviewing the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.

F.3 Control activities

Indicate, specifying their main characteristics, the existence of at least the following:

F.3.1. Procedures for reviewing and authorizing the financial reporting and the description of the ICFR, to be published at the stock market, indicating responsibilities, as well as the descriptive documents of cash flows and monitoring (even in connection with fraud risks) of the various types of transactions that could materially affect the financial statements, including the accounting closure proceedings and the specific revision of the judgements, estimates, evaluations and relevant projections.

As stated in section F.1.1, the Board of Directors has delegated the authority to oversee the correct functioning of the ICFR to the Audit and Compliance Committee.

The main duties of this Committee are:

1.- Supervise the effectiveness of the Company's internal controls, internal audit, regulatory compliance and risk management systems and discuss with the statutory auditor any material weaknesses of the internal control system that may have been detected in the audit, all while safeguarding independence. To this end, where appropriate the Committee may make recommendations or submit proposals to the Board of Directors, along with the related follow-up period. In particular, regarding internal reporting and control systems:

- verify the appropriateness and integrity of internal control systems and review the appointment and replacement of those responsible for them;
- review and supervise the preparation and integrity of the financial information regarding the Company and, where appropriate, the Group, reviewing compliance with regulatory requirements and the proper application of accounting principles;
- periodically review the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed;
- establish and supervise a mechanism whereby staff can confidentially report any irregularities with potentially serious implications they detect within the Company, in particular financial or accounting irregularities; and
- establish and supervise a system for preventing and detecting crimes that may result in criminal liability for the Company.

2.- Supervise the preparation and filing of regulatory financial information and make recommendations or submit proposals to the Board of Directors to safeguard the integrity of the financial information, and in particular:

- Report to the Board of directors, in advance, on the financial information that the Company must publish periodically;
- review the Company's accounts, to ensure compliance with legal requirements and proper application of generally accepted accounting principles, and report on changes to accounting principles and criteria proposed by management; and
- review issue prospectuses and any periodic financial information the Board is required to provide to the markets and market supervisory bodies.

The responsibilities of the Corporate Financial Controller's Department include, inter alia, overseeing accounting and tax managemen, and the preparation of the Group's periodic financial statements, as well as the financial information disclosed to the markets and regulatory bodies.

This Department is also in charge of designing, implementing, ensuring, regularly updating and fostering the System of Internal Control Over Financial Reporting (ICFR).

Depending on the nature and frequency of the financial reporting, different levels of responsibility have been assigned to different departments in the organisation:

- The preparation of regulatory half-yearly and annual financial information is the responsibility of the Corporate Financial Controller's Department, under the Chief Executive Officer.
- The preparation of quarterly financial information for analysts and investors is the responsibility of the Corporate Finance Department, under the Chief Executive Officer.

When preparing this information, the Corporate Financial Controller's Department and the Corporate Finance Department call on the support of the departments and/or units responsible for collating certain supporting information that has to be disclosed in the periodic financial reports. In addition, once the information has been prepared, and before it is published, these departments and units are also required to review and give final approval of the information under their responsibility.

Within the process of preparing half-yearly and year-end financial information, the Corporate Financial Controller's Department is responsible for the accounting records arising from the various transactions that took place in the Bank and the main control activities identified in the accounting close process based on the materiality thresholds defined. In this preparation, control procedures have been defined and implemented that guarantee the quality of information and its reasonableness ahead of its presentation to management.

In this respect, the Corporate Internal Audit Department is tasked with contributing, independently, objectively and in an advisory capacity, to the achievement of the institution's objective through the systematic evaluation of the Bank's risk management, management control and processes, issuing recommendations to enhance their effectiveness.

The Audit and Compliance Committee is also involved in this review, notifying the Board of Directors, previously, of its conclusions on the financial information that the Company must publish periodically.

Ultimately, the Board of Directors approves the financial information that the Company must periodically disclose. These duties are set forth in the Board of Directors Regulations, as described in point F.1.1 above. This approval is formalised in the minutes of the various Board and Committee meetings.

The description of the ICFR is examined by the Corporate Financial Controller's Department and the Corporate Internal Audit Department.

Within the framework of the specific controls and activities regarding transactions that may significantly affect the financial statements, the Bankia Group has identified material areas and specific risks, as well as significant processes in these areas, differentiating between business processes and transversal processes, and has documented in detail each of the processes, flows of activities, existing risks, mitigate controls, the frequency thereof, and those responsible for carrying out these activities.

Critical areas and meaningful processes are determined by applying quantitative criteria, complemented by qualitative criteria, to the main figures of the consolidated public financial statements, taking into account the defined materiality thresholds.

The business processes identified affect the following critical areas:

- Loans and receivables.
- Financial liabilities at amortised cost.
- Debt securities.
- Derivatives.
- Non-current assets held for sale.
- Investments.
- Tax assets and liabilities.
- Provisions.
- Fees and commissions for service transactions.
- Active and non-active treasury.

The transversal processes identified are as follows:

- Accounting close.
- Consolidation.
- Judgements and estimates.
- General IT controls.

Accordingly, the accounting close process includes the following phases:

- Accounting close process, including revision, analysis and control tasks to ensure that the monthly financial information offers a true and fair view of the Entity.
- Preparation of financial statements.
- Preparation of confidential financial statements for supervisory bodies.
- Preparation of public information.

The estimate and assumption process is supported by a specific Policy approved by the Management Committee, the purpose of which is to address the most relevant elements subject to assumptions and estimates, the classification thereof, generally used hypotheses and/or estimates (be they objective or subjective) and the individuals responsible for making them. This policy applies to balances and transactions identified as significant within the Bankia Group and that entail estimates or assumptions to an extensive degree due to the various tiers of the Group as a part of the process of preparing financial information, these mainly refer to the following:

- The fair value of certain financial and non-financial assets and liabilities.
- Impairment losses on certain financial assets, considering the value of the guarantees or collateral received and non-financial assets (mainly real estate), as well as the contingent liabilities.
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and obligations and another long term obligations.
- The estimate of costs to sell and the recoverable amount of non-current assets held for sale, investment properties and inventories acquired by the Group in payment of debt, by nature, condition and purpose.
- The useful life, fair value and recoverable amount of tangible and intangible assets.
- The recoverability of recognised tax assets.
- The estimate, at each date, of the potential impacts of legal proceedings and claims lodged against the Group in the course of its business.
- The estimate, at each date, of the potential impacts of the existence of tax assessments appealed and the results of tax inspections for the years open for review.

The supervisor of each of the affected areas is responsible for preparing the estimates. The Corporate Financial Controller's Department is responsible for gathering said estimates and presenting them to the relevant bodies for the notification and approval thereof.

Said estimates are presented at least on an annual basis to the Management Committee, prior to being included in the Group's Annual Accounts, where ultimately the Board of Directors is the body responsible therefor, as indicated in the Annual Accounts.

As part of the Entity's ICFR assessment process, in 2014 an internal certification process was designed and implemented to ensure the reliability of the half-yearly/annual financial information for its disclosure to the market. In this process, each person in charge of the key controls identified certifies, for the given period, the effective execution of the controls.

The Entity carried out two certification processes in 2017 for the preparation of the halfyearly and annual financial statements. No significant incidents were uncovered that could have a material effect on the reliability of the financial information.

For the preparation of financial statements, the Corporate Financial Controller presents the results of the certification process to the Board of Directors and the Audit and Compliance Committee.

Moreover, the Corporate Internal Audit Department carries out supervisory functions, as described in sections F.5.1 and F.5.2.

F.3.2. Policies and procedures of internal control of information systems (especially on safety and security of access, monitoring of changes, operating them, operational continuity and separation of functions) that back the entity's relevant processes with regards to the elaboration and publication of the financial report.

The Corporate Financial Controller's Department prepares specifications for the policies and procedures concerning IT systems that are used to prepare and publish financial information.

