Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

BANKIA, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2018

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AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 47)

To the shareholders of Bankia, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bankia, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2018, the consolidated income statement, the consolidated statement of other comprehensive income, the total consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and the consolidated financial position of the Group at December 31, 2018 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

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 consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Estimate of credit impairment losses on loans and advances at amortised cost

Description

Estimating the impairment loss allowance for credit risk is one of the most significant and complex elements of the Group's financial reporting process. Moreover, the entry into force of IFRS 9 *Financial Instruments*, on 1 January 2018, has resulted in a substantial change in the assessment of credit risk impairment losses, replacing the incurred loss approach with an expected loss approach. Accordingly, the Group has devised a new approach for estimating impairment losses, based on the Group's past experience and adjusted to current circumstances, taking into consideration scenarios and forecasts of future economic conditions.

The accompanying notes 1.3.2, 2.9, 3.1, 12 and Appendix X to the accompanying consolidated financial statements explain the main principles and criteria applied by the Group to estimate impairment losses and disclose the estimated amounts, which are assessed individually or collectively.

The approach used for individual estimates takes into account mainly the identification and classification of impaired exposures or those with a significant increase in risk, the debtor's expected future cash flows and, where appropriate, estimates of the realisable value of the related collateral.

The collective estimate is made using internal models that take into account matters such as the grouping of transactions, distributing them in homogeneous groups based on their credit risk (e.g. borrower, type of transaction, guarantee or collateral); risk parameters (exposure, probability of default, loss given default), and scenarios and forecasts of future economic conditions.

Regarding the adoption of IFRS 9, in explanatory note 1.3.2 to the accompanying consolidated financial statements the Group discloses the most significant impacts of the first-time application of the standard.

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

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:

- Reviewing compliance of the policies and procedures established by the Group and the internal model with applicable regulatory requirements.
- Reviewing, in the granting process, the procedures established by the Group to evaluate the borrower's creditworthiness based on future cash flows and its financial information.
- Evaluating that the regular review process of credit 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 indicators or warnings in place.
- Assessing the relevant controls in place for managing and valuing the guarantees related to credit transactions.
- Checking the reliability and coherence of the information sources used in the calculations.

We also performed substantive procedures, consisting mainly of:

- Evaluating, with the involvement of our financial risk specialists, i) the reasonableness of the methodology and segmentation of borrowers into the various credit risk portfolio categories; ii) the correct classification of credit transactions into the appropriate categories based on whether there has been a significant increase in credit risk or a default event has occurred; iii) the completeness of the information used for estimating impairment; iv) historical credit risk loss rates; and v) the reasonableness of the assumptions used regarding the future performance of the macroeconomic variables in the various scenarios used.
- Performing checks, for a sample of transactions, of underlying data to validate key information used by the internal models.
- Re-calculating credit losses assessed on a collective basis.
- Review the backtesting procedures carried out by management as part of the process for estimating credit risk impairment losses.
- Assessing the suitability of the discounted cash flow models and the valuation of collaterals for the individual assessment model.
- Reviewing a sample of loan files for which impairment was assessed individually to verify whether, where applicable, the related impairment losses have been classified and recognised correctly.

Finally, we assessed whether the accompanying consolidated financial statements contain the disclosures required in the financial regulatory framework applied by the Group and, specifically, the impact of the first-time adoption of IFRS 9.

Estimate of impairment losses on real estate assets from foreclosures

Description	In Notes 2.15.2 and 2.20 to the accompanying consolidated financial statements, the Group describes the process for estimating impairment losses on real estate assets foreclosed based on third-party appraisals adjusted to reflect the Group's experience in sales of these assets. Notes 15, 18 and Appendix IX to the accompanying consolidated financial statements describe the Group's exposure to these assets and the impairment losses recognised. It also explains that in 2018, the Group implemented a new approach, subject to the necessary internal validation process. This process involves a significant degree of judgement by management, so we have considered it to be a key audit matter. In particular, as indicated in note 18.5.1 to the accompanying consolidated financial statements, the Group has reached an agreement with two entities for transferring a real estate portfolio of foreclosed assets of an approximate gross value of EUR 1,422 million. The effective date of the transactions is expected to be in 2019, after all authorizations have been obtained.

Our response Our audit procedures included, among others, assessing and evaluating internal control and performing substantive tests, which consisted primarily of.

- Assessing the ability, capacity and objectivity of the specialists engaged by the Group to appraise its real estate assets and the appropriateness of their work for use as audit evidence.
- Analysing, based on a sample of appraisals, the reasonableness of the valuation procedures and approaches used by the specialists engaged by the Group's management, with the involvement of our experts.
- Analysing the reasonableness of the key assumptions used in the internal valuation model.
- Checking the reliability and coherence of the information sources used.
- Re-executing calculations to obtain the discounts of the internal model.
- Recalculating impairment losses on real estate assets arising from foreclosures.

With regards to the transfer of real estate foreclosed assets, we have evaluated the measurement applied to the assets, according to the price agreed upon the parties and considering the costs to sell.

Lastly, we assessed whether the accompanying consolidated financial statements contain the disclosures required in the financial regulatory framework applied by the Group.

Provisions for legal contingencies

Description In Notes 2.18 and 20 to the accompanying consolidated financial statements, the Group describes the legal and administrative proceedings to which it is party arising from its ordinary operations.

Based on the information available, the Group has estimated the probability of having to settle an obligation arising from past events or circumstances and the impact on the consolidated 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. Notes 2.18 and 20 to the accompanying consolidated financial statements disclose the amounts and relevant information related to these proceedings.

Our response Our work consisted mainly of:

- Obtaining an understanding of the control environment and the Group's policies for identifying and classifying legal proceedings and claims, and for estimating the related provisions.
- Obtaining and analysing, with the involvement of our legal specialists in the most significant matters, the information prepared by the Group's legal advisors regarding the ongoing proceedings in relation to the provisions recognised and the contingencies disclosed. We reviewed, among others, the supporting legal or regulatory documents for the purposes of evaluating the events and circumstances surrounding each case analysed that could have a material impact on the consolidated financial statements.

- Obtaining confirmation letters from external lawyers to weigh their assessment of the expected outcomes of claims or lawsuits against the provisions and contingencies identified by the Group.
- Performing substantive audit procedures to evaluate historical data and assumptions used by management to estimate the provision and its adequacy.
- Assessing the recognition and changes in accounting provisions.

In addition, our audit included assessing whether the information included in the accompanying consolidated financial statements meets the requirements in the financial reporting framework applied by the Group.

Evaluation of the Group's ability to recover deferred tax assets

Description	In accordance with the Group's policies, as explained in Note 2.14 to the consolidated 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 26 to the consolidated financial statements, at 31 December 2018, the Group had deferred tax assets amounting to EUR 10,603 million, of which the recovery of EUR 7,473 million is guaranteed through the monetisation mechanisms established in Royal Decree Law 14/2013 and article 130 of the Law on Corporate Income Tax. Management assesses the Group's ability to recover deferred tax assets based on estimates of future taxable profit using the Group's financial projections and business plans and taking into account applicable tax legislation. Therefore, the assessment of the Group'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 recovery of deferred tax assets, focusing our analysis on the economic and financial assumptions used by the Group to estimate future taxable income. We also carried out a sensitivity analysis of income and evaluated the disclosures in the accompanying consolidated financial statements.

Automated financial reporting systems

Description	The continuity of the Group'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, implemented and monitored appropriately and constitute key controls for mitigating the potential risk of fraud or error caused by access and changes to applications. In addition, in the first half of 2018, the Group completed the technological integration of the operations of Banco Mare Nostrum, S.A. (BMN). This integration was carried out under an execution plan, which included internal control and validation procedures to allow the migration of information and data underlying BMN's operations to Bankia's systems
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.

Regarding the process for integrating BMN's operations, our procedures consisted mainly of obtaining an understanding of the execution plan, inspecting and evaluating the plan validation documents after completion of the main migration milestones, with the involvement of our IT specialists, and analysing the reconciliations of financial information prepared by management to assess the integrity of the data transferred.

Other information: consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the consolidated management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the consolidated management report is defined in the company 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 consolidated management report or otherwise report on it.

b) A general level applicable to the remaining information included in the consolidated management report, which consists of evaluating and reporting on the agreement of the mentioned information with the consolidated financial statements, based on the knowledge of the Group 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 consolidated 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 consolidated management report and that the remaining information included in the consolidated management report agrees with that included in the 2018 consolidated financial statements and their content and presentation comply with the applicable regulations.

Responsibilities of the parent company´s directors and the audit committee for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the parent company 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 committee of the parent company 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 committee, we determine those matters that were of most significance in the audit of the consolidated 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 committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 19, 2019.

Term of engagement

The ordinary general shareholders' meeting held on April 10, 2018 appointed us as auditors of the Group for one year, starting on the year beginning as of January 1, 2018.

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 consolidated 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 19, 2019

Bankia, S.A. and subsidiaries composing the Bankia Group

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Consolidated financial statements for the year ended 31 December 2018

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy, the Spanish-language version prevails.

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BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

Consolidated balance sheet at 31 December 2018 and 2017

(Thousands of euros)

ASSETS	NOTE	31/12/2018	31/12/2017 (*)
Cash, cash balances at central banks and other demand deposits	8	**4,753,800**	**4,503,911**
Financial assets held for trading	9	**6,307,967**	**6,773,491**
Derivatives		6,022,496	6,697,537
Equity instruments		3,901	73,953
Debt securities		281,570	2,001
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*224,986*	-
Non-trading financial assets mandatorily at fair value through profit or loss	10	**9,348**	**-**
Equity instruments		-	-
Debt securities		187	-
Loans and advances		9,161	-
Central Banks		-	-
Credit institutions		-	-
Customers		9,161	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Financial assets designated at fair value through profit or loss		**-**	**-**
Debt securities		-	-
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Financial assets at fair value through other comprehensive income	11	**15,635,715**	**22,744,890**
Equity instruments		76,300	70,929
Debt securities		15,559,415	22,673,961
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*6,794,067*	*9,892,613*
Financial assets at amortised cost	12	**156,461,440**	**158,710,730**
Debt securities		33,742,245	32,658,113
Loans and advances		122,719,195	126,052,617
Central Banks		-	-
Credit institutions		4,433,419	3,027,935
Customers		118,285,776	123,024,682
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*22,257,594*	*23,443,829*
Derivatives – Hedge accounting	13	**2,626,997**	**3,067,035**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Investments in joint ventures and associates	14	**305,887**	**320,597**
Jointly-controlled entities		3,818	30,862
Associates		302,069	289,735
Assets under insurance contracts		**-**	**-**
Tangible assets	15	**2,189,693**	**2,423,634**
Property, plant and equipment		1,669,319	1,757,510
For own use		1,669,319	1,757,510
Leased out under an operating lease		-	-
Assigned to welfare projects (saving banks and credit cooperatives)		-	-
Investment property		520,374	666,124
Of which: assigned under operating leases		520,374	666,124
Memorandum item: acquired in leasing		-	-
Intangible assets	16	**297,554**	**237,499**
Goodwill		90,862	93,262
Other intangible assets		206,692	144,237
Tax assets		**11,088,695**	**11,004,862**
Current tax assets		485,289	474,887
Deferred tax assets	26	10,603,406	10,529,975
Other assets	17	**1,639,569**	**873,955**
Insurance contracts linked to pensions		1,034,030	432,981
Inventories		-	-
Other		605,539	440,974
Non-current assets and disposal groups classified as held for sale	18	**3,906,205**	**3,271,333**
TOTAL ASSETS		**205,222,870**	**213,931,937**

The accompanying Notes 1 to 46 and Appendices I to XIII are an integral part of the consolidated balance sheet at 31 December 2018.

(*)The consolidated balance sheet for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 consolidated financial statements (see Note 1.5).