The Information Security General Policy and Regulations rolled out across the Entity's IT systems are applied to the systems on which financial reporting is based and those used for its preparation and control.

The People, Resources and Technology Department is responsible for the Bank's IT and telecommunication systems. Its duties include defining and monitoring the security policies, circular and guides, and standards for applications and infrastructures, including the IT internal control model.

The key tasks assumed by this department in relation to IT systems are as follows:

- Surveillance and control data access and physical security systems.
- Surveillance and control data access and logical security systems.
- Back-up management.
- Management of scheduled tasks.
- Incident management.
- Systems incident management.

The Bankia Group has set of rules regulations, including the Information Security General Policy and Regulations, which are mandatory for all persons who process information, within which the General policy and the General safety regulations of information are integrated. These documents are available to all employees on the Corporate intranet.

The Information Security General Policy constitutes the general regulatory framework, setting for the responsibilities with respect to data protection and covering the general philosophy, the goals, the principles and the acceptable ways of proceeding with respect to information security, and constituting the first level of this set of rules and regulations. The objective is to adequately protect the information of the Bankia Group.

The General Security Regulations detail the actions and controls applied to protect the Bankia Group's information. Its aim is to support and facilitate the Policy. In this respect, it sets out governance of information security, defining the access-protection measures and controls, and implementation of the documented operational procedures and guidelines, which are reviewed periodically in order to manage security in applications. It defines the principles of segregation of duties, the management of back-up copies, the definition of responsibilities and functions regarding security, training and raising awareness among those who process data, as well as issues regarding confidentiality, integrity and availability of information and assets.

The Company's development process, which broadly encompasses the development of new applications or modification of existing applications and appropriate management of these projects, is based on maturity models that guarantee software quality and, especially, the appropriate processing of transactions and the reliability of information.

The Entity has a Business Continuity Policy that sets out the lines of action to prevent or minimise the potential losses for the Entity caused by a disruptive event. This policy also guarantees the Bankia has defined and tested strategies for each critical function that ensure its business processes are restored and recovered. These lines of action are reviewed periodically through a test plan to ensure that all continuity preparations are performed adequately and produce optimal results in the recovery of business processes.

Bankia also has eight information security operating processes and another five business continuity processes considered internal control procedures.

The Company has back-up architecture in its main processing centres. Back-up policies and procedures also ensure information is available and can be recovered in the event of a loss.

Back-up procedures and recovery plans are evaluated by independent units to ensure they are effective and that transactions involving financial information are appropriately processed and registered.

F.3.3. Policies and procedures of internal control aimed at supervising the management of activities sourced out to third parties, including the aspects of valuation, calculation or assessment entrusted to independent experts, which could materially affect the financial statements.

The Bankia Group has a delegation policy for outsourcing services and functions approved by the Board of Directors, along with a governance model for outsourcing management of the delegation functions and services.

The delegation Policy for services and functions, understood as delegating to a third party the provision of services and/or exercise of functions inherent in the normal or typical provision of banking or investment services, outlines the criteria and guidelines necessary to address specific aspects of delegation to: comply with applicable legislation; identify, measure, control and management the inherent outsourcing risks (operational, reputational and concentration); and adopt appropriate measures to prevent or mitigate exposure to potential risks, in particularly when essential services or functions are outsourced.

The Bankia Group's outsourcing Delegation Policy for the services and functions is supplemented with information and monitoring procedures, which are applied until the outsourcing arrangement is concluded (including the preparation on reasons underlying the outsourcing, the arrangement of the outsourcing agreement, completion of the agreement until its conclusion, contingency plans, exit strategy). In this respect, it is supplemented with the supplements the Governance Model for Outsourcing Management. Among other things, implementation of model unifies the risk management procedures associated with the outsourcing, prevents functional overlaps and ensures regulatory compliance.

Before delegation outsourcing essential functions and services, the Entity conducts a feasibility study of the service or function, and selects and evaluates providers.

The feasibility study of the delegation service or functions to be outsourced takes into consideration, inter alia, the following factors: regulatory issues that affect the outsourcing; the impact of the outsourcing on the entity’s business and the operational, reputational and concentration risks it could entail; the entity’s ability to supervise the outsourced functions effectively and manage the risks associated with the outsourcing adequately and its experience in doing so; and preparation, application and maintenance of an emergency data recovery plan in the event of catastrophes and regular verification of IT security mechanisms as necessary in light of the outsourced function or service.

Providers are selected and evaluated in accordance with a number of factors to ensure: that they have the competence, ability and experience, necessary authorisations and permits to provide the outsourced essential service or function reliably and professionally that apply to the most relevant laws and regulations; that they effectively provide the outsourced service or function, supervision the correction provision and that they have personnel with appropriate training and experience; communicates any event that may significantly affect the effective performance of the delegated function or service; cooperates with the supervisory authority in all matters relating to the activities delegated to it; adequately manages the risks associated with the delegation, and to this end, it has appropriate measures to do this (to protect the confidential information of the entity and its clients and performs periodic back-up and information security tests); and establishes, implements and maintains an emergency and contingency plan to maintain its activity and limit losses in the event of serious incidents in the business.

The responsibility for the monitoring and continuous monitoring of the service's performance or functions performed by the supplier is primarily the organizational unit that manages the service in Bankia and, secondly, the Outsourcing Control Center. For the proper control and monitoring of the service, meetings are held periodically during the year with the provider, which are regulated in the contract in terms of assistants, periodicity and aspects to be addressed. Periodically produces reports on the monitoring, that in the case of essential services or functions are reported to the Board of Directors, upon review of its content by the corporate internal audit department.

In any event, no functions that are relevant or could materially affect the Group's financial information are currently outsourced by Bankia.

The Company contracts independent experts to obtain certain evaluations, calculations and estimates used to prepare the individual and consolidated financial statements published on the securities markets. In general, the main areas contracting such services are related to actuarial calculations, real estate appraisals, financial instrument valuations and investments/disposals.

In this regard, the individual person in charge of each affected area monitors the results of the reports produced to determine their consistency and reasonableness. The Corporate Financial Controller's Department also receives these reports, analyses them and compares the conclusions with the information disclosed in the financial statements.

F.4 Information and communication

Indicate, specifying their main characteristics, the existence of at least the following:

F.4.1. A specific function entrusted with defining, maintaining accounting policies updated (area or department of accounting policies) and resolving doubts and conflicts derived from their interpretation, maintaining constant communication with those in charge of the

transactions in the organisation, keeping the accounting policies manual updated and reporting to the units through which the entity operates.

The Corporate Financial Controller's Department, dependant of the CEO, is responsible for defining and updating the Banka and Group's accounting policies and regulatory requirements. Its duties include the following:

- Analysing the accounting standards issued by the various pertinent authorities that could have an impact on the Group's financial statements.
- Maintaining and updating existing accounting manuals and plans.
- Analysing and calculating the accounting impacts of the Group's new products, businesses and operations.
- Referring to and interpreting accounting standards in order to draft basic announcements, policies, judgements and estimates for subsequent practical application.
- Coordinating communication with the supervisory accounting authorities.
- Coordinating work schedules and liaising with external auditors.
- Preparing reports on and developing specific rules.

Bankia's Corporate Financial Controller's Department is also responsible for receiving and resolving any doubts or disputes over interpretation of the accounting treatment of specific transactions in the Group, both the parent company and the subsidiaries included in the scope of consolidation.

The Accounting Policies Manual, approved by the Management Committee, is updated at least annually. Changes in new regulations and recommendations issued by the various bodies are included therein and communicated to all areas affected and published on the Corporate Intranet.

F.4.2. Mechanisms for gathering and preparation of financial information in standard format, application and use by all units of the entity or the group, supporting key financial statements and notes, as well as detailed information about the ICFR.

The Bankia Group boasts IT systems and applications that enable it to aggregate and standardise the individual accounting records of the Group's business areas and subsidiaries to the required level of detail, in order to prepare the individual and consolidated financial statements disclosed to the markets.

The Corporate Financial Controller's Department is responsible for define accounting policies and procedures to be applied generally in the preparation of separate financial statements by companies that are majority owned by Bankia (subsidiaries hereinafter "companies" or "investees") for their reporting to the Group so it can prepare its consolidated financial statements, and compiling and listing Bankia's reporting obligations. It also regulates the minimum content of the reporting to be provided by Group companies and the deadlines for submitting such information.

Likewise, Bankia has a procedure in place for centralising the compiling of information corresponding to companies that compose the Group which includes the criteria and models to assure receipt of consistent information. There are also a series of controls implemented that allow the reliability and accuracy of the information received from the subsidiaries to be ensured.

The Corporate Financial Controller's Department is responsible for preparing public financial information of a regulatory nature.

F.5 Monitoring of the functioning of the system

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The activities of supervising the ICFR performed by the Audit and Compliance Committee, and of whether the entity has an internal audits system that is empowered to support the Committee in supervising the internal monitoring system, including the ICFR. Also provide information on the scope of the assessment of the ICFR performed during the financial year and on the process by which the head of the assessment reports the results, whether the entity has an action plan that outlines the possible corrective measures, and whether its impact on the financial reporting has been considered.

Bankia's Board of Directors Regulations establishes that the internal audit function shall fulfil the information requirements of the Audit and Compliance Committee needed to perform its duties

Bankia's Corporate Internal Audit Department, which reports functionally to the Audit and Compliance Committee and organically to the Chief Executive Officer. At 31 December 2017, the Corporate Internal Audit Department had 92 employees.

The functions of Bankia's Corporate Internal Audit Department include supporting the Audit and Compliance Committee in ensuring the internal control system operates correctly, by performing financial reviews of reporting procedures.

The Bankia Group's Corporate Internal Audit Department has annual audit plans which are submitted to the Committee of Audit and Compliance, for its favorable report, and which are subsequently approved by the Borad of Directors. The reports issued refer, inter alia, to the assessment of risk management, internal control, corporate governance and IT systems processes, including an analysis of assets and their appropriate financial accounting classification.

The audit for the year 2017 Plan includes assessment activities that have covered aspects related with the process of preparation of the financial information. Furthermore, in the 2017 period, within the established rotation plan for the supervision of the internal financial information control system (SCIIF) and pursuant to the 3-year period recommended by CNMV, 12 of the processes identified at the Entity were reviewed. The scope for each of the reviewed periods is as follows:

- The sufficiency of the controls implemented to mitigate the identified risks.
- Evidence of execution of the controls identified in the ICFR documentation.
- The result of the self-assessment of controls defined in the last two semesters.

Procedures are in place in Bankia regarding the roll-out of action plans to correct and mitigate any weaknesses detected in the internal control system. An action plan is proposed and approved by the areas involved to resolve any weakness detected, which defines responsibilities and deadlines for implementing the action.

The Corporate Internal Audit Department regularly provides the Audit and Compliance Committee with outcomes of the verification and validation procedures performed by the audit teams, which also includes the action plans designed to correct the most significant weaknesses detected.

The minutes of the meetings of the Audit and Compliance Committee set out the activities performed in relation to supervision, planning (approval of the annual operations plan, allocation of responsibilities to implement the plan, etc.) and the review of the results obtained.

F.5.2. Whether there is a discussion procedure by which the accounts auditor (pursuant to the stipulations of the NTA), the function of the internal audits and other experts may report the significant weaknesses identified in the internal monitoring during the revision of the financial statements or all the others entrusted to them to the top management and to the audits Committee or to the directors of the entity. Also report whether there is an action plan for correcting or mitigating the weaknesses uncovered.

Bankia's Board of Directors Regulations establish the following responsibilities for the Audit and Compliance Committee:

- In relation to Internal Audit: safeguard the independence and effectiveness of the internal audit and regulatory compliance functions; proposing the selection, appointment and removal of the head of internal audit functions, who will report directly to the Company any incidents occurring during the audit and submit an activities report at the end of each year; propose the budget for those departments; receive periodic reports on their activities; and verify that senior management is acting on the findings and recommendations in its reports.
- With respect to the company's external auditors: "establish appropriate relations with the external auditors so as to receive information on matters that could jeopardise the external auditor's independence, so that they may be examined by the committee, and on any other matters arising from the auditing of the Company's accounts and, as appropriate, authorise the services permitted under the terms of EU legislation and regulations regarding independence, and make any other disclosures required under applicable legislation and auditing standards. In particular:
    - Act as a communications channel between the Board of directors and the auditors, 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;
    - Receive regular information from the external auditor on the audit plan and its execution and ensure that senior management acts on the external auditor's recommendations;
    - Ensure that the external auditor meets, at least once a year, with the Board in full to inform it of the work undertaken and developments in the Company's risk and accounting positions;
    - Supervise 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;
    - Ensure the independence of the external auditor in the exercise of its functions.

In any event, the committee will also receive an annual statement from the external auditors certifying their independence in relation to the Company or entities directly or indirectly related to it, as well as detailed information about any additional services of any kind provided and the fees received from these entities by the independent auditor, or by individuals or entities related to it, in accordance with the laws on auditing.

The Audit and Compliance Committee will meet as often as called by resolution of the committee itself or its chairman, at least four times per year. One of its meetings will be used to evaluate the efficiency of and compliance with the Company's governance rules and procedures, and prepare the information the Board must approve and include in the annual public documentation.

Bankia's Internal Audit Department keeps senior management and the Audit and Compliance Committee continually updated about significant internal control weaknesses identified in the audits and the reviews performed during the year on Bankia's financial information, as well as the status of the action plans to mitigate such weaknesses.

Bankia's auditor has direct access to Bankia's senior management, holding regular meetings to obtain the information needed for it to conduct its work and to notify management of the control weaknesses detected during the audit.

In addition, the auditor regularly informs the Audit and Compliance Committee of the findings of its audit and review of Bankia's financial information, including any aspect that it deems relevant, and assists the aforementioned Committee when presenting financial information.

F.6 Other information of interest

Not applicable

F.7 Report from the external auditor

Report:

F.7.1. Whether the external auditor revised the ICFR information issued to the markets and, if so, the entity must include the corresponding report as annex. Otherwise, if that is not the case, the entity must provide its reasons.

In 2017, Bankia’s external auditor reviewed the information contained in section F of the annual corporate governance report regarding ICFR in accordance with generally accepted professional standards in Spain regarding the engagement of the agreed procedures and, in particular, as provided for in the guidance document on the audit report on information provided by listed companies on their ICFR issued by professional bodies and auditors, and published by the CNMV on its website.

The external auditors’ report is included as an appendix to the annual corporate governance report.

G DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

Indicate the degree to which the company follows the recommendations of the Good Governance Code of Listed Companies.

In the event that a recommendation is not or is only partially followed, the entity should include detailed explanation of its reasons such that the shareholders, investors and the market in general, are provided with sufficient information to assess the performance of the company. Explanations of general nature shall not be acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant ☒ Explanation ☐

2. When a dominant and a subsidiary company are both listed, they should provide detailed disclosure on:

   a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.

   b) The mechanisms in place to resolve possible conflicts of interest.

Compliant ☐ Partially compliant ☐ Explanation ☐ Not applicable ☒

3. During the annual general meeting the chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance,

supplementing the written information circulated in the annual corporate governance report, in particular.

a) Changes taking place since the previous annual general meeting.
b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant ☒ Partially compliant ☐ Explanation ☐

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant ☒ Partially compliant ☐ Explanation ☐

5. The Board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

   When a Board approves the issuance of shares or convertible securities without preemptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant ☒ Partially compliant ☐ Explanation ☐

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:
   a) Report on auditor independence.
   b) Reviews of the operation of the audit committee and the nomination and Remuneration Committee.
   c) Audit committee report on third-party transactions.
   d) Report on corporate social responsibility policy.