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy. the Spanish-language version prevails

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

Consolidated balance sheet at 31 December 2018 and 2017

(Thousands of euros)

LIABILITIES AND EQUITY	NOTE	31/12/2018	31/12/2017(*)
Financial liabilities held for trading	**9**	**6,046,596**	**7,420,991**
Derivatives		5,924,515	7,077,562
Short positions		122,081	343,429
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 at amortised cost	**19**	**181,868,586**	**188,897,560**
Deposits		161,963,232	168,045,365
Central Banks		13,856,000	15,355,970
Credit institutions		21,787,756	22,293,596
Customers		126,319,476	130,395,799
Debt securities issued		18,360,095	19,784,810
Other financial liabilities		1,545,259	1,067,385
Memorandum item: subordinated liabilities		*2,989,889*	*2,510,922*
Derivatives – Hedge accounting	**13**	**183,189**	**378,454**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Liabilities under insurance contracts		**-**	**-**
Provisions	**20**	**1,922,116**	**2,034,575**
Pensions and other post employment defined benefit obligations		1,080,822	442,407
Other long term employee benefits		-	-
Pending legal issues and tax litigation		193,670	363,803
Commitments and guarantees given		373,082	379,484
Other provisions		274,542	848,881
Tax liabilities		**555,842**	**707,072**
Current tax liabilities		43	1,624
Deferred tax liabilities	26	555,799	705,448
Share capital repayable on demand		-	-
Other liabilities	**21**	**1,106,217**	**871,394**
Of which: Welfare Fund (only saving banks and credit cooperatives)		-	-
Liabilities included in disposal groups classified as held for sale	**18**	**350,885**	**8,797**
TOTAL LIABILITIES		**192,033,431**	**200,318,843**
Own funds	**22**	**13,029,511**	**13,222,423**
Capital		3,084,963	3,084,963
Paid up capital		3,084,963	3,084,963
Unpaid capital which has been called up		-	-
Memorandum item: Uncalled capital		-	-
Share Premium		619,154	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		8,718,830	9,093,630
Reserves or accumulated losses of investments in joint ventures and associates		(158,969)	(131,457)
Other		8,877,799	9,225,087
(-) Treasury shares		(96,646)	(79,837)
Profit or loss attributable to owners of the parent		703,210	504,513
(-) Interim dividends		**-**	**-**
Accumulated other comprehensive income	**23**	**147,454**	**365,780**
Items that will not be reclassified to profit or loss		54,627	73,268
Actuarial gains or (-) losses on defined benefit pension plans		29,939	48,764
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		3,183	8,714
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive		21,505	15,790
Accumulated hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging		-	-
Accumulated change in fair value changes of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability		-	-
Items that may be reclassified to profit or loss		92,827	292,512
Hedge of net investments in foreign operations [effective portion]		-	-
Foreign currency translation		(293)	(720)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(2,299)	(10,163)
Fair value changes of debt instruments measured at fair value through other comprehensive income		62,459	264,398
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		4,187	(1,119)
Share of other recognised income and expense of investments in joint ventures and associates		28,773	40,116
Minority interests [Non-controlling interests]	**24**	**12,474**	**24,891**
Accumulated other comprehensive income		1,318	989
Other items		11,156	23,902
TOTAL EQUITY		**13,189,439**	**13,613,094**
TOTAL EQUITY AND TOTAL LIABILITIES		**205,222,870**	**213,931,937**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS	**27.2**	**33,820,938**	**31,683,978**
Loan commitments given		20,888,323	18,518,902
Financial guarantees given		427,621	415,095
Contingent commitments given		12,504,994	12,749,981

The accompanying Notes 1 to 46 and Appendices I to XIII are an integral part of the consolidated balance sheet at 31 December 2018.

(*)The consolidated balance sheet for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 consolidated financial statements (see Note 1.5).

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy. the Spanish-language version prevails

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

Consolidated income statement for the years ended 31 December 2018 and 2017

(Thousands of euros)

	NOTE	31/12/2018	31/12/2017 (*)
Interest income	29	2,454,206	2,309,236
Financial assets at fair value through other comprehensive income		233,101	388,051
Financial assets at amortised cost		2,240,785	1,977,002
Other interest income		(19,680)	(55,817)
(Interest expenses)	30	(405,149)	(341,157)
(Expenses on share capital repayable on demand)		-	-
A) NET INTEREST INCOME		**2,049,057**	**1,968,079**
Dividend income	31	10,796	9,409
Share of profit/(loss) of companies accounted for using the equity method	32	56,290	39,778
Fee and commission income	33	1,149,537	943,973
(Fee and commission expenses)	34	(84,548)	(79,937)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	35	399,555	309,649
Financial assets at amortised cost		1,539	57,477
Other financial assets and liabilities		398,016	252,172
Gains or (-) losses on financial assets and liabilities held for trading, net	35	40,060	87,350
Reclassification of financial assets out of measured at fair value through other comprehensive income		-	-
Reclassification of financial assets out of measured at amortised cost		-	-
Other gains or (-) losses		40,060	87,350
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(429)	-
Reclassification of financial assets out of measured at fair value through other comprehensive income		-	-
Reclassification of financial assets out of measured at amortised cost		-	-
Other gains or (-) losses	35	(429)	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		-	-
Gains or (-) losses from hedge accounting, net	35	(28,534)	(29,627)
Exchange differences [gain or (-) loss], net		14,708	10,042
Other operating income	36	65,651	52,350
(Other operating expenses)	37	(304,381)	(246,636)
Of which: Mandatory provisions to welfare fund (only savings banks and credit cooperatives)		-	-
Income of assets under insurance and reinsurance contracts		-	-
(Expenses of liabilities under insurance or reinsurance contracts)		-	-
B) GROSS INCOME		**3,367,762**	**3,064,430**
(Administrative expenses)		(1,696,323)	(1,851,973)
(Staff expenses)	38	(1,160,842)	(1,389,897)
(Other administrative expenses)	39	(535,481)	(462,076)
(Depreciation)	40	(173,911)	(174,290)
(Provisions or (-) reversal of provisions)	41	(9,974)	34,463
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	42	(426,506)	(328,571)
(Financial assets at fair value through other comprehensive income)		(971)	1,838
(Financial assets at amortised cost)		(425,535)	(330,409)
C) TOTAL OPERATING INCOME, NET		**1,061,048**	**744,059**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	43	40,623	(3,000)
(Impairment or (-) reversal of impairment on non-financial assets)	43	(30,632)	(10,504)
(Tangible assets)		(22,724)	88
(Intangible assets)		(7,865)	(6,389)
(Other)		(43)	(4,203)
Profit or (-) loss on the derecognition of nonfinancial assets and investments, net	44	4,508	8,901
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	45	(155,434)	(114,513)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**920,113**	**624,943**
(Tax expense or (-) income related to profit or loss from continuing operations)	26.3	(222,662)	(130,940)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**697,451**	**494,003**
Profit or (-) loss after tax from discontinued operations	18.5	6,047	-
F) PROFIT OR (-) LOSS FOR THE YEAR		**703,498**	**494,003**
Attributable to minority interest [non-controlling interests]	24	288	(10,510)
Attributable to owners of the parent		703,210	504,513
EARNINGS PER SHARE			
Basic	5	0.22	0.17
Diluted	5	0.22	0.17

The accompanying Notes 1 to 46 and Appendices I to XIII are an integral part of the consolidated balance sheet at 31 December 2018.

(*)The consolidated income statement for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 consolidated financial statements (see Note 1.5).

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy. the Spanish-language version prevails

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

Consolidated statement of recognised income and expense for the years ended 31 December 2018 and 2017

(Thousands of euros)	2018	2017 (*)
Profit or (-) loss	**703,498**	**494,003**
Other comprehensive income	**(390,355)**	**(124,667)**
Items that will not be reclassified to profit or loss	**(18,641)**	**26,428**
Actuarial gains or (-) losses on defined benefit pension plans	(26,893)	8,774
Non-current assets and disposal groups held for sale	-	-
·Share of other recognised income and expense of entities accounted for using the equity method	(5,531)	5,021
Fair value changes of equity instruments measured at fair value through other comprehensive income	8,164	21,807
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Amount of change in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability	-	-
Income tax relating to items that will not be reclassified	5,619	(9,174)
Items that may be reclassified to profit or loss	**(371,714)**	**(151,095)**
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	608	(1,772)
Translation gains or (-) losses taken to equity	608	(1,772)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	11,234	(13,161)
Valuation gains or (-) losses taken to equity	11,234	(13,161)
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Financial assets at fair value through other comprehensive income	(534,710)	(190,051)
Valuation gains or (-) losses taken to equity	(136,676)	(13,587)
Transferred to profit or loss	(398,034)	(176,464)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	7,697	(8,191)
Valuation gains or (-) losses taken to equity	7,697	(8,191)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of Investments in joint ventures and associates	(11,343)	(806)
Income tax relating to items that may be reclassified to profit or (-) loss	154,800	62,886
Total comprehensive income for the year	**313,143**	**369,336**
Attributable to minority interest [Non-controlling interest]	617	(11,922)
Attributable to owners of the parent	312,526	381,258

The accompanying Notes 1 to 46 and Appendices I to XIII are an integral part of the consolidated balance sheet at 31 December 2018.
(*)The consolidated statement of regonised income and expende for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 consolidated financial statements (see Note 1.5).

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy. the Spanish-language version prevails

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

Consolidated statement of changes in equity for the year ended 31 December 2018

(Thousands of euros)

Sources of equity changes	Equity Attributable to the Parent											Minority interests		Total
	Own Funds										Accumulated other comprehensive income			
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends		Accumulated Other Comprehensive Income	Other items	
Opening balance at 31 December 2017 [before the restatement]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**9,093,630**	**(79,837)**	**504,513**	**-**	**365,780**	**989**	**23,902**	**13,613,094**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	(487,047)	-	-	-	172,358	-	-	(314,689)
Opening balance [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,606,583**	**(79,837)**	**504,513**	**-**	**538,138**	**989**	**23,902**	**13,298,405**
Comprehensive accumulated income					**-**	**-**	**-**		**703,210**		**(390,684)**	**329**	**288**	**313,143**
Other changes in equity	-	-	-	-	-	-	112,247	(16,809)	(504,513)	-	-	-	(13,034)	(422,109)
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 (or remuneration to members)	-	-	-	-	-	-	(338,015)	-		-			-	(338,015)
Purchase of treasury shares					-	-	-	(122,241)				-	-	(122,241)
Sale or cancellation of treasury shares					-	-	(6,429)	105,432				-	-	99,003
Reclassification of financial instruments from equity to liability	-	-	-	-									-	-
Reclassification of financial instruments from liability to equity	-	-	-	-									-	-
Transfers among components of equity			-	-	-	-	504,513		(504,513)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-			-		-	-
Share based payments	-	-		-				-					-	-
Other increase or (-) decrease in equity			-	-	-	-	(47,822)	-	-	-	-	-	(13,034)	(60,856)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)					-		-							-
Closing balance at 31 December 2018 [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,718,830**	**(96,646)**	**703,210**	**-**	**147,454**	**1,318**	**11,156**	**13,189,439**

The accompanying Notes 1 to 46 and Appendices I to XIII are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2018.
(*) See Note 1.3.2. First-time application of IFRS 9.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy. the Spanish-language version prevails

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

Consolidated statement of changes in equity for the year ended 31 December 2017

(Thousands of euros)

Sources of equity changes	Equity Attributable to the Parent											Minority interests		
	Own Funds										Accumulated other comprehensive income			
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends		Accumulated other comprehensive income	Other items	Total
Opening balance at 31 December 2016	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**2,329,558**	**(44,758)**	**804,163**	**-**	**489,035**	**2,401**	**42,930**	**12,837,192**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance [current period]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**2,329,558**	**(44,758)**	**804,163**	**-**	**489,035**	**2,401**	**42,930**	**12,837,192**
Comprehensive accumulated income					**-**	**-**	**-**		**504,513**		**(123,255)**	**(1,412)**	**(10,510)**	**369,336**
Other changes in equity	(6,128,900)	619,154	-	-	-	-	6,764,072	(35,079)	(804,163)	-	-	-	(8,518)	406,566
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			-	-	-	-	804,163		(804,163)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	205,631	619,154	-	-	-	-	-	-			-		-	824,785
Share based payments	-	-		-				-					-	-
Other increase or (-) decrease in equity			-	-	-	-	(67,310)	-	-	-	-	-	(8,518)	(75,828)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)					-		-							-
Closing balance at 31 December 2017 [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**9,093,630**	**(79,837)**	**504,513**	**-**	**365,780**	**989**	**23,902**	**13,613,094**

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy. the Spanish-language version prevails

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

Consolidated statement of cash flows for the year ended 31 December 2018 and 2017

(Thousands of euros)	2018	2017 (*)
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**1,394,580**	**1,843,410**
Consolidated profit/(loss)	**703,498**	**494,003**
Adjustments to obtain cash flows from operating activities	**501,737**	**801,882**
Depreciation and amortisation	173,911	174,290
Other	327,826	627,592
Net increase/(decrease) in operating assets	**(5,505,835)**	**(8,700,465)**
Financial assets held for trading	687,523	6,575
Non-trading financial assets mandatorily at fair value through profit or loss	1,281	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	(8,247,718)	(6,810,684)
Financial assets at amortised cost	397,819	(2,609,448)
Other operating assets	1,655,260	713,092
Net increase/(decrease) in operating liabilities	**(5,547,119)**	**(8,318,400)**
Financial liabilities held for trading	(221,348)	(1,220)
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(5,625,310)	(8,016,874)
Other operating liabilities	299,539	(300,306)
Income tax proceeds/(payments)	**230,629**	**165,460**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**620,244**	**1,081,285**
Payments	**389,335**	**214,685**
Tangible assets	16,789	107,132
Intangible assets	123,312	104,376
Investments in joint ventures and associates	5,276	3,000
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	243,958	177
Other payments related to investing activities	-	-
Proceeds	**1,009,579**	**1,295,970**
Tangible assets	29,417	19,444
Intangible assets	-	-
Investments in joint ventures and associates	138,977	49,952
Subsidiaries and other business units	-	633,593
Non-current assets held for sale and associated liabilities	841,185	592,981
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(1,764,935)**	**(1,274,540)**
Payments	**2,863,938**	**2,630,665**
Dividends	338,015	315,957
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	122,241	132,919
Other payments related to financing activities	2,403,682	2,181,789
Proceeds	**1,099,003**	**1,356,125**
Subordinated liabilities	500,000	1,250,000
Issuance of own equity instruments	-	-
Disposal of own equity instruments	99,003	106,125
Other proceeds related to financing activities	500,000	-
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**249,889**	**1,650,155**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**4,503,911**	**2,853,756**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**4,753,800**	**4,503,911**
MEMORANDUM ITEM		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	929,837	878,210
Cash equivalents at central banks	3,309,613	2,614,513
Other financial assets	514,350	1,011,188
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**4,753,800**	**4,503,911**
of which: held by consolidated entities but not drawable by the Group	**-**	-

The accompanying Notes 1 to 46 and Appendices I to XIII are an integral part of the consolidated balance sheet at 31 December 2018.

(*)The consolidated statement of cash flows for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 consolidated financial statements (see Note 1.5).

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 1.3 and 47). In the event of a discrepancy, the Spanish-language version prevails.

BANKIA, S.A. AND SUBSIDIARIES FORMING THE BANKIA GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

(1.1) Group description

Bankia, S.A. (hereinafter, "the Bank" or "Bankia" or the "Entity") is a private-law entity subject to the legislation and regulations for banks operating in Spain. Its registered office is at calle Pintor Sorolla, 8, Valencia. At 31 December 2018, the Bank's branch network comprised 2,298 offices. The company bylaws may be consulted, together with other relevant legal information, at its registered office and on its website (www.bankia.es).

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 10/2014, of 26 June, on the Discipline and Intervention in Credit Institutions.

Bankia is the parent of a business group (the "Group" or "Bankia Group"). At 31 December 2018, the scope of consolidation of the Bankia Group encompassed 63 companies, including subsidiaries, associates and joint ventures. These companies engage in a range of activities, including among others, insurance, asset management, financing, services and property management. Appendices II, III and IV list the entities that form part of the scope of consolidation of the Bankia Group at 31 December 2018 (subsidiaries controlled by the Bank, joint ventures and associates over which Bankia, directly or indirectly, exercises significant influence, distinguishing those classified under "Non-current assets held for sale"), and specifying the percentage of voting rights controlled by Bankia in each company.

Bankia's main shareholder is BFA, Tenedora de Acciones, S.A.U., (hereinafter "BFA") which at 31 December 2018 held shares representing 61.38% of its share capital (61.98% including the impact of treasury shares). Therefore, in addition to the operations it carries out directly, Bankia is a subsidiary of the BFA, Tenedora de Acciones Group.

The Bankia Group's consolidated financial statements for 2018 were authorised for issue by the directors of Bankia at the Board of Directors meeting held on 18 February 2019. The financial statements are pending approval by the General Meeting of Shareholders of Bankia. However, the Bank's Board of Directors considers that these financial statements will be approved without any material changes. The Bankia Group's consolidated financial statements for 2017 were approved by the shareholders at the general meeting held on 10 April 2018.

Appendix I presents the Bank's balance sheet at 31 December 2018, the income statement, statement of recognised income and expense, the statement of total changes in equity and the statement of cash flows for the year then ended, together with the Bank's separate financial statements for 2017 for purposes of comparison.

(1.2) Restructuring plan

As explained in Note 1.2 to the 2017 consolidated financial statements, at 31 December, 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, and described in detail in that note, along with the main highlights of the period.

Royal Decree-Law 4/2016, of 2 December, on urgent measures on financial matters, extended the period for the FROB to dispose of its stake in Bankia from five to seven years. It also provided for the possibility of further extensions subject to approval by the Council of Ministers. On 21 December 2018, the Council of Ministers approve a further 2-year extension of the sale period for Bankia's privatisation to December 2021. The aim is to make more efficient use of public funds, maximising the recovery of the public aid given and allowing the FROB to exercise a divestment strategy that is more flexible in finding the right conditions in capital markets.

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

With all the banks receiving public aid from the FROB having completed their restructuring and resolution plans and with the FROB having sold all its public holdings, except in the BFA-Bankia Group, the FROB's policy was updated (article 54.7 of Law 11/2015). The update lends continuity to the way the stake in the BFA-Bankia Group was being managed; i.e. based on responsible monitoring and reporting on the investment; non-intervention in the administration of the credit institution, allowing the administrators to operate with independence; and promoting best practices in the securities market.

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

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the laws of a member state of the European Union and whose securities are traded on a regulated market in any European Union country must file consolidated financial statements for periods beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS-EU").

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 "Financial Instruments". It was endorsed by the European Union in Regulation (EU) 2016/2067 of the Commission, of 22 November 2016, and implies amendments IAS 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 13, Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19 and interpretation of the Standard Interpretations Committee (SIC) 27 and repeals IFRIC 9. IFRS 9 is effective from 1 January 2018 and replaces IAS 39 "Financial Instruments" (see Note 1.3.1).

In addition, in May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" , which was amended in September 2015 and endorsed by the European Union via Regulation (EU) 2016/1905, of 22 September 2016, and implies amendments to IFRS 1, 3 and 4, IAS 1, 2, 12, 16, 32, 34, 36, 37, 38, 39 and 40, IFRIC 12, and SIC 27 and 32, and the withdrawal of IAS 11 and 18, IFRIC 13, 15 and 18 and SIC 31. IFRS 15 establishes new criteria regarding the recognition of revenue from contracts with customers and is effective for annual periods beginning on or after 1 January 2018.

Moreover, on 6 December 2017, the Bank of Spain published Circular 4/2017, of 27 November, for Credit Institutions on public and confidential financial reporting rules and formats, effective 1 January 2018 -although its transitional provisions must be considered- replacing and repealing Circular 4/2004, of 22 December, for Credit Institutions on public and confidential reporting rules and formats. The objective is to adapt the accounting framework for Spanish credit institutions to the changes in European accounting regulations arising from the adoption of IFRS 15 and 9. Given the breadth and depth of the changes arising from IFRS 9, the Bank of Spain updated its accounting regime by issuing the new Circular 4/2017, rather than through partial amendments to the previous Circular 4/2004, as it had done until then, with the objective of ensuring internal consistency and making it easier to understand and apply.

The Bankia Group's consolidated financial statements for 2018 are presented in accordance with IFRS-EU, taking into account Bank of Spain Circular 4/2017, of 27 November, on public and confidential financial reporting rules and formats for credit institutions ("Circular 4/2017"), and subsequent amendments thereto, which implements and adapts IFRS-EU for Spanish credit institutions.

The Group's consolidated financial statements for 2018 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 consolidated equity and financial position of Bankia, S.A. and subsidiaries composing the Bankia Group at 31 December 2018 and of the consolidated results of its operations and consolidated cash flows during the financial year then ended, pursuant to the aforementioned financial information reporting framework, and in particular to the accounting principles and criteria herein.

The consolidated financial statements of the Bankia Group were prepared from the accounting records of Bankia and of the other Group entities. However, since the accounting policies and measurement bases used in preparing these consolidated financial statements may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such policies and criteria and to make them compliant with the IFRS-EU used by the Bank.

The main accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2018 are summarised in Note 2.

1.3.1 Main regulatory changes during the period from 1 January to 31 December 2018

A) New mandatory standards, amendments and interpretations applicable in the calendar year beginning 1 January 2018 approved by the European Union.

Following is a list of the main mandatory standards, amendments or interpretations endorsed by the European Union with mandatory application in the annual year began on or after 1 January 2018. Therefore, they have been applied in the preparation of these dated financial statements.

- **IFRS 9 "Financial instruments"**

  [Effective for annual periods beginning on or after 1 January 2018, with early adoption permitted]

  The impacts of applying this standard for the first time are described in section 1.32 below.

- **Amendment to IFRS 7 "Financial instruments: disclosures"**

  [Effective for annual periods beginning on or after 1 January 2018, with early adoption permitted]

  The amendments introduce new disclosure requirements for financial instruments in periods in which IFRS 9 is first applied.

  This standard resulted in the inclusion of the related disclosures on financial instruments.

Among the additional disclosures are those related to hedging accounting, which are mandatory for entities, including those electing the option of IFRS 9 to continue applying hedge accounting under the requirements of IAS 39. In this respect, changes in the standard were applied in the current year, maintaining the disclosures applicable to the previous period for the purposes of the comparative information period.

- **IFRS 15 "Revenue recognition"**

  [Effective for annual periods beginning on or after 1 January 2018, with early adoption permitted]

  The core principle of IFRS 15 is that a company should recognise revenue to depict the transfer of promised goods or services to the consumer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services.

  An entity recognises revenue in accordance with this core principle by applying five steps, which can be summarised as follows: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price; and recognise revenue when a performance obligation is satisfied.

  IFRS 15 includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

- **Amendments to IAS 40: "Investment property"**

  [Effective for annual periods beginning on or after 1 January 2018]

  The purpose of the amendments is to clarify the requirements on transfers to, or from, investment property. IAS 40 is amended to specify that a transfer to, or from, investment property may be made when, and only when, there is a change in use and this change in use implies an assessment of whether the property meets the definition of investment property.

  The standard did not have a significant effect on the accompanying condensed consolidated interim financial statements or the disclosures therein.

- **Amendments to IFRS 2: "Classification and measurement of share-based payment transactions"**

  [Effective for annual periods beginning on or after 1 January 2018, with early adoption permitted]

  The objective of this project is to clarify how to account for certain share-based payment transactions. The amendments provide requirements on the accounting for:

  - The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
  - Share-based payment transactions with a net settlement feature for withholding tax obligations; and
  - A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

- **Amendments to IFRS 4: Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"**

  [Effective for annual periods beginning on or after 1 January 2018]

  The objective of these amendments is to provide entities that issue insurance contracts under the scope of IFRS 4 two approaches:

  - Overlay approach: permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from accounting mismatches and temporary volatility that may arise from applying IFRS 9 prior to applying the new standard for insurance contracts.
  - Deferral approach: An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts to defer the effective date of IFRS 9 until 2021. The IFRS 9 deferral option for insurance companies until 2021 will expire in 2020 if the IASB issues the new insurance contracts standard with an effective date of 2020.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

- **Annual "Improvements to IFRS" project (cycle 2014-2016)**

  [Effective for annual periods beginning on or after 1 January 2018 (IFRS 1 and IAS 28)]

  The improvements affect IFRS 1 "First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters"; and IAS 28 "Investments in Associates and Joint Ventures: Measuring an associate or joint venture at fair value".

The standard did not have a significant effect on the accompanying condensed consolidated interim financial statements or the disclosures therein.