Compliant ☒ Partially compliant ☐ Explanation ☐

7. The company should broadcast its general meetings live on the corporate website.

Compliant ☒ Explanation ☐

8. The audit committee should strive to ensure that the Board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant ☒ Partially compliant ☐ Explanation ☐

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant ☒ Partially compliant ☐ Explanation ☐

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:
    a) Immediately circulate the supplementary items and new proposals.
    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of directors.
    c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of directors, with particular regard to presumptions or deductions about the direction of votes.
    d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant ☐ Partially compliant ☐ Explanation ☐ Not applicable X

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this report.

Compliant ☐ Partially compliant ☐ Explanation ☐ Not applicable X

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

    In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant ☒ Partially compliant ☐ Explanation ☐

13. The Board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant ☒ Explanation ☐

14. The Board of directors should approve a director selection policy that:

    a) Is concrete and verifiable;
    b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs; and.
    c) Favours a diversity of knowledge, experience and gender.

    The results of the prior analysis of Board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

    The director selection policy should pursue the goal of having at least 30% of total Board places occupied by women directors before the year 2020.

    The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

    Compliant ☒ Partially compliant ☐ Explanation ☐

15. Proprietary and independent directors should constitute an ample majority on the Board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

    Compliant ☒ Partially compliant ☐ Explanation ☐

16. The percentage of proprietary directors over all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

    This criterion can be relaxed:

    a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

    b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

    Compliant ☒ Explanation ☐

17. Independent directors should be at least half of all Board members.

    However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of Board places.

    Compliant ☒ Explanation ☐

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

    a) Background and professional experience.
    b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
d) Dates of their first appointment as a Board member and subsequent re-elections.
e) Shares held in the company, and any options on the same.

Compliant ☒ Partially compliant ☐ Explanation ☐

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

21. The Board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a Board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in Board membership ensue from the proportionality criterion set out in recommendation 16.

Compliant ☒ Explanation ☐

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the Board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the Board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant ☒ Partially compliant ☐ Explanation ☐

23. Directors should express their clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking Board representation.

When the Board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the Board, even if he or she is not a director.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The Board of directors regulations should lay down the maximum number of company Boards on which directors can serve.

Compliant ☒ Partially compliant ☐ Explanation ☐

26. The Board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant ☒ Partially compliant ☐ Explanation ☐

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Compliant ☒ Partially compliant ☐ Explanation ☐

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant ☒ Partially compliant ☐ Explanation ☐

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant ☒ Partially compliant ☐ Explanation ☐

31. The agendas of Board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need. For reasons of urgency, the chairman may wish to present decisions or resolutions for Board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant ☒ Partially compliant ☐ Explanation ☐

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant ☒ Partially compliant ☐ Explanation ☐

33. The chairman, as the person charged with the efficient functioning of the Board of directors, in addition to the functions assigned by law and the company's Bylaws, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's first executive officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant ☒ Partially compliant ☐ Explanation ☐

34. When a lead independent director has been appointed, the Bylaws or Board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

35. The Board secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant ☒ Explanation ☐

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:
   a) The quality and efficiency of the Board's functioning.
   b) The performance and membership of its committees.
   c) The diversity of Board membership and competences.
   d) The performance of the chairman of the Board of directors and the company's first executive.
   e) The performance and contribution of individual directors, with particular attention to the chairmen of Board committees.

The evaluation of Board committees should start from the reports they send the Board of directors, while that of the Board itself should start from the report of the nomination committee.

Every three years, the Board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant ☒ Partially compliant ☐ Explanation ☐

37. When an executive committee exists, its membership mix by director class should resemble that of the Board. The secretary of the Board should also act as secretary to the executive committee.

Compliant ☐ Partially compliant ☐ Explanation ☐ Not applicable ☒

38. The Board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all Board members should receive a copy of the committee's minutes.

Compliant ☐ Partially compliant ☐ Explanation ☐ Not applicable ☒

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant ☒ Partially compliant ☐ Explanation ☐

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's non-executive chairman or the chairman of the audit committee.

Compliant ☒ Partially compliant ☐ Explanation ☐

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or Independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the Board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant ☒ Partially compliant ☐ Explanation ☐

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant ☒ Partially compliant ☐ Explanation ☐

44. The audit committee should 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, when applicable, the exchange ratio proposed.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

45. Risk control and management policy should identify at least:

  a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
  b) The determination of the risk level the company sees as acceptable.
  c) The measures in place to mitigate the impact of identified risk events should they occur.
  d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant [X] Partially compliant [ ] Explanation [ ]

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:
  a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
  b) Participate actively in the preparation of risk strategies and in key decisions about their management.
  c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the Board of directors.

Compliant [X] Partially compliant [ ] Explanation [ ]

47. Appointees to the Nomination and Remuneration Committee – or of the nomination committee and Remuneration Committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant [X] Partially compliant [ ] Explanation [ ]

48. Large cap companies should operate separately constituted nomination and Remuneration Committees.

Compliant [X] Partially compliant [ ] Explanation [ ]

49. The nomination committee should consult with the company's chairman and first executive, especially on matters relating to executive directors.
When there are vacancies on the Board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Compliant [X] Partially compliant [ ] Explanation [ ]

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

  a) Propose to the Board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.
c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant ☒ Partially compliant ☐ Explanation ☐

51. The Remuneration Committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant ☒ Partially compliant ☐ Explanation ☐

52. The terms of reference of supervision and control committees should be set out in the Board of directors regulations and aligned with those governing legally mandatory Board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
b) They should be chaired by independent directors.
c) The Board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first Board plenary following each committee meeting.
d) They may engage external advice, when they feel it necessary for the discharge of their functions.
e) Meeting proceedings should be minuted and a copy made available to all Board members.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
f) Monitor and evaluate the company's interaction with its stakeholder groups.
g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant ☒ Partially compliant ☐ Explanation ☐

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:
   a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
   b) The corporate strategy with regard to sustainability, the environment and social issues.
   c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
   d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
   e) The mechanisms for supervising non-financial risk, ethics and business conduct.
   f) Channels for stakeholder communication, participation and dialogue.
   g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant ☒ Partially compliant ☐ Explanation ☐

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant ☒ Partially compliant ☐ Explanation ☐

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant ☒ Explanation ☐

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

    The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☒ Partially compliant ☐ Explanation ☐

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

    In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to longterm value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant ☒ Partially compliant ☐ Explanation ☐ Not applicable ☐

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. This section may include any other information, clarification or observation related to the above sections of this Report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.
3. Also state whether the Company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the Code and date of adoption.

1.-OTHER INTEREST INFORMATION (I)

Bankia has a System of Corporate Governance approved by the Board of Directors and inspired by the Bankia Group's corporate values with respect to business ethics and corporate social responsibility: integrity, professionalism, commitment, closeness and focus on achievement.

This system is also underpinned by the principles of good governance assumed and developed by the Company in the Corporate Governance Policy, and as regards internal governance, by Definition of the Bankia Group Structure, approved by the Company's Board of Directors based on the recommendations of the Good Governance Code for Listed Companies approved by the Board of the CNMV in 2015.

Bankia's System of Corporate Governance comprises a set of internal policies, standards and procedures in accordance with prevailing legislation and the scope of corporate autonomy supported therein, ultimately aimed at satisfying the corporate interest, understood as the common interest of all shareholders of an independent, public limited company (sociedad anónima) focused on the profitable and sustainable pursuit of its objects and the creation of long-term value, which in the case Bankia entails a broad institutional and retail shareholder base.

Bankia's System Of Corporate Governance comprises mainly (i) Corporate Texts, (ii) Internal Procedures and Rules of Conduct and (iii) Corporate Policies.

(i) Corporate Texts:

- Bylaws.
- General Meeting Regulations.
- Board of Directors Regulations.

(ii) Internal Procedures and Rules of Conduct:

The Company and the Group also have other internal procedures and rules of conduct that comply with regulatory requirements in legal or statutory provisions, or those arising from good governance recommendations.
These include, among others, the following rules and procedures:

- Code of Ethics and Conduct.
- Internal Rules of Conduct for Securities Markets.

Said basic texts within the scope of codes of conduct are developed and complemented through other internal procedures and provisions, such as the Client Protection Regulations and the Confidential Whistleblowing Channel Regulations, as well as others addressing issues like of the prevention of money laundering and terrorist financing, all of which falls within the framework of Bankia's commitment to promote an ethical corporate culture and the fulfilment and advancement of the Entity's responsible behaviour.

(iii) Corporate Policies:

These policies determine the general principles and guidelines that regulate the governing bodies, duties, activities and processes of the Company and its Group, establishing a framework for action that grants legal security to the company and its Group. They are general in nature and permanent. They were approved by the Board of Directors, taking into account the relevant legal requirements, such as good governance recommendations.

Specifically, Bankia's System Of Corporate Governance includes, inter alia, the following:

- the Bankia Corporate Governance Policy and the Bankia Group Structure Definition Policy.
- the Policy on Information, Communication and Contacts with shareholders, institutional investors and proxy advisors.
- Director Selection Policy.

- Policy on the remuneration of directors and general managers or those who developtheir functions of senior management.
- Policy on the selection and appointment of members of senior management.
- Risk management and control policies.
- Policy on investments and financing, which establishes the general guidelines and framework for action in these matters at Bankia and its Group, same being materialized in the entity's Strategic Plan.
- Responsible Management Policy.
- Dividend Policy.
- Policy on treasury shares.
- Conflicts of Interest Policy.

In the 2017 period, several Corporate Policies were reviewed and updated, in addition to the Bankia Corporate Governance System, in order to make some last changes thereto deriving from legal regulations and to adapt same to the changes in the Corporate Texts, as well as to include recent recommendations from the supervisory bodies.

2.-OTHER INTEREST INFORMATION (II)

SECTION A.1.

As a result of the absorption of Banco Mare Nostrum, S.A. (BMN) by Bankia, S.A., ratified by both entities' General Meetings of Shareholders on 14 September 2017, and for the purposes of satisfying the exchange deriving there from, Bankia increased its share capital to the nominal amount of EUR 205,630,814.00 by issuing and distributing a maximum of 205,630,814 ordinary shares with a nominal value of EUR 1 (€1.00) each.

The newly issued shares are ordinary, of the same and only class and series as those currently in circulation, and have the same rights as of the date the deed of merger is entered at the Commercial Registry of Valencia. Specifically, said shares, starting at said date, will confer the holders thereof the right to receive social gains in the same terms as the other holders of Bankia shares in circulation on said date.

The subscription of new shares was reserved for BMN shareholders by virtue of the merger exchange, where, in conformity of the terms of Article 304.2 of the Corporations Act, Bank shareholders have no right to preferential subscription.

Once the relative regulatory authorizations were granted, on 29 December 2017, Bankia and BMN granted the public deed of the merger, which was duly entered at the Commercial Registry of Valencia on 8 January 2018, effective as of 2 January 2018, the date on which it was submitted.

As a result of increase, the capital was set at 3,084,962,950,00 euros represented by 3,084,962,950 shares of a nominal value (€1.00) euro each.

SECTION A.2

On 12 December 2017 BFA, Tenedora de Acciones, S.A.U. sold part of its direct holding in Bankia, S.A., comprising 201,553,250 shares that represented 7.0% of the share capital. The transaction was effected through a private placement procedure between qualified investors.

On the same date and pursuant to the notice sent to the CNMV registries, Norges Bank reached a direct shareholding of 2.459% of Bankia share capital, and an additional 0.802% relating to voting rights through financial instruments. Furthermore, pursuant to the notice sent to the CNMV registries on 19 December 2017, Norges Bank reported that it reached a direct shareholding of 3.031% of Bankia share capital, and an additional 0.313% relating to voting rights through financial instruments.

Likewise, Invesco Ltd. communicated to the CNMV registries that it had reached a shareholding of 1.046% of Bankia share capital.

Also communicated is the fact that State Street Bank and Trust and Chase Nominees Ltd., in their capacity as international custodian/depositary banks, appear in the Company's shareholder registry at 31 December 2017 as having shareholdings of 5.78% and 3.24%, respectively, of Bankia share capital. Nevertheless, the Company understands that said shareholdings are held on behalf of third parties, where no third party has, to the Company's knowledge, a shareholding equal to or greater than 3% of the share capital or voting rights.

Likewise, once the merger between Bankia and BMN was executed, considering that as a result of the merger exchange the FROB became a direct holder of 134,013,851 ordinary Bankia shares, BFA increased its capital by virtue of the non-monetary contribution of these shares, so that BFA held a participation consisting of 1,881,195,830 shares representing 61.03% of the capital of Bankia to January 31, 2018.

SECTION A.9.bis

The reported percentage of floating capital was calculated after deducting the percentage of capital held at 31 December 2017 by BFA, as a controlling shareholder, by the members of the Board of Directors and by the Company in treasury.

The percentage of floating capital calculated after also deducting the capital held by the other two shareholders that have notified the CNMV registries in December 2017 of their being significant shareholders (Norges Bank and Invesco Ltd) would be 34.53%.

SECTIONS C.1.2., C.1.3. AND C.1.7.

The appointments of the directors listed in this section were ratified at the General Meeting of Shareholders held on June 29, 2012, except for Mr. Antonio Ortega Parra, who was appointed by cooption by the Board of Directors on June 25, 2014. His appointment was ratified at the General Meeting of Shareholders held on April 22, 2015 and Mr. Antonio Greño Hidalgo, who was appointed director by resolution of the General Meeting of Shareholders held on March 15, 2016.

Mr. José Sevilla Álvarez, Mr. Joaquín Ayuso García, Mr. Francisco Javier Campo Garcia and Mrs. Eva Castillo Sanz were re-elected as directors by resolution of the General Meeting of Shareholders held on March 15, 2016.

Mr. José Ignacio Goirigolzarri Tellaeche, Mr. Antonio Ortega Parra, Mr. Jorge Cosmen Menéndez-Castañedo, Mr. José Luis Feito Higueruela, Mr. Fernando Fernández Méndez de Andés and Mr. Álvaro Rengifo Abbad were re-elected as directors as agreed by the Annual General Meeting of Shareholders held on 24 March 2017. On the same date the Board of Directors agreed to re-elect Mr. José Ignacio Goirigolzarri Tellaeche as Executive Chairman of the Company.

At the Extraordinary General Meeting of Shareholders held on 14 September 2017, and as a result of the Common Draft Terms of Merger entered into by Bankia, S.A. and Banco Mare Nostrum, S.A., the agreement was made to appoint Mr. Carlos Egea Krauel as another external director, for a four-year statutory period, effective as of and contingent upon the entry at the Commercial Registry of Valencia of the deed of merger of Banco Mare Nostrum, S.A. by Bankia, S.A.

The effectiveness of the new director’s appointment was also subject to the relevant regulatory authorisations, in accordance with the terms of Royal Decree 84/2015, of 13 February, which enacted Law 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions.

Once the relevant regulatory authorisations were obtained, on 29 December 2017 Bankia and BMN granted the public deed of merger and the appointment of Mr. Carlos Egea Krauel, where same was duly entered at the Commercial Registry of Valencia on 8 January 2018. His registration as a director of the Entity was annotated in the Register of Senior Officials of the Bank of Spain on 12 January 2018.

SECTION C.1.12.

Mrs. Eva Castillo Sanz is Chairman of the Supervisory Board of Telefonica Deutschland GMBH.

SECTION C.1.15

- The line item “Remuneration of the Board of Directors (thousands of Euros)”:

Includes remuneration of executive and non-executive directors.