- **Clarification to IFRS 15: "Revenue from contracts with customers"**

  [Effective for annual periods beginning on or after 1 January 2018]

  The clarifications to IFRS 15 are intended to reduce the cost and complexity of applying the standard and clarify how certain principles must be applied to identify performance obligations, determine whether the company is principal or agent, and determine if the product of the concession should be recognised at a point in time or over time.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

- **IFRIC Interpretation 22 "Foreign currency transactions and advance consideration"**

  [Effective for annual periods beginning on or after 1 January 2018, with early adoption permitted]

  The objective is to establish the date of the transaction for the purpose of determining which exchange rate to use on initial recognition of the asset, the expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency transaction.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

B) New standards, amedments and interpretations with mandatory application in financial statement of the year that began on 1 January 2019 and forward, approved by European Union

Following is a list of the main mandatory standards, amendments or interpretations by the International Accounting Standards Board ("IASB") and endorsed by the European Union with mandatory application for annual periods beginning after 1 January 2018. Therefore, they have not been applied in the preparation of these consolidated financial statements, except for those relative to the amendment of IFRS 9.

- **Amendment to IFRS 9: "Financial instruments"**

  [Effective for annual periods beginning on or after 1 January 2019, with early adoption permitted]

  The purpose of the amendment is to allow debt instruments with negative compensation prepayment features to be measured at amortised cost or fair value through other comprehensive income rather than at fair value through profit or loss.

  The Group opted for the early adoption of the standard at 1 January 2018, along with the changes arising from the first-time application of IFRS 9 "Financial Instruments", effective for annual periods beginning on or after 1 January 2018. (See Note 1.3.2).

- **IFRS 16: "Leases"**

  [Effective for annual periods beginning on or after 1 January 2019, with early application permitted for entities also applying IFRS 15]

  IFRS 16 was issued by the IASB in May 2017 and adopted by the European Union via Regulation (EU) 2017/1986 of 31 October 2017, and amends IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 13 and IFRS 15, IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40 and IAS 41, IFRIC 1 and IFRIC 12, and SIC 29 and SIC 32, and repeals IAS 17, IFRIC 4, SIC 15 and SIC 27.

  IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases. Lessor accounting is substantially unchanged from accounting under IAS 17 with the dual model, distinguishing between finance and operating leases.

  For lessees, IFRS 16 eliminates the dual accounting model and develops a single model whereby the lessee is required to recognise most leases on the balance sheet similar to the accounting for finance leases under IAS 17. Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lessees are required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The standard includes two recognition exemptions for leases: short-term leases or leases for which the underlying asset is of low value.

  Lessees are also required to remeasure the lease liability to reflect changes in lease payments from the commencement upon the occurrence of certain events (e.g. a change in the lease term, or a change in an index used to update those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  The Group embarked on a project in 2018 to implement IFRS 16 entailing the assessment, initial analysis, design and adaptation of systems and management.

The Group will elect to apply IFRS 16 to lease contracts in which it is the lessee retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of reserves at the date of initial application, electing the option under the standard not to restate comparative information.

Accordingly, for leases previously classified as finance leases under the previous standard, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 will be the same, respectively, as the carrying amounts of the lease asset and lease liability at 31 December 2018 measured applying the previous standard. Subsequently, the right-of-use asset and the lease liability will be accounted for under the new requirements for leases introduced by IFRS 16.

For leases previously classified as operating leases under the previous standard, from 1 January 2019 the lessee shall recognise:

- A lease liability, measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at that date.
- A right-of-use asset, measured at an amount equal to the lease liability recognised as described in the preceding paragraph, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet at 31 December 2018.

The Group will also apply the standard to contracts identified as containing a lease applying IAS 17 and IFRS 4 and will apply the exemptions for short-term leases or leases for which the underlying asset is of low value.

The Group estimates that this standard will not have a material impact on the consolidated financial statements of future periods. The estimation was based on assessments performed to date. However, the final impact of adaptation to the new standard could change until the Group releases its first financial statements of 2019 with the definitive impact of the first-time application giventhat the adaptation to systems has not been completed.

- **IFRIC 23: “Uncertainty over income tax treatments”**

[Effective for annual periods beginning on or after 1 January 2019, with early adoption permitted]

This interpretation clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In these circumstances, the entity shall recognise and measures its current or deferred tax assets or liabilities applying the requirements of IAS 12 to taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying this interpretation.

C) New mandatory standards, amendments and interpretations applicable in the years subsequent to the calendar year beginning 1 January 2017 (applicable as of 2019) pending approval by the European Union.

- **IFRS 17: “Insurance contracts”**

[Effective for annual periods beginning on or after 1 January 2021, with early adoption permitted]

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The purpose is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 replaces IFRS 4 “Insurance Contracts”.

- **Amendment to IAS 28: “Investments in associates and joint ventures”**

[Effective for annual periods beginning on or after 1 January 2019, with early adoption permitted]

The purpose of this amendment is to clarify that an entity should apply IFRS 9 “Financial instruments” in an associate or joint ventures that is not applied the equity method and that form part of the net investment.

- **Annual “Improvements to IFRS” project (2015-2017 cycle)**

[Effective for annual periods beginning on or after 1 January 2019, with early adoption permitted]

The improvements in this cycle affect IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements - previously held interest in a joint operation”; IAS 12 “Income Taxes - income tax consequences of dividends”; and IAS 23 “Borrowing Costs - borrowing costs eligible for capitalisation”.

- **Amendments to IAS 19: “Plan amendment, curtailment or settlement”**

[Effective for annual periods beginning on or after 1 January 2019, with early adoption permitted]

IAS 19 outlines how entities should account for changes defined-benefit plan, requiring remeasurement of the present value of benefit liabilities and the fair value of plan assets. Remeasurement requires the use of current assumptions to determine the current service cost and net interest on the net defined benefit liability (assets) resulting from a plan amendment.

- **Amendments to the Conceptual Framework for Financial Reporting**

  [Effective for annual periods beginning on or after 1 January 2020, with early adoption permitted]

  The amendments to the conceptual framework include revised definitions of assets and liabilities, as well as new guidance on measurement and derecognition, presentation and disclosure.

- **Amendments to IFRS 3 "Business Combinations"**

[Effective for annual periods beginning on or after 1 January 2020]

  The amendments clarify the definition of businesses.

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":**

  [Effective for annual periods beginning on or after 1 January 2021]

  The amendments introduce changes to align the definition of materiality to the definition contained in the conceptual framework.

1.3.2 First-time adoption of IFRS 9

1.3.2.1. Changes to accounting principles and policies and measurement criteria

Adoption of IFRS 9 has required changes to the accounting policies and measurement criteria applicable from 1 January 2018. The accounting principles and policies and measurement criteria described in Note 2 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017 have been modified by those included in Note 2 to the accompanying consolidated financial statements.

In accordance with the transitional provisions included in IFRS 9, the Group has elected not to restate comparative information. Therefore, the accounting principles and policies and measurement criteria included in Note 2 to the audited consolidated financial statements of the Bankia Group for the year ended 31 December 2017 are applicable to comparative information.

The following table summarises the main changes to accounting principles and policies and measurement criteria applied in 2018 from those applied the year before:

- **Classification and measurement of financial assets.** IFRS 9 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 measured systematically at amortised cost or fair value. The three new financial asset classifications allowed under IFRS 9 are:

  - 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 addition, reclassifications between portfolios are limited to changes in the business model defined by the Bank.

  [See Notes 2.2.4 and 2.2.5, which replace Notes 2.2.4 and 2.2.5 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]

- **Classification and measurement of financial liabilities.** The classification and measurement of financial liabilities is substantially unchanged from IAS 39. 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.

  [*See Notes 2.2.4 and 2.2.5, which replace Notes 2.2.4 and 2.2.5 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017*]

- **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, current and forward-looking information.

[*See Note 2.9, which replaces Note 2.9 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017*].

- **Hedging accounting and mitigation of risk** IFRS 9 allows entities to continue to apply the hedge accounting requirements in IAS 39, 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 IAS 39, while expanding the possibilities for designating hedged items and hedging instruments, and simplifying the requirements for effective hedges.

  [*See Note 2.3, which replaces Note 2.3 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017*]).

- **Other changes:** Lastly, the following accounting principles and policies and measurement criteria have also been modified:

  - Changes in the levels of investments in subsidiaries, joint ventures and associates and related impairment [*see Note 2.1.2.5, which replaces Note 2.1.2.5 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]*

  - Recognition of exchange differences [*see Note 2.4.4, which replaces Note 2.4.4 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017*].

  - Interest income, interest expense, dividends and similar items [*see Note 2.5.1, which replaces Note 2.5.1 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017*].

  - Consolidated statement of cash flows [*see Note 2.21, which replaces Note 2.21 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017*].

1.3.2.2 Presentation of comparative information after application of IFRS 9

Although the Group has elected to apply the classification and measurement requirements of IFRS 9 prospectively, not restating prior periods, exclusively to present and facilitate comparison of the current period with the prior period after the change in regulations, in the accompanying consolidated financial statements it has modified the formats of the comparative consolidated balance sheet, income statement, statement of recognised income and expense, total statement of changes in equity and statement of cash flows. Therefore, these differ from those included in the consolidated financial statements for the year ended 31 December 2017. The Group used the new public consolidated financial statements formats provided in Circular 4/2017, of 27 November, on public and confidential financial reporting rules and formats.

The main changes are as follows:

- Creation of a category of non-trading financial assets mandatorily at fair value through profit or loss.
- Replacement of the category of available-for-sale financial assets with financial assets at fair value through other comprehensive income.
- Elimination of the category of held-to-maturity investments.
- Replacement of the category of loans and receivables with financial assets at amortised cost.
- Inclusion of an increase level of disclosures in the following line items of the (consolidated) income statement: “Interest income”, “Gains or (-) losses on derecognition of 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” and “Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net”.

Below is the restated consolidated balance sheet at 31 December 2017 solely for presentation purposes for comparison with the consolidated balance sheet included in the 2017 consolidated financial statements without taking into account the effects of applying the new classification and measurement criteria of IFRS 9, which is presented later.

Consolidated balance sheets at 31 December 2017

(Thousands of euros)

ASSETS	IFRS 9	Note	31/12/2017	Transfer	31/12/2017 modified
Cash, cash balances at central banks and other demand deposits			**4,503,911**	**-**	**4,503,911**
Financial assets held for trading			**6,773,491**	**-**	**6,773,491**
Non-trading financial assets mandatorily at fair value through profit or loss	New line			**-**	**-**
Financial assets designated at fair value through profit or loss			**-**	**-**	**-**
Financial assets at fair value through other comprehensive income	New line	(1)		**22,744,890**	**22,744,890**
Available-for-sale financial assets	Removed	(1)	**22,744,890**	**(22,744,890)**	
Financial assets at amortised cost	New line	(2)		**158,710,730**	**158,710,730**
Loans and receivables	Removed	(2)	**126,357,363**	**(126,357,363)**	
Held-to-maturity investments	Removed	(2)	**32,353,367**	**(32,353,367)**	
Derivatives – hedge accounting			**3,067,035**	**-**	**3,067,035**
Fair value changes of the hedged items in portfolio hedge of interest rate risk			**-**	**-**	**-**
Investments in joint ventures and associates			**320,597**	**-**	**320,597**
Joint ventures	New line	(3)		30,862	30,862
Joint-controlled entities	Removed	(3)	30,862	(30,862)	
Associates	New line	(4)		289,735	289,735
Associates entitites	Removed	(4)	289,735	(289,735)	
Assets under insurance contracts			**-**	-	**-**
Tangible assets			**2,423,634**	**-**	**2,423,634**
Property, plant and equipment			1,757,510	-	1,757,510
For own use			1,757,510	-	1,757,510
Leased out under an operating lease			-	-	-
Assigned to welfare projects (savings banks and credit cooperatives)			-	-	-
Investment property			666,124	-	666,124
Of which: leased out under operating leases			666,124	-	666,124
Intangible assets			**237,499**	**-**	**237,499**
Goodwill			93,262	-	93,262
Other intangible assets			144,237	-	144,237
Tax assets			**11,004,862**	**-**	**11,004,862**
Current tax assets			474,887	-	474,887
Deferred tax assets			10,529,975	-	10,529,975
Other assets			**873,955**	**-**	**873,955**
Insurance contracts linked to pensions			432,981	-	432,981
Inventories			-	-	-
Other			440,974	-	440,974
Non-current assets and disposal groups classified as held for sale			**3,271,333**	-	**3,271,333**
TOTAL ASSETS			**213,931,937**	**-**	**213,931,937**

Consolidated balance sheets at 31 December 2017

(Thousands of euros)

LIABILITIES	IRFS9	Note	31/12/2017	Transfer	31/12/2017 modified
Financial liabilities held for trading			**7,420,991**	**-**	**7,420,991**
Financial liabilities designated at fair value through profit or loss			-	-	-
Financial liabilities measured at amortised cost			**188,897,560**	**-**	**188,897,560**
Derivatives – hedge accounting			**378,454**	-	**378,454**
Fair value changes of the hedged items in portfolio hedge of interest rate risk			**-**	-	**-**
Liabilities under insurance contracts			**-**	-	**-**
Provisions			**2,034,575**	**-**	**2,034,575**
Pensions and other post employment defined benefit obligations			442,407	-	442,407
Other long term employee benefits			-	-	-
Pending legal issues and tax litigation			363,803	-	363,803
Commitments and guarantees given			379,484	-	379,484
Other provisions			848,881	-	848,881
Tax liabilities			**707,072**	**-**	**707,072**
Current tax liabilities			1,624	-	1,624
Deferred tax liabilities			705,448	-	705,448
Share capital repayable on demand			**-**	-	**-**
Other liabilities			**871,394**	-	**871,394**
Liabilities included in disposal groups classified as held for sale			**8,797**	-	**8,797**
TOTAL LIABILITIES			**200,318,843**	**-**	**200,318,843**

Consolidated balance sheets at 31 December 2017

(Thousands of euros)

EQUITY	IFRS 9	Note	31/12/2017	Transfer	31/12/2017 modified
Equity			**13,222,423**	**-**	**13,222,423**
Capital			**3,084,963**	**-**	**3,084,963**
Paid up capital			3,084,963	-	3,084,963
Unpaid capital which has been called up			-	-	-
Memorandum item: Uncalled capital			-	-	-
Share Premium			619,154	-	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			9,093,630	-	9,093,630
(-) Treasury shares			(79,837)	-	(79,837)
Profit or loss attributable to owners of the parent			504,513	-	504,513
(-) Interim dividends			-	-	-
Accumulated other comprehensive income			**365,780**	**-**	**365,780**
Items that will not be reclassified to profit or loss			48,764	24,504	73,268
Actuarial gains or (-) losses on defined benefit pension plans			48,764	-	48,764
Non-current assets and disposal groups classified as held for sale			-	-	-
Share of other recognised income and expense of investments in joint ventures and associates		(5)	-	8,714	8,714
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income	New line	(6)		15,790	15,790
Accumulated hedge ineffectiveness for equity instruments measured at fair value through other comprehensive income	New line			-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	New line			-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	New line			-	-
Accumulated change in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability	New line			-	-
Other valuation adjustments	Removed		-	-	
Items that may be reclassified to profit or loss			317,016	(24,504)	292,512
Hedge of net investments in foreign operations [effective portion]	Modification name		-	-	-
Foreign currency translation			(720)	-	(720)
Hedging derivatives, Cash flow hedges reserve [effective portion]	Modification name		(10,163)	-	(10,163)
Fair value changes of financial assets measured at fair value through other comprehensive income	New line	(7)		264,398	264,398
Available-for-sale financial assets	Removed		280,188	(280,188)	
Debt instruments	Removed	(7)	264,398	(264,398)	
Equity instruments	Removed	(6)	15,790	(15,790)	
Hedging instruments [not designated elements]	New line			-	-
Non-current assets and disposal groups classified as held for sale			(1,119)	-	(1,119)
Share of other recognised income and expense of investments in joint ventures and associates		(5)	48,830	(8,714)	40,116
Minority interests [Non-controlling interests]			**24,891**	**-**	**24,891**
Accumulated other comprehensive income			989	-	989
Other ítems			23,902	-	23,902
TOTAL EQUITY			**13,613,094**	**-**	**13,613,094**
TOTAL EQUITY AND TOTAL LIABILITIES			**213,931,937**	**-**	**213,931,937**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS			**31,683,978**	**-**	**31,683,978**
Loan commitments given	New Line	(8)		18,518,902	18,518,902
Financial guarantees given	New Line	(8)		415,095	415,095
Other commitments given	New Line	(8)		12,749,981	12,749,981
Guarantees given	Removed	(8)	8,879,292	(8,879,292)	
Contingent commitments given	Removed	(8)	22,804,686	(22,804,686)	

Explanatory notes to the modified consolidated balance sheet at 31 December 2017

1. Debt securities and equity instruments worth EUR 22,744,890 thousand at 31 December 2017 included in "Available-for-sale financial assets" are classified under the new item "Financial assets at fair value through other comprehensive income".
2. "Financial assets at amortised cost" includes the balance of "Loans and receivables" of EUR 126,357,363 thousand at 31 December 2017 and debt securities at amortised cost included in "Held-to-maturity investments" at 31 December 2017 of EUR 32,353,367 thousand.
3. "Investments in joint ventures and associates – Joint Ventures entities" has been replaced, with the entire balance at 31 December 2017 of EUR 30,862 thousand reclassified to the new item "Investments in joint ventures and associates – Joint ventures".
4. "Investments in joint ventures and associates – Associate entities" has been replaced, with the entire balance at 31 December 2017 of EUR 289,735 thousand reclassified to the new item "Investments in joint ventures and associates – Associates".
5. Transfer of the balance of "Equity instruments" in "Items that may be reclassified to profit or loss – Share of other recognised income and expense of investments in joint ventures and associates" of EUR 8,714 thousand at 31 December 2017 to "Items that will not be reclassified to profit or loss – Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates".

6. Transfer of the entire balance of "Items that may be reclassified to profit or loss – Available-for-sale financial assets – Equity instruments" of EUR 15,790 thousand at 31 December 2017 to the new item "Items that will not be reclassified to profit or loss – Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income".
7. The item "Available-for-sale financial assets – Debt instruments" is replaced, with the full balance at 31 December 2017 of EUR 264,398 thousand classified in the new item "Fair value changes of financial assets measured at fair value through other comprehensive income" under "Items that may be reclassified to profit or loss".
8. New disclosures of off-balance sheet exposure, distinguishing between "Loan commitments given" (EUR 18,518,902 thousand at 31 December 2017), "Financial guarantees given" (EUR 415,095 thousand at 31 December 2017) and "Other commitments given" (EUR 12,749,981 thousand, at 31 December 2017).

As described in Note 1.3.1, the new disclosures required under IFRS 7 regarding hedge accounting were applied in the current year, maintaining the disclosures applicable to the previous period for the purposes of the comparative information period (see Note 13).

1.3.2.3 Impacts of first-time application of IFRS 9

The following table presents the impacts of the first-time application of IFRS 9 based on the modified consolidated balance sheet at 31 December 2017 for purposes of presentation up to the consolidated balance sheet at 1 January 2018, distinguishing between the impact of changes in the measurement of the financial instrument for its new classification – "Transfer and adjustments for IFRS 9 measurement"– relative to impairments and provisions –"Adjustments for IFRS 9 impairments and provisions"–:

Consolidated balance sheets at 31 December 2017 and 1 January 2018

(Thousands of euros)

ASSETS	Note	31/12/2017 modified	Transfer and adjustments for IFRS 9 measurement	Adjustments for IFRS 9 impairments and provisions	01/01/2018
Cash, cash balances at central banks and other demand deposits		**4,503,911**	**-**	**-**	**4,503,911**
Financial assets held for trading		**6,773,491**	**-**	**-**	**6,773,491**
Non-trading financial assets mandatorily at fair value through profit or loss	(1),(2)	-	**8,415**	**-**	**8,415**
Financial assets designated at fair value through profit or loss		**-**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income	(2),(3),(4),(6)	**22,744,890**	**1,267,307**	**719**	**24,012,916**
Financial assets at amortised cost	(1),(3),(4),(5),(6)	**158,710,730**	**(1,030,095)**	**(652,661)**	**157,027,974**
Derivatives – hedge accounting		**3,067,035**	**-**	**-**	**3,067,035**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**	**-**	**-**
Investments in joint ventures and associates		**320,597**	**-**	**-**	**320,597**
Joint ventures		30,862	-	-	30,862
Associates		289,735	-	-	289,735
Assets under insurance contracts		-	-	-	**-**
Tangible assets		**2,423,634**	**-**	**-**	**2,423,634**
Property, plant and equipment		1,757,510	-	-	1,757,510
For own use		1,757,510	-	-	1,757,510
Leased out under an operating lease		-	-	-	-
Assigned to welfare projects (savings banks and credit cooperatives)		-	-	-	-
Investment property		666,124	-	-	666,124
Of which: leased out under operating leases		666,124	-	-	666,124
Intangible assets		**237,499**	**-**	**-**	**237,499**
Goodwill		93,262	-	-	93,262
Other intangible assets		144,237	-	-	144,237
Tax assets		**11,004,862**	**52**	**208,428**	**11,213,342**
Current tax assets		474,887	-	-	474,887
Deferred tax assets	(7)	10,529,975	52	208,428	10,738,455
Other assets		**873,955**	**-**	**-**	**873,955**
Insurance contracts linked to pensions		432,981	-	-	432,981
Inventories		-	-	-	-
Other		440,974	-	-	440,974
Non-current assets and disposal groups classified as held for sale		**3,271,333**	**-**	**-**	**3,271,333**
TOTAL ASSETS		**213,931,937**	**245,679**	**(443,514)**	**213,734,102**

Consolidated balance sheets at 31 December 2017 and 1 January 2018

(Thousands of euros)

LIABILITIES	Note	31/12/2017 modified	Transfer and adjustments for IFRS 9 measurement	Adjustments for IFRS 9 impairments and provisions	01/01/2018
Financial liabilities held for trading		**7,420,991**	**-**	**-**	**7,420,991**
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Financial liabilities measured at amortised cost		**188,897,560**	**-**	**-**	**188,897,560**
Derivatives – hedge accounting		**378,454**	-	-	**378,454**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	-	-	**-**
Liabilities under insurance contracts		**-**	-	-	**-**
Provisions		**2,034,575**	**-**	**43,114**	**2,077,689**
Pensions and other post employment defined benefit obligations		442,407	-	-	442,407
Other long term employee benefits		-	-	-	-
Pending legal issues and tax litigation		363,803	-	-	363,803
Commitments and guarantees given	(6)	379,484	-	43,114	422,598
Other provisions		848,881	-	-	848,881
Tax liabilities		**707,072**	**73,740**	**-**	**780,812**
Current tax liabilities		1,624	-	-	1,624
Deferred tax liabilities	(7)	705,448	73,740	-	779,188
Share capital repayable on demand		**-**	-	-	**-**
Other liabilities		**871,394**	-	-	**871,394**
Liabilities included in disposal groups classified as held for sale		**8,797**	-	-	**8,797**
TOTAL LIABILITIES		**200,318,843**	**73,740**	**43,114**	**200,435,697**

Consolidated balance sheets at 31 December 2017 and 1 January 2018

(Thousands of euros)

EQUITY	Note	31/12/2017 modified	Transfer and adjustments for IFRS 9 measurement	Adjustments for IFRS 9 impairments and provisions	01/01/2018
Equity		**13,222,423**	**(419)**	**(486,628)**	**12,735,376**
Capital		3,084,963	-	-	3,084,963
Paid up capital		3,084,963	-	-	3,084,963
Unpaid capital which has been called up		-	-	-	-
Memorandum item: Uncalled capital		-	-	-	-
Share Premium		619,154	-	-	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	(1),(2),(5),(6)	9,093,630	(419)	(486,628)	8,606,583
(-) Treasury shares		(79,837)	-	-	(79,837)
Profit or loss attributable to owners of the parent		504,513	-	-	504,513
(-) Interim dividends		-	-	-	-
Accumulated other comprehensive income		**365,780**	**172,358**	**-**	**538,138**
Items that will not be reclassified to profit or loss		73,268	-	-	73,268
Actuarial gains or (-) losses on defined benefit pension plans		48,764	-	-	48,764
Non-current assets and disposal groups classified as held for sale		-	-	-	-
Share of other recognised income and expense of investments in joint ventures and associates		8,714	-	-	8,714
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income		15,790	-	-	15,790
Accumulated hedge ineffectiveness for equity instruments measured at fair value through other comprehensive income		-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-	-	-
Accumulated change in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability		-	-	-	-
Items that may be reclassified to profit or loss		292,512	172,358	-	464,870
Hedge of net investments in foreign operations [effective portion]		-	-	-	-
Foreign currency translation		(720)	-	-	(720)
Hedging derivatives, Cash flow hedges reserve [effective portion]		(10,163)	-	-	(10,163)
Fair value changes of financial assets measured at fair value through other comprehensive income	(3),(4)	264,398	172,358	-	436,756
Hedging instruments [not designated elements]		-	-	-	-
Non-current assets and disposal groups classified as held for sale		(1,119)	-	-	(1,119)
Share of other recognised income and expense of investments in joint ventures and associates		40,116	-	-	40,116
Minority interests [Non-controlling interests]		**24,891**	**-**	**-**	**24,891**
Accumulated other comprehensive income		989	-	-	989
Other ítems		23,902	-	-	23,902
TOTAL EQUITY		**13,613,094**	**171,939**	**(486,628)**	**13,298,405**
TOTAL EQUITY AND TOTAL LIABILITIES		**213,931,937**	**245,679**	**(443,514)**	**213,734,102**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS		**31,683,978**	**-**	**-**	**31,683,978**
Loan commitments given		18,518,902	-	-	18,518,902
Financial guarantees given		415,095	-	-	415,095
Other commitments given		12,749,981	-	-	12,749,981

Explanatory notes to the balance sheet at 1 January 2018

1. Transfer of assets arising from loans and receivables under “Financial assets at amortised cost” for EUR 8,477 thousand to the new item “Non-trading financial assets mandatorily at fair value through profit or loss” with a cash value of EUR 8,182 thousand. The transfer gives rise to a negative adjustment to reserves of EUR 206 thousand, net of the related tax effect.