On 17 October 2017 Mr. Álvaro Rengifo Abbad resigned as director. The amounts shown correspond to the period from 1 January to 17 October 2017.

The targeted amount of annual bonuses for the three executive directors was EUR 250 thousand per director in 2017. The data corresponding to the annual bonuses accrued by these three directors in 2017 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

The targeted amount of long-term bonuses for the three executive directors was EUR 150 thousand per director in 2017; note, however, that the sum of that remuneration and the annual bonus may not exceed 60% of their fixed remuneration. The data corresponding to the long-term bonuses accrued by these three directors in 2017 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

- The line item “Amount of accumulated pension rights held by current directors (thousands of Euros)”:

Includes executive and non-executive directors’ remuneration.

On 17 October 2017 Mr. Álvaro Rengifo Abbad resigned as director. The amounts shown correspond to the period from 1 January to 17 October 2017.

- The line item “Amount of accumulated pension rights held by former directors (thousands of Euros)”:

The total amount corresponding to the rights accumulated and updated as at 31/12/2017 held by Mr. Rodrigo de Rato Figaredo, Mr. Francisco Verdú Pons, Mr. José Luis Olivas Martínez and Mr. José Manuel Fernández Norniella. The last contribution effected by Bankia was in the 2012 period.

SECTION C.1.16

- The line item "Total senior management remuneration (thousands of euros)":

Includes the target amount of annual and multiannual variable remuneration for 2017 amounting to EUR 1,218 thousand, although it is pending evaluation and final approval.

- Clarification of “members of senior management”:

The internal auditor is included in this group Mr. Iñaki Azaola Onaindia, Corporate Manager of Internal Audit, to pursuant to the instructions for filling out this document.

SECTION C.1.17

Mr. José Ignacio Goirigolzarri Tellaeche is the natural person representative FROB, Chairman of BFA, Tenedora de Acciones, S.A.U.

SECTION C.1.19 (Keep)

Any proposal by the Board of Directors to dismiss an external director before the period of appointment stipulated in the Bylaws has elapsed should be based on and supported by a corresponding report from the Appointments and Responsible Management Committee. The Board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the Appointments and Responsible Management Committee. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in Board membership ensue from the proportionality criterion set out in good corporate governance recommendations.

Without prejudice to the above, directors must place their offices at the Board of Directors' disposal and, if the Board deems it appropriate, tender their resignation in the following cases according to article 23.4 of the Board of Directors Regulations as stated in Section C.1.21 of this report.

SECTION C.1.29

With regard to the merger process between Bankia and Banco Mare Nostrum, Mr. José Ignacio Goirigolzarri Tellaeche, in his capacity as Executive Chairman of the Company, and Mr. José Sevilla Álvarez and Mr. Antonio Ortega Parra, in their capacity as Executive Chairmen of the Company, informed the Board of Directors that, given their relationship as members of the Board of Directors of BFA, Tenedora de Acciones, S.A.U., in their capacity as Bankia Chairman and Directors, respectively, they had decided to abstain from participating in any deliberations and votes regarding the merger process, both during the preliminary study and analysis phase and thereafter, where appropriate, during the decision-making phase.

Consequently, the Chairman and the two Executive Directors of Bankia abstained from participating in any deliberations and votes among the Board of Directors on those matters related to the merger process between Bankia and BMN.

In this respect, 3 of the Board of Directors meetings held in the 2017 period were called and chaired by the Lead Independent Director, as deliberations and votes were held regarding matters related to said process, where only Independent Directors attended and voted at said meetings.

SECTION C.1.39

Regarding Bankia, S.A. as a mercantile company, whose Corporate name since 1995 was Altae Banco, S.A. In addition, it should be indicated that the Company auditing the Bank has formed part of the Andersen firm since 2001. Banco Altae, S.A. is not considered to have come from the former Banco de Crédito y Ahorros, S.A.

SECTION C.2.1

FUNCTIONS OF THE AUDIT AND COMPLIANCE COMMITTEE.

Without prejudice to other tasks assigned to it by the Board, the Audit and Compliance Committee will have all the functions assigned to it under legislation, in particular and without limitation the following basic responsibilities:

a) Reporting to the general meeting of shareholders on questions posed in respect of matters within the competence of the committee, in particular regarding the results of the audit, explaining how it has contributed to the integrity of the financial information and the role played by the committee in this process.

b) Monitoring the effectiveness of the internal control of the Company, the internal audit, regulatory compliance, and systems for risk management, and discussing significant weaknesses in the internal control system detected in the development of the audit with the auditor, all without compromising its independence. For such purposes, the committee if applicable may submit recommendations or proposals to the board of directors and the corresponding term for their monitoring. In particular, regarding internal reporting and control systems:

- verifying the appropriateness and integrity of internal control systems and reviewing the appointment and replacement of those responsible therefor;

- reviewing and monitoring the process of preparation and the integrity of the financial information on the Company and, where appropriate, the Group, reviewing compliance with legal provisions, appropriate definition of the scope of consolidation and proper application of accounting principles;

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

- seeing to the independence and effectiveness of the internal audit and regulatory compliance functions; reviewing the annual work plan; proposing the selection, appointment and removal of the head of internal audit functions, who will report directly to the committee on issues arising in the conduct thereof and at the end of each year will submit an activities report; proposing the budget for those departments; receiving periodic reports on their activities; and verifying that senior management is acting on the findings and recommendations in its reports. In particular, the internal audit function will respond to information requests received from the audit and compliance committee in the exercise of its duties;

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

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

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

c) 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:

- reporting in advance to the board of directors on the financial information which the Company must make public on a regular basis;

- 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; and

- 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.

d) Submitting to the board of directors proposals for selection, appointment, reelection and replacement of the auditor, taking responsibility for the process of selection, in accordance with the provisions of Community regulations, as well as the terms of its engagement.

e) Establishing the appropriate relationships with the external auditor to receive information regarding such questions as may result in a threat to the independence thereof, for review by the committee, and any others related to the process of auditing accounts and, when appropriate, authorising the permitted services, on the terms contemplated in the Community regulations and in the applicable rules regarding independence, and such other communications as may be contemplated in the legislation regarding auditing of accounts and audit standards. In particular:

- acting as a communications channel between the board of directors and the auditors, 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;

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

- ensuring 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;

- 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;

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

  - maintaining relationship with the statutory auditor in order to gather information on any matters that may call the auditor's independence into question, as well as any other matters relating to the audit process, and engaging in such other communications with the statutory auditor as are provided for in the audit legislation and technical standards for audits;

  - 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;

  - in the event of resignation of the external auditor, reviewing the underlying reasons; and

  - 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.

In any event, annually it must receive from the external auditors a declaration of their independence as regards the Company or entities directly or indirectly related thereto, as well as detailed and individualised information on additional services of any kind provided to and the corresponding fees perceived from such entities by the external auditor or persons or entities related thereto, pursuant to the rules regulating the activity of auditing accounts.

f) 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 and every 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.

g) 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. In particular, the audit and compliance committee is to:

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

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

- 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.

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

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

The provisions of paragraphs d), e) and f) of the preceding subsection will be understood to be without prejudice to the rules regulating auditing of accounts.

The Audit and Compliance Committee will also report to the Board on related-party transactions, before the Board makes any decision in this respect.

The Audit and Compliance Committee shall 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 of Directors beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

FUNCTIONS OF THE APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE

The Appointments and Responsible Management Committee will have general authority to propose and report on the appointment and removal of directors and senior managers. In particular, without prejudice to other tasks assigned to it by the Board, the Appointments and Responsible Management Committee will have the following tasks:

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 reelection 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 reelection 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 in order 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 under-represented 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.

The committee will consult with the chairman and, if applicable, with the chief executive of the Company, especially on matters relating to executive directors and senior managers.

For better performance of its duties, the committee may use such resources as it deems to be appropriate, including the advice of external professionals on matters within its competence, and will receive appropriate funding to do so.