2. Transfer of debt securities from “Financial assets at fair value through other comprehensive income” to “Non-trading financial assets mandatorily at fair value through profit or loss” for a nominal amount of EUR 464 thousand and a carrying amount of EUR 233 thousand , at 31 December 2017. The transfer gives rise to a valuation adjustment of EUR 157 thousand and a negative adjustment to reserves of EUR 157 thousand, both net of the related tax effect.

3. Transfer of quoted debt instruments included under “Financial assets at amortised cost” for an amortised cost of EUR 3,073,877 thousand to “Financial assets at fair value through other comprehensive income” for a fair value of EUR 3,335,721 thousand. The transfer gives rise to a valuation adjustment of EUR 183,291 thousand, net of the related tax effect.

4. Transfer of fixed-income positions in the current portfolio recognised in “Financial assets at fair value through other comprehensive income” with a carrying amount of EUR 2,052,338 thousand to “Financial assets at amortised cost” with a new carrying amount of EUR 2,052,338 million and a negative valuation adjustment from the transactions of EUR 11,090 thousand, net of the tax effect. The fair value of the instruments still held by the Group at 31 December 2018 stood at EUR 1,987,773 thousand. The amount that would have been recognised under other comprehensive income in 2018 if the instruments were still measured at fair value through other comprehensive income would have been EUR 5,329 thousand.

5. Transfer of loans and receivables for failure to pass with the SPPI test from "Financial assets at amortised cost" with a value at 31 December 2017 of EUR 79 thousand, net of impairment, to the new item "Non-trading financial assets mandatorily at fair value through profit or loss". The transfer gives rise to a negative adjustment to reserves of EUR 56 thousand, net of the related tax effect.
6. Adjustment for impairment losses and provisions related to the first-time application of IFRS 9.
7. Tax adjustment for these transactions arising from the first-time application of IFRS 9.

1.3.2.4 Reconciliation of impairment allowances and provisions for financial assets

The following table presents the reconciliation for financial assets, by classification for measurement, of impairment allowances and provisions at 31 December 2017 in accordance with the previous standards – IAS 39 and IAS 37, respectively – and the loss allowances under the revised standard – IFRS 9 – at 1 January 2018.

Reconciliation of impairment allowances for financial assets and provisions for off-balance sheet

(Thousands of euros)

	31/12/2017 modified	Adjustments for IFRS 9 impairments and provisions	01/01/2018
ON-BALANCE SHEET EXPOSURES			
Cash, cash balances at central banks and other demand deposits	-	-	-
Financial assets held for trading	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-
Financial assets at fair value through other comprehensive income	(4,624)	719	(3,905)
Finacial assets at amortised cost	(5,767,094)	(652,661)	(6,419,755)
Derivatives – hedge accounting	-	-	-
TOTAL ON-BALANCE SHEET EXPOSURES	**(5,771,718)**	**(651,942)**	**(6,423,660)**
OFF-BALANCE SHEET EXPOSURES			
Loan commitment given	24,863	-	24,863
Financial guarantees given	28,533	-	28,533
Other commitments given	326,088	43,114	369,202
TOTAL OFF-BALANCE SHEET EXPOSURES	**379,484**	**43,114**	**422,598**

1.3.2.5 Impact of first-time application of IFRS 9 on "Accumulated other comprehensive income" and "Other reserves"

Impact of firts-time application of IFRS 9 on "Accumulated other comprehensive income" and "Other reserves"

(Thousands of euros)

Accumulated other comprehensive income	
Transfer of financial assets (from available-for-sale financial assets to non-trading financial assets mandatorily at fair value through profit or loss)	157
Transfer of financial assets (from held-to-maturity investments to financial assets at fair value through other comprehensive income)	183,291
Reclassification of financial assets (from available-for-sale financial assets to financial assets at amortised cost)	(11,090)
Total accumulated o ther comprehensive income	**172,358**
Other reserves	
Transfer of financial assets (from available-for-sale financial assets to non-trading financial assets mandatorily at fair value through profit or loss)	(157)
Transfer of financial assets (from loans and receivables to non-trading financial assets mandatorily at fair value through profit or loss)	(262)
Recognition of expected loss	(486,628)
Total other reserves	**(487,047)**

1.3.2.6 Reconciliation between portfolios of financial assets under IFRS 9 and IAS 39

For comparative purposes, the following table presents the portfolios used in the 2017 financial statements and those included in the consolidated financial statements:

	Portfolios used after applying IFRS 9				
(thousand of euros)	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets held for trading	Total
Portfolios used in the 2017 financial statements (IAS 39)					
Loans and receivables and held-to-maturity investments	158,710,730	-	-	-	**158,710,730**
Available-for-sale financial assets	-	22,744,890	-	-	**22,744,890**
Financial assets designated at fair value through profit or loss	-	-	-	-	**6,773,491**
Financial assets held for trading	-	-	-	6,773,491	**-**
Total	**158,710,730**	**22,744,890**	**-**	**6,773,491**	**188,229,111**

(1.4) Responsibility for the information and estimates made

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

In the Group's consolidated financial statements for the year ended 31 December 2018, 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 2.2 and 2.20).
- Impairment losses and classification for levels on certain financial assets, considering the value of the collateral received and non-financial assets (mainly property) and contingent liabilities (see Notes 2.9, 2.15, 2.16, 2.17 and 2.20).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term commitments (see Note 2.13).
- 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 Group as payment of debts, regardless of the legal format pursuant to which they were acquired (see Notes 2.15, 2.17 and 2.20).
- The recoverability of recognised deferred tax assets (see Note 26).
- The useful life and fair value of tangible and intangible assets (see Notes 2.15 and 2.16).
- The assumptions used to quantify certain provisions and the probability of occurrence of certain losses to which the Group is exposed due to its activity (see Notes 2.18 and 20).
- The fair values of the assets, liabilities and contingent liabilities in the context of the business combination purchase price allocation (See Note 1.15).

Although these estimates were made on the basis of the best information available at 31 December 2018 and at the date of authorisation for issue of these consolidated 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 consolidated income statement in the future financial years concerned.

(1.5) Comparative information

In compliance with current legislation, the information relating to 2017 contained in these consolidated financial statements is presented solely for comparison with the information relating to 2018 and, accordingly, does not constitute the Group's consolidated financial statements for 2017.

As explained in Note 1.3.1, in the accompanying consolidated financial statements, the formats of the comparative consolidated balance sheet, income statement, statement of recognised income and expense, total statement of changes in equity and statement of cash flows have been modified to adapt to the changes in standards introduced by IFRS 9 and IFRS 15. Therefore, these differ from those included in the consolidated financial statements for the year ended 31 December 2017.

As explained in Note 1.1, Appendix I includes the separate financial statements of Bankia, S.A. on 31 December 2018 together with information, solely for purposes of comparison, as at 31 December 2018, together with information, solely for purposes of comparison, for 2017. Readers should take into account that the formats of the comparative balance sheet, income statement, statement of recognised income and expense, total statement of changes in equity and statement of cash flows have been modified to adapt to the changes in standards introduced. Therefore, these differ from those included in the financial statements of Bankia, S.A. for the year ended 31 December 2017.

(1.6) Agency agreements

A list at 31 December 2018 of the Group's agents which meet the conditions established in Article 21 of Royal Decree 84/2015, of 13 February, is provided in Appendix XI, attached.

(1.7) Investments in the capital of credit institutions

The Group's ownership interests of 5% or more in the capital or voting rights of other Spanish or foreign credit institutions at 31 December 2018 are listed in Appendices II, III and IV.

The breakdown of ownership interests of more than 5% held by non-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 2018 and 2017 is as follows:

Shareholding institution	Investee	Ownership interest
Banco Popular de Ahorro de Cuba	Corporación Financiera Habana, S.A.	40.00%

(1.8) Environmental impact

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

(1.9) Minimum reserve ratio

At 31 December 2018, as well as along the year 2018, the Company complied with the minimum reserve ratio required by applicable Spanish legislation.

(1.10) Deposit Guarantee Fund and National Resolution Fund

The Bank is a member of the Credit Institution Deposit Guarantee Fund created by Royal Decree-Law 16/2011, of 14 October, whose purpose is to guarantee deposits in cash, securities or other financial instruments at credit limitations, up to a maximum of EUR 100,000 for cash deposits or, for deposits made in another currency, the equivalent amount applying the appropriate exchange rates, and of EUR 100,000 for investors entrusting a credit institution with securities or other financial instruments. These two guarantees by the Fund are different and mutually compatible.

The Management Committee of the DGF determined the annual contribution to be made at 1.8 per thousand of the calculation basis for the part relating to the guarantee of deposits which, added to the 2 per thousand for the part relating to the guarantee of securities, left an accrued amount at 31 December 2018 of EUR 160,384 thousand (EUR 124,660 thousand in 2017), recognised under "Other operating expenses" in the accompanying consolidated income statement (see Note 37).

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 2018 and 31 de December 2017, the Group 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 125,681 thousand, and 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.

Meanwhile, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms requires Member Status to, among other measures, to make financial arrangements to ensure the effective application by the resolution authority of its powers. With the entry into force on 1 January 2016 of Regulation (EU) No 806/2014 of the European Parliament and of the Council, of July 15, 2014, the Single Resolution Board replaced the national resolution authorities and assumed management of the resolution financing arrangements of the credit institutions and certain investment firms under the Single Resolution Fund (SRF) as an key element of the Single Resolution Mechanism (SRM) established with Directive 2014/59/EU. The first ex-ante contributions made by institutions to SRF were for the 2016 contribution period.

In 2018, Bankia made a contribution to the SRF of EUR 71,566 thousand (EUR 64,012 thousand in 2017), using EUR 10,735 thousand of irrevocable payment commitments (EUR 9,602 thousand in 2017), recognising the cash collateral under “Loans and advances” and the remaining EUR 60,831 thousand (EUR 54,410 thousand in 2017) under “Other operating expenses” in the accompanying consolidated income statement.

(1.11) Events after the reporting period

On 24 January 2019, the Board of Directors of Bankia, based on a favourable report from the Appointments and Responsible Management Committee, approved a change in the Bank's organisation to drive its transformation and that of its businesses, creating four new general subdivisions –Financial, Credit Risk, People and Culture, and Digital Strategy and Transformation. Their members will have a seat on the Management Committee. This comes after the transfer of duties following the departure of the Deputy General Director of Investees and Associated Undertakings, Joaquín Cánovas. As a result, the composition of the Bank's highest management body increases from eight to 12 members, as follows:

- José Ignacio Goirigolzarri Tellaeche (Chairman)
- José Sevilla Álvarez (Chief Executive Officer)
- Antonio Ortega Parra (Executive Director and General Manager of People, Resources and Technology)
- Miguel Crespo Rodríguez (General Secretary and Deputy General Director of the General Secretariat)
- Gonzalo Alcubilla Povedano (Deputy General Director of Business Banking)
- Leopoldo Alvear Trenor (Deputy General Director of Financial Management)
- Amalia Blanco Lucas (Deputy General Director of Communication and External Relations)
- Manuel Galarza Pont (Deputy General Director of Credit Risks)
- David López Puig (Deputy General Director of Credit Risks)
- Fernando Sobrini Aburto (Deputy General Director of Credit Risks)
- Eugenio Solla Tomé (Deputy General Director of Credit Risks)
- Carlos Torres García (Deputy General Director of Credit Risks)

On 7 February 2019, the economic terms of an issuance of EUR 1,000 million of subordinated notes under the "€ 10,000,000,000 Euro Medium Term Note Programme" were established. The base prospectus for the issue, dated 5 July 2018, was approved by the Central Bank of Ireland as competent authority. An application will be made for the subordinated notes to be listed on the Main Securities Market of the Irish Stock Exchange, currently called Euronext Dublin. Bankia will apply for the subordinated notes to be treated as tier 2 capital in accordance with the criteria of the CRR.

No significant events occurred between 31 December 2018 and the date of authorisation for issue of the accompanying consolidated financial statements other than those included in this note or other notes to the consolidated financial statements.

(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 2018 and 2017, as required under Ministerial Order ECO/734/2004, of 11 March, is included in Appendix XIII 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 2018 and 2017, as required under Law 15/2010, of 5 July, is included in Appendix XIII attached hereto.

(1.14) Segment reporting and distribution of revenue from ordinary Group 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 Group's activity and results, and developed in accordance with the various areas of business established with regard to the Group'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 Group management information, and the measurement, valuation bases and accounting principles applied are basically the same as those used to prepare the consolidated financial statements, with no asymmetric allocations.

The itemised segments on which the information in these consolidated financial statements is presented at 31 December 2018 and 2017 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. As well as "Non-current assets held for sale".

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 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Domestic market	2,453,807	2,305,968
Export:	399	3,268
European Union	-	-
Other OECD countries	-	-
Other countries	399	3,268
Total	**2,454,206**	**2,309,236**

The table below shows the Group's consolidated ordinary income by geographic areas for the year ended 31 December 2018 and 2017:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Domestic market	4,090,408	3,678,949
Export:	434	3,391
European Union	-	-
Other OECD countries	-	-
Other countries	434	3,391
Total	**4,090,842**	**3,682,340**

The table below shows the Group's consolidated ordinary income by business segments for the year ended 31 December 2018 and 2017:

Year 2018:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
External customers	2,094,502	698,843	1,297,497	4,090,842
Inter-segment transactions	(172,768)	(111,674)	284,442	-
Total ordinary income (1)	**1,921,734**	**587,169**	**1,581,939**	**4,090,842**

Year 2017:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
External customers	2,151,618	679,815	850,907	3,682,340
Inter-segment transactions	(86,905)	(114,701)	201,606	-
Total ordinary income (2)	**2,064,713**	**565,114**	**1,052.,513**	**3,682,340**

(1) Comparative information for 2017 includes reclassifications among segments from the information included in the (consolidated) financial statements for 2017 after the process of reallocating segments to the portfolio of assets arising in the business combination with BMN was completed.

(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 consolidated income statement for the six months period ended 31 December 2017, which can be regarded as comparable to the Group's revenue from ordinary business.

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

Segment results for the year ended 31 December 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
NET INTEREST INCOME	**1,146,340**	**389,747**	**512,970**	**2,049,057**
Return on equity instruments	-	104	10,692	10,796
Share of profit/(loss) of companies accounted for using the equity method	-	-	56,290	56,290
Net fees and commissions	882,033	157,110	25,846	1,064,989
+/- Gains and losses on financial assets and liabilities and exchange differences	278	46,614	378,468	425,360
+/- Other operating income and other operating expenses	(150,534)	(7,695)	(80,501)	(238,730)
GROSS INCOME	**1,878,117**	**585,880**	**903,765**	**3,367,762**
Administrative expenses	(974,163)	(59,822)	(662,338)	(1,696,323)
Amortisation	(61,435)	(1,226)	(111,250)	(173,911)
OPERATING INCOME BEFORE PROVISIONS	**842,519**	**524,832**	**130,177**	**1,497,528**
Provisions or (-) reversal of provisions	(11,889)	56,202	(54,287)	(9,974)
Impairments or (-) reversal of impairment of financial assets not at fair value through profit or loss	(250,714)	74,369	(250,161)	(426,506)
Impairment losses on other assets (net) and other gains and losses	59	(7)	(140,987)	(140,935)
PROFIT/(LOSS) BEFORE TAX	**579,975**	**655,396**	**(315,258)**	**920,113**

31 December 2017:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
NET INTEREST INCOME	**1,243,914**	**372,511**	**351,654**	**1,968,079**
Return on equity instruments	-	230	9,179	9,409
Share of profit/(loss) of companies accounted for using the equity method	-	-	39,778	39,778
Net fees and commissions	854,579	149,273	(139,816)	864,036
+/- Gains and losses on financial assets and liabilities and exchange differences	(4,954)	46,281	336,087	377,414
+/- Other operating income and other operating expenses	(143,971)	(6,611)	(43,704)	(194,286)
GROSS INCOME	**1,949,568**	**561,684**	**553,178**	**3,064,430**
Administrative expenses	(989,497)	(58,254)	(804,222)	(1,851,973)
Amortisation	(64,221)	(1,318)	(108,751)	(174,290)
OPERATING INCOME BEFORE PROVISIONS	**895,850**	**502,112**	**(359,795)**	**1,038,167**
Provisions or (-) reversal of provisions	987	24,404	9,072	34,463
Impairments or (-) reversal of impairment of financial assets not at fair value through profit or loss	(457,545)	(72,894)	201,868	(328,571)
Impairment losses on other assets (net) and other gains and losses	(9,267)	(1)	(109,848)	(119,116)
PROFIT/(LOSS) BEFORE TAX	**430,025**	**453,621**	**(258,703)**	**624,943**

(1) Comparative information for 2017 includes reclassifications among segments from the information included in the (consolidated) financial statements for 2017 after the process of reallocating segments to the portfolio of assets arising in the business combination with BMN was completed

Segment assets and liabilities at 31 December 2018 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
Financial assets at amortised cost - Loans and advances – Customers	84,176,849	28,749,291	5,359,636	118,285,776
Other assets	24,233,059	11,006,657	51,697,378	86,937,094
Total assets	**108,409,908**	**39,755,948**	**57,057,014**	**205,222,870**
Financial liabilities at amortised cost - Deposit – Customers	103,178,189	11,584,254	11,557,033	126,319,476
Net inter-segment financing	-	-	-	-
Other liabilities	5,231,719	28,171,694	32,310,542	65,713,955
Total liabilities	**108,409,908**	**39,755,948**	**43,867,575**	**192,033,431**

Amounts related to investments in associates and joint ventures accounted for using the equity method, increases in non-current assets held for sale that are not financial instruments, deferred tax assets are recognised in the Corporate Centre.

Segment assets and liabilities at 31 December 2017 (1) are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
Financial assets at amortised cost - Loans and advances – Customers	87,599,704	28,058,299	7,366,679	123,024,682
Other assets	17,455,095	17,027,408	56,424,752	90,907,255
Total assets	**105,054,799**	**45,085,707**	**63,791,431**	**213,931,937**
Financial liabilities at amortised cost - Deposit – Customers	101,056,674	14,123,128	15,215,997	130,395,799
Net inter-segment financing	-	-	-	-
Other liabilities	3,998,125	30,962,579	34,962,340	69,923,044
Total liabilities	**105,054,799**	**45,085,707**	**50,178,337**	**200,318,843**

(1)Comparative information for 2017 includes reclassifications among segments from the information included in the (consolidated) financial statements for 2017 after the process of reallocating segments to the portfolio of assets arising in the business combination with BMN was completed.

(1.15) Business combinations and consolidation.

Merger by BMN Absorption by Bankia

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. Acording to article 32 of Acto 3/2009, the Merger Proyect is available in the corporate web page (www.bankia.com) since 27 June 2017.
- Approval of the merger deeds in keeping with article 40 Law 3/2009 of the Structural Modifications Act and article 228 Law 3/2009 of the Companies Register Regulations.
- Bankia committed to undertake a share issue of the size needed to facilitate the share exchange with BMN, specifically to issue the required number of new ordinary shares, each with a par value of EUR 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 Law 3/2009 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), 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. 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 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 cancelled.

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

The transaction outlined above has been recognised as a business combination, in keeping with IFRS 3. Given that Bankia, S.A. is the 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 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 BMN assets acquired and liabilities assumed, measured in accordance with the rules applicable to business combinations as at 1 December 2017:

(Millions of euros)

Merger´s Balance sheet(*)	Initial measurement	Adjustments	Fair Value
Cash, cash balances at central banks and other demand deposits	634	-	634
Financial assets held for trading	47	-	47
Available-for-sale financial assets	4,375	(47)	4,328
Loans and receivables	21,698	(309)	21,389
Held-to-maturity investments	5,405	-	5,405
Derivatives – Hedge accounting	123	-	123
Investments in joint ventures and associates	38	-	38
Tangible assets	1,080	(311)	769
Intangible assets	147	(147)	-
Tax assets	2,390	356	2,746
Other assets	162	(36)	126
Non-current assets and disposal groups classified as held for sale	1,567	(245)	1,322
TOTAL ASSETS	**37,666**	**(739)**	**36,927**
Financial liabilities held for trading	51	-	51
Financial liabilities at amortised cost	35,070	74	35,144
Derivatives – Hedge accounting	105	-	105
Provisions	61	387	448
Tax liabilities	136	(1)	135
Other liabilities	212	-	212
Liabilities included in disposal groups classified as held for sale	7	-	7
TOTAL LIABILITIES	**35,642**	**460**	**36,102**
TOTAL EQUITY	**2,024**	**(1,199)**	**825**
Consideration paid		**-**	**825**
Difference			**-**

(*)Iinformation presented based on the balance sheet model applicable at the date of the business combination.

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 status of the loans when the business combination took place 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 for certain contingencies, based on the estimate of the expected outflow to reflect the estimated outflow of resources, of uncertain timing, as a result mainly of legal proceedings, renegotiations and/ or the cancellation of market and service provision agreements.

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

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

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

Other transactions

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

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

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

In 2018, Bankia, S.A. acquired 50% stakes in the Caja Granada Vida Compañía de Seguros Reaseguros, S.A., a Ahorro Andaluz, S.A., and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A., a Aviva Europe, SE insurance companies classified as associates at 31 December 2017, and reclassified them as a discontinued operation (see Note 18.5.2).

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

(2) Principles, accounting policies and measurement applied

A summary of the main accounting policies and measurement bases applied to prepare the Bankia Group's consolidated financial statements for the year ended 31 December 2018 is as follows:

(2.1) Business combinations and consolidation

(2.1.1) Business combinations

A business combination is a transaction or another event in which the acquirer obtains control over one or more businesses. For these purposes, an entity controls another entity when it has the power to govern its financial and operating policies, as stipulated by law, the bylaws or agreement, so as to obtain economic benefits from its activities.

Accordingly, a business is defined as an integrated set of activities and assets which can be controlled and managed for the purpose of providing a return in the form of dividends, less costs and other economic benefits, directly to the investors or other owners, members or ventures.

In particular, the acquisition of control over an entity is considered a business combination.

The business combinations through which the Group acquired control of an entity or economic unit are recognised for accounting purposes using the acquisition method, the main phases of which are summarised as follows:

- Identify the acquirer.
- Determine the acquisition date.
- Recognise and measure the identifiable acquired assets, the liabilities assumed and any non-controlling interest in the acquiree. Other than the exceptions mentioned in IFRS 3, in general the identified assets, liabilities and contingent liabilities of the entity or business acquired are measured at fair value when control is acquired.
- Recognise and measure goodwill or the gain from a bargain purchase in the consolidated income statement comparing the price paid in the business combination and the initial value of the identified assets, liabilities and contingent liabilities of the acquired business.

In situations in which the Group obtained control of an acquiree, in which it holds equity interest immediately prior to the acquisition date (a business combination achieved in stages), its equity interests in the acquire, previously held at fair value at the acquisition date, are remeasured and the resulting gains or losses, if any, are recognised in the consolidated income statement.