The chairman and any director may make suggestions to the committee related to the matters within the scope of its competence and, in particular, may propose potential candidates to fill director vacancies.

In the performance of its duties, the appointments committee will take into account, inasmuch as possible and on a continuing basis, the need to ensure that the board of directors' decision-making is not dominated by one individual or by a small group of individuals such as could harm the interests of the entity as a whole.

FUNCTIONS OF THE REMUNERATION COMMITTEE

The Remuneration Committee shall be responsible for:

a) 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, and oversee compliance;
b) reporting on senior management remuneration. In all events, it will oversee the remuneration of the heads of internal audit, risks and regulatory compliance;
c) periodically reviewing the remuneration programmes, weighing their adequacy and their yields, the remuneration policy applied to the directors and senior management, including share-based compensation systems and their application, as well as ensuring that their individual remuneration is proportionate to which is paid to the other directors and senior management of the company.
d) ensuring transparency in remuneration and the inclusion of information about directors’ remuneration 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;
e) verifying that the remuneration policy set by the Company is observed;
f) making proposals to the board on any remuneration decisions to be made by the board, including those that may have an impact on risk and the Company’s risk management, taking into account the long-term interests of shareholders, investors and other stakeholders into account, as well as the public interest, all this without prejudice to the functions assigned to the risk advisory committee on these matters;
g) ensuring that conflicts of interest do not undermine the independence of any external advice the committee engages;
h) verifying the information on director and senior managers’ remuneration contained in corporate documents, including the annual directors’ remuneration statement, for which purpose it will submit a report to the board of directors.

The committee will consult with the chairman and, if applicable, with the chief executive of the Company, especially on matters relating to executive directors and senior managers.

For better performance of its duties, the committee may use such resources as it deems to be appropriate, including the advice of external professionals on matters within its competence.

FUNCTIONS OF THE RISK ADVISORY COMMITTEE

The Risk Advisory Committee will perform 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 Capital Self-Evaluation Report (Informe de Autoevaluación de Capital, or "IAC"), 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.

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

h) 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.
i) Periodically verifying evaluation systems, processes and methodologies and criteria for approval of transactions.
j) 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.
k) 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.
l) Proposing to the board of directors the Company's scheme of Credit Risk Authority.
m) Supervising the internal risk control and management function, the head of which will, at the end of each financial year, submit an activities report to the committee, and evaluating whether the risk unit has the processes, technical resources and human resources necessary for proper fulfilment of its functions in an independent manner, in accordance with the risk profile of the Company.

In particular, the risk advisory committee will supervise the functions of the risk unit in relation to:

- Assurance of the good functioning of the risk control and management systems, in particular that all important risks affecting the Company are appropriately identified, managed and quantified.

- Active participation in the elaboration of the risk strategy and in important decisions regarding the management thereof.

- Seeing to it that the risk control and management systems adequately mitigate the risks within the context of the policy defined by the board of directors.

For the proper performance of its duties, the risk advisory committee will have unrestricted access to the information on the risk status of the Company and, if necessary, to the risk management unit and specialised external advisors.

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 both the board of directors and the board and advisory risk committees, that Director being removable in accordance with the provisions of applicable regulations.

FUNCTIONS OF THE BOARD RISK COMMITTEE

The Board Risk Committee shall 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 preclassification 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.

MONITORING AND SUPERVISORY COMMITTEE FOR THE BANKIA AND BANCO MARE NOSTRUM MERGER PROCESS

Once finished the process of merger, the Board of Directors in its meeting of January 25, 2018, and prior favourable report from the Audit and Compliance Committee, has agreed to extinguish the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process and, consequently, modify the rules of the Board of directors by the removal of the aforementioned Disposal.

SECTION D.1

In 2017, the Audit and Compliance Committee reported, prior to approval by the Board of Directors, on the transactions that, in accordance with article 35 of the Board of Directors Regulations, are considered related party transactions.

SECTION D.2.

No significant shareholder, or parties related thereto, carried out any transactions that were outside the Company's ordinary course of business, not performed on an arm's length basis or relevant to the Bank, pursuant to Ministerial Order EHA/3050/2004, of 15 September, on information regarding related-party transactions that must be supplied on a half-yearly basis by the issuers of securities listed on secondary markets.

SECTION D.3

See note 43 of the individual annual accounts and note 46 of the consolidated annual accounts for 2017 of Bankia, S.A. as a supplement to this section and notwithstanding that they are not related-party transactions for the purposes of the provisions of Ministerial Order EHA/3050/2004, of 15 September, on information regarding related-party transactions that must be supplied on a half-yearly basis by issuers of securities listed on secondary markets.

None of the members of the Board of Directors or other member of the Bank's senior management, or company in which these individuals are directors, members of senior management, significant shareholders, or any related parties thereto have carried out any transactions that were outside the Company's ordinary course of business, not performed on an arm's length basis or relevant to the Bank, as far as the Bank is aware, pursuant to Ministerial Order EHA/3050/2004, of 15 September, on information regarding related-party transactions that must be supplied by the issuers of securities listed on secondary markets.

SECTIONS D.4 and D.5

There have been no transactions with such characteristics.

SECTION E .6

Tax risk. In 2015 saw the implementation of tax risk control, the associated process describing this control was documented, as follows. All transactions approved by centralised committees or governing bodies are backed by an opinion from a tax advisor or, in his absence, a certified, external tax advisor. This is also required by the New Products Committee for the launch of each new product or service. For the remaining Committees, the groups responsible for making proposals must verify whether a tax opinion has been issued if so required in accordance with the established criteria.

SECTION G.6

The Company intends to draw up the reports of 2018 indicated in the recommendation sufficiently in advance of the Ordinary General Meeting of Shareholders. In particular, the annual report of the Audit and Compliance Committee is included in the information about the auditor´s independence, related-party transactions and the functioning of the Audit and Compliance Committee.

SECTIONS G.37 AND G.38

The Bylaws and the Board of Directors Regulations allow the Board of Directors to create an Executive Committee. However, one has not been set up and no members to it have been appointed. Therefore, in accordance with article 45 of the Bylaws, when the Executive Committee is not constituted, the Board of Directors will retain its authority.

3.- OTHER INTEREST INFORMATION (III)

In terms of Corporate Governance, the Company is not subject to other than Spanish Legislation.

Institutional initiatives adhered to by Bankia:

- Code of Best Tax Practices of the Spanish Tax Authorities (CBPT). In 2016, the Board of Directors of Bankia agreed to adhere to the Code of Best Tax Practices of the Spanish Tax Authorities (CBPT). The Code of Best Tax Practices contains recommendations, which are undertaken voluntarily by the Spanish Tax Authorities and signatories, to enhance the application of the Spanish tax system by increasing legal security, mutual cooperation based on good faith and legitimate trust between the Tax Authorities and companies, and the application of responsible tax policies at companies with the knowledge of the Board of Directors.
  Date of adhesion: March 31, 2016.

- The Code of Best Practices for the able restructuring of mortgage loans for normal residence. Adhesion to the Code is voluntary and implies accepting a series of mechanisms designed to enable the restructuring of mortgage loans of borrowers experiencing extraordinary difficulties in meeting their payment obligations, as set forth in Royal Decree-Law 6/2012, of 9 March, on urgent measures to protect mortgagors without funds.
  Date of adhesion: April 10, 2012.

- Housing Social Fund (Fondo Social de Vivienda). The fund was created pursuant to an agreement spearheaded by the Economy and Competitiveness Ministry, the Health, Social Services and Equality Ministry, the Development Ministry, the Bank of Spain, the Spanish Federation of Towns and Provinces (FEMP), the Third Sector Platform (non-governmental organisations), the banking employers' association and 33 credit institutions. The Social Housing Fund provides housing to families in a particularly vulnerable situation that have been evicted since 1 January 2008 for non-payment of a mortgage loan or other regulated circumstances. Bankia has contributed 2,921 homes to the Fund.
  Date of adhesion: January 17, 2013.