In the case of business combinations carried out without transferring consideration, such as business combinations achieved by contract alone, the Group recognises, where applicable, the amount of the net assets and liabilities of the acquiree applying the policies and bases contained in IFRS 3 (in general and with the exceptions established in IFRS 3) at fair value in the Group's equity, such that any goodwill or gains arising from the purchase are not recognised in business combinations of this type.

(2.1.2) Basis of consolidation

For the purposes of consolidation and in accordance with the criteria set out in IFRS 10, consolidated financial statements, IFRS 11 "Joint agreements" and IAS 28 "Investments in Associates and Joint Ventures" the Group comprises four types of companies: subsidiaries, joint ventures, associates and structured entities, defined as follows:

(2.1.2.1) Subsidiaries

Subsidiaries are companies over which the Group has control. Control over an investee is understood as the exposure, or rights, to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of investor returns.

Consideration as subsidiaries requires:

a. 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;

b. 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.

c. 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.

The financial statements of subsidiaries are fully consolidated with those of the Bank except those of subsidiaries classified as non-current assets held for sale, which are recognised and measured as described in Note 2.20.

The share of non-controlling interests of subsidiaries in the Group's consolidated equity are presented under "Minority interests- [non-controlling interests]" in the consolidated balance sheet, while their share of profit and losses is presented under "Profit or loss- Attributable to minority interest [non-controlling interests]" in the consolidated income statement (see Note 24).

The results of subsidiaries acquired during the period are included in the consolidated income statement from the date of acquisition to period end.

Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

Appendix II contains significant information on these entities.

(2.1.2.2) 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. 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 consolidated financial statements, the party to joint operations recognises, according to their nature and in accordance with applicable IFRSs:

    - 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.

b. Joint venture, 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 in accordance with IAS 28.

The assets and liabilities assigned to jointly-controlled operations and the assets controlled jointly with other venturers are recognised in the consolidated balance sheet, classified according to their specific nature. Similarly, the Group's share of the income and expenses of joint ventures is recognised in the consolidated income statement on the basis of the nature of the related items.

The financial statements of the joint ventures ("jointly-controlled entities companies") are consolidated with those of the Bank using the equity method, except those classified as non-current assets held for sale, which are recognised and measured as described in Note 2.20.

Appendix III and IV contains significant information on these entities.

(2.1.2.3) Associates

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

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

In the consolidated financial statements, investments in associates are accounted for using the equity method, as defined by IAS 28 except those of subsidiaries classified as non-current assets held for sale, which are recognised and measured as described in Note 2.20.

Relevant information on associates is provided in Appendix III and IV.

At 31 December 2018, the Group's investments in entities in which it holds an equity interest of over 20% that have not been classified as investments in associates on its consolidated balance sheet are immaterial and relate primarily to entities under the management of a bankruptcy administrator.

(2.1.2.4) Structured entities

Structured entities is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities.
- A narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Examples of entities that are regarded as structured entities include, but are not limited to:

- Securitization vehicles
- Asset-backed financings
- Some investment funds

In those cases where the Group creates, or has interests in, entities designed to provide investment opportunities for customers or to transfer risks or for other purposes, it determines whether control exists over the investee using internal criteria and procedures and related regulations, and, therefore, whether it should or should not be consolidated.

These methods and procedures determine the existence of control by considering how decisions are taken regarding relevant activities and whether there is exposure to variability of returns and if there is a link between power and returns.

Consolidated structured entities**:**

These entities include the so-called "asset securitization funds" and vehicles, created to provide investments opportunities to customers or to transfer risks or for other purposes, and are fully consolidated where, based on analysis, it is concluded that the Group has control.

In the specific case of the securitization funds to which Group entities transfer lending portfolios, when assessing whether the Group has control, the following circumstances which indicate control are considered:

- The activities of the securitization funds are carried out on behalf of the entity, in accordance with the specific needs of the business, such that it obtains benefits or advantages from the activities of the securitization funds.
- The entity retains decision-making power to obtain most of the benefits of the activities of the securitization funds or delegates this power through an "automatic pilot" mechanism (securities funds are structured such that all decisions and activities have been predefined before their creation).
- The entity has rights to the majority of the benefits of the securitization funds and, therefore, is exposed to the risks inherent in its activity. The Entity retains most of the residual benefits of the securitization funds.
- The entity retains most of the risks of the securitization funds' assets.

If control is determined to exist on the basis of these indicators, the securitization funds are included in the consolidated Group.

The Group determined that in none of the securitizations made from 1 January 2004, the securitised assets could be derecognised from the consolidated balance sheet (see Note 12 and Appendix V), and that the funds should be consolidated, as the Group manages the impairment of collateral and retains substantially the expected credit losses and possible variations in net cash flows through subordinated finance and credit facilities in favour of the securitization funds**.**

Unconsolidated structured entities:

The Group has vehicles that provide investment opportunities to customers or transfer risks or for other purposes. These vehicles are not consolidated as the Group does not have control and as they do not meet the criteria for consolidation in IFRS 10. The amount of the assets and liabilities of these vehicles is not material in relation to the Group's consolidated financial statements.

(2.1.2.5) Changes in levels of investments in subsidiaries, joint ventures and associates, and related impairment

Subsidiaries

Acquisitions and disposals that do not result in a change of control are accounted for as equity transactions, and gain and loss is not recognised in the income statement. Goodwill is not remeasured. The difference between the consideration paid or received and the decrease or increase in the amount of non-controlling interests, respectively, is recognised in reserves. Similarly, if a parent loses control of a subsidiary, it derecognises the assets, liabilities and non-controlling interests and any other items that could be recognised in valuation adjustments of the former subsidiary and recognises the fair value of the consideration received and any investment retained. The difference between these amounts is recognised in the income statement.

Joint ventures and associates

At the date on which joint control or significant influence is obtained, the Group estimates the fair value of the investment, which from that time is considered to be its cost, recognising any gains or losses deriving from differences between its carrying amount before joint control or significant influence was obtained and its fair value through profit or loss. The cumulative gain or loss in accumulated other comprehensive income in consolidated equity is retained until the investment is disposed of or reclassified to reserves.

Investments, which on acquisition give rise to a situation of joint control or significant influence, are accounted for using the equity method from the moment they become a joint venture or associate. The difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities is measured as follows:

- Goodwill relating to the joint venture or associate is included in the carrying amount of the investments.
- Any excess over the cost of the net fair value of the investee's identifiable assets and liabilities is recognised as income in the consolidated income statement in the year in which joint control or significant influence is obtained.

Additionally, when significant influence in a joint venture or associate is lost, the retained investment is accounted for in a similar manner as a subsidiary; i.e. as an asset at fair value. The difference between the carrying amount and fair value is recognised in profit or loss. The irrevocable option of including the investment in the portfolio of financial assets at fair value through other comprehensive income is not available for investments originally measured at fair value through profit or loss.

Impairment losses for the period are recognised as an expense in the consolidated income statement, with a balancing entry in the carrying amount of the asset. Subsequent reversals are recognised as income in the consolidated income statement.

Indications of objective evidence of impairment for these investments include:

- Significant financial difficulty of the issuer.
- Significant changes in the technological, market, economic or legal environment in which the issuer operates, which may have adverse effects on the recovery of the investment.
- A significant or prolonged decline in the fair value of an asset below its carrying amount. In these cases, a test should be carried out to assess whether the indications are clear evidence of impairment.

There is also objective evidence of impairment when the issuer has entered, or it is probable that it will enter, creditors' agreement.

The Group recognises impairment losses for these investments whenever there is objective evidence that their carrying amount is not recoverable. The amount of the impairment loss recognised is the difference between the carrying amount of the instrument and its recoverable amount, understood as the higher of fair value less costs of disposal or present value of future cash flows (value in use).

(2.2) Financial instruments

(2.2.1) Initial recognition of financial instruments

Financial instruments are initially recognised on the consolidated balance sheet when the Group 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 currency market and 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.

(2.2.2) Derecognition of financial instruments

A financial asset is derecognised 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 2.7).

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

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

Note 25 provides information on the fair value of the Group's main assets and liabilities at 31 December 2018 and 2017.

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 consolidated 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 IFRS 9, 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.

(2.2.4) Classification and measurement of financial assets and liabilities

Financial instruments are classified in the Group's consolidated balance sheet as follows:

- **Financial assets at amortised cost:** financial assets classified in this category present contractual terms that result in cash flows that are solely payments of principal and interest on the principal amount outstanding and are managed within a business model whose objective is to hold assets to collect their contractual cash flows.

  This category includes debt securities, financing granted to third parties in connection with ordinary lending activities carried out by Group companies and receivables from purchasers of their goods and users of their services, provided the assets are managed within a business model of holding the financial assets in order to collect their contractual cash flows and the cash flows are solely payments of principal and interest on the principal amount outstanding. It also includes finance lease transactions in which the Group act as the lessor.

  The financial assets included in this category are initially measured at fair value adjusted by the amount of transactions costs that are directly attributable to the acquisition of the financial asset, which are allocated to the consolidated income statement using the effective interest method through maturity. Unless there is evidence to the contrary, the fair value at initial recognition is the transaction price; i.e. the fair value of the consideration given.

  As an exception to the preceding paragraph, trade receivables that do not contain a significant financing component are measured initially at their transaction price. In addition, trade receivables that have a significant financing component with an original maturity of less than one year may be recognised initially at their transaction price.

  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.

  Subsequently, all financial assets included in this category are measured at their amortised cost, calculated using their effective interest rate.

  The interest accrued on these assets from their initial recognition, calculated using the effective interest method, is recognised under "Interest income" in the consolidated income statement. Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recorded as set out in Note 2.4. Any impairment losses on these assets is recognised in accordance with Note 2.9. Debt securities included in fair value hedges are recognised in accordance with Note 2.3.

- **Financial assets at fair value through other comprehensive income:** this category includes debt securities whose contractual terms result in cash flows that are solely payments of principal and interest on the principal amount outstanding, are managed within a business model whose objective is to hold assets to collect their contractual cash flows, and give rise to cash flows from the sale of those assets.

  It also includes equity instruments that are not related to subsidiaries, joint ventures or associates, voluntarily and irrevocably designated initially in this category and that shall not be classified as held for trading.

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 consolidated income statement by the effective interest method, 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.

After acquisition, the financial assets included in this category are measured at fair value.

Changes in the fair value of financial assets classified as at fair value through other comprehensive income are recognised with a balance entry in “Accumulated other comprehensive income” in the consolidated balance sheet until the financial asset is derecognised, in the case of debt instruments, and in an item of reserves, in the case of investments in equity instruments. Any impairment losses on these instruments are recognised as set out in section vii) of this Note. Exchange differences on financial assets denominated in currencies other than the euro are recorded as set out in Note 2.4. Changes fair value of financial assets hedged in fair value hedges are recognised as explained in Note 2.3.

The interest accrued on debt instruments calculated using the effective interest method is recognised under “Interest income” in the consolidated income statement. Dividends accrued on equity instruments classified in this category are recognised under “Dividend income” in in the consolidated income statement.

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

    - **Financial assets held for trading:** those acquired with the aim of selling them in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and derivatives that have not been designated as hedging instruments, including those separated from hybrid financial liabilities.

    - **Financial liabilities held for trading:** 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 received on loan or to secure sales rights, and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to applicable regulations.

    - **Non-trading financial assets mandatorily at fair value through profit or loss:** includes debt instruments that cannot be classified as at amortised cost or fair value through changes in other comprehensive income because, due to their contractual terms, they give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

      This category also includes equity instruments that are not related to subsidiaries, joint ventures or associates that should not be classified as held for trading and have not been voluntarily and irrevocably been designated initially as at fair value through other comprehensive income.

- **Financial assets and financial liabilities designated at fair value through profit or loss:** this includes, among others, financial assets designated voluntarily and irrevocably initially as at fair value through profit or loss if by doing so it eliminates or significantly reduces accounting mismatches, and hybrid instruments composed simultaneously of an embedded derivative and a host financial liability not held for trading that meets the requirements for accounting for the embedded derivative separately from the host financial instrument.

Financial assets and liabilities classified as held for trading, non-trading financial instruments mandatorily measured at fair value through profit or loss, and financial assets and financial liabilities designated at fair value through profit or loss are measured initially at fair value, with any subsequent changes in fair value recognised