- United Nations Global Compact. Bankia promotes and embraces the 10 universal principles in the areas of Human Rights, Labour, Environment and Anti-Corruption.
  Date of adhesion: November 15, 2013.

- SpainSIF. Platform created in Spain to promote socially responsible investment (SRI). The platform includes financial institutions, fund managers, SRI service providers and not-for-profit organisations.
  Date of adhesion: January 1, 2011.

- Forética (Forum for the Assessment of Ethical Management). A multi-stakeholder organisation that works together with companies to promote ethical and socially responsible policies based on the engagement and participation of all stakeholders through decision forums.
  Date of adhesion: November 2012.

- Diversity Charter. Initiative framed under European Union non-discrimination policies implying a voluntary commitment to support diversity and non-discrimination in the workplace.
Date of adhesion: April 23, 2014.

- Fundación SERES (Responsible Society and Businesses). Spanish non-governmental organisation (NGO) comprising more than 100 companies set up to foster commitment of companies to improve society through responsible actions aligned to the strategy of each company that creates value for everyone.
Date of adhesion: July 29, 2014.

- Fundación LEALTAD. A not-for-profit organisation that offers individuals and companies independent, objective and consistent information on NGOs to help them decide which one to collaborate with, and guide them in monitoring their donations. This information is based on free analysis of transparency by the foundation of NGOs that request it voluntarily.
Date of adhesion: July 2, 2014.

- Fundación ETNOR (foundation for ethics in business and organisations). Non-profit organisation founded in 1991 to promote acknowledgement, dissemination and respect for the ethical values inherent to economic activity and the quality of public and private organisations and institutions.
Date of adhesion: November 5, 2015.

- Plan de Educación Financiera (financial literacy plan) of the CNMV and the Bank of Spain. Plan to spread a financial culture in society, providing tools and knowledge to aid in financial decisión-making.
Date of adhesion: January 1, 2011.

- Asociación para la Autorregulación de la Comunicación Comercial (Autocontrol). Platform comprising self-regulation systems, as industry's response to the demands of society for guarantees of confidence and credibility in advertising, without intending to replace legal control, but rather to complement this was co-regulation.
Date of adhesion: January 1, 2011.

- The Spanish Association of Advertisers (Asociación Española de Anunciantes) is the non-profit professional association that represents advertising companies in the defence of their interests in all matters affecting commercial communication. It represents advertising companies (more than 200 associates) so that they can communicate and dialog with society ethically, responsibly and efficiently. The association defends the freedoms of communication and competition and seeks the recognition of the value of their brands' communication.
Date of adhesion: January 1, 2011.

- Spanish Association of Social Responsibility Directors (DIRSE). The purpose of this association is to know, define and demarcate the status of the profession of CSR managers with rigour and, accordingly, dignify their management function and professional performance. It also aims to identify and transfer to Spain the trends of similar associations in other countries that have provided inspiration.
Date of adhesion: December 16, 2015

- The Spanish Green Growth Group (Grupo Español de Crecimiento Verde) is an association that promotes public-private collaboration to make joint progress regarding environmental challenges, through solutions regarding climate change mitigation and adaptation, the decarbonisation of the economy and the promotion of a circular economy. This association encourages companies to participate in national and international debate forums and shares information to point out opportunities for Spanish companies.
Date of adhesion: November 2, 2017

- The Company and Society Foundation (Fundación Empresa y Sociedad) is an organization that drives social change through business innovation and promotes innovative ideas through studies, collaborative forums and services. It works through a permanent observatory on business, economy and society, and provides associative services to identify business solutions and contents, form part of innovation committees and collaborate with business work groups.
Date of adhesion: September 6, 2017

- Fundación Empresa y Clima (FEC). FEC is a corporate benchmark in the mitigation of and adaptation to climate change, which shares a commitment to environmental protection and the reduction of CO_2 emissions in all industrial, financial, legal, and public awareness dimensions.
Date of adhesion: June 1, 2016.

- Dow Jones Sustainability Index (DJSI). Bankia was included in this index 2016, which recognises it as one of the most sustainable companies in the world. Only 28 banks in the world (of which 11 are European, including three Spanish banks) are included in the index. The DSJI evaluates companies' economic, environmental and social performance.
Date of adhesion: September 9, 2016.

- FTSE4Good Index. This is an internationally renowned index, in which Bankia was included for the first time in 2016. It is designed to facilitate investment in companies that manage their businesses in accordance with ESG (environmental, social and corporate governance) criteria and that are international benchmarks for sustainability (understood as corporate social responsibility).
Date of adhesion: December 30, 2016.

- CDP is an independent organization, not-for-profit organisation with the world's largest database of corporate information on climate change and representing more than 820 institutional investors. It provides the only global system for companies to report on their environmental impacts and the measures adopted to reduce them.
Date of participation: January 1, 2012.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting held on 22/02/2018.

Indicate whether Board Members voted against or abstained from voting for or against the approval of this Report.

Yes ☐ No ☒

BANKIA, S.A.

Report for 2017 on the Information Relating to the System of Internal Control over Financial Reporting (ICFR)

(Free translation from the original in Spanish)

Building a better working world

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Translation of a report originally issued in Spanish.
In the event of discrepancy, the Spanish-language version prevails.

AUDITOR'S REPORT ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) OF BANKIA, S.A.

To the Board of Directors of Bankia, S.A.:

As requested by the Board of Directors of Bankia, S.A. ("the Company") and in accordance with our engagement letter dated 11 September 2017, we have applied certain procedures to the "Information relating to the ICFR system" contained in the Section "F. Internal control over financial reporting (ICFR) risk control and management systems" of Bankia, S.A.'s 2017 Annual Corporate Governance Report, which summarises the internal control procedures of the Company in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the system of ICFR.

It should be noted in this regard, irrespective of the quality of the design and operating capacity of the internal control system adopted by the Company in relation to its annual financial reporting, the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Auditing Standards generally accepted in Spain, the sole purpose of our assessment of the internal control of the Company was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Company's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission (CNMV), on its website, which sets out the work to be performed, the minimum scope of this work, and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Company's annual financial reporting for 2017 described in the accompanying information relating to the system of ICFR. Therefore, had procedures additional to those provided for in the engagement letter been applied or an audit or a review of the system of internal control over the regulated annual financial reporting been performed, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law, we do not express an audit opinion in the terms provided for in that Law.

The procedures applied were as follows:

1. Understanding of the information prepared by the Company in relation to the system of ICFR - disclosure information included in the managements' report- and assessment of whether this information addresses all the information required in section F, relating to the description of the system of ICFR, of the Annual Corporate Governance Report model established in CNMV Circular 7/2105, of 22 December 2015.

2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Company.

3. Review of the explanatory supporting documentation for the information detailed in point 1 above, including the documentation furnished directly to the personnel in charge of preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit and Compliance Committee.

4. Comparison of the information detailed in point 1 above with the Company's knowledge of the system of ICFR obtained as a result of the application of the procedures carried out as part of the audit of its financial statements.

5. Perusal of minutes of meetings of the Board of Directors, the Audit and Compliance Committee and of other Company committees in order to assess the consistency between the ICFR issues addressed therein and the information detailed in point 1 above.

6. Obtainment of the representation letter concerning the work performed, duly signed by the personnel in charge of the preparation of the information detailed in point 1 above.

The procedures applied to the Information relating to the system of ICFR did not disclose any inconsistencies or incidents that might affect the Information.

This report has been prepared exclusively under the framework of the requirements established by article 540 of the Consolidated Text of the Corporates Act (Ley de Sociedades de Capital) and by Circular No. 7/2015, of 22 December, of the Spanish National Securities Commission (Comisión Nacional del Mercado de Valores) for the purposes of describing ICFR in Annual Corporate Governance Reports.

ERNST & YOUNG, S.L.

Jaume Pallerols Cat

February 23, 2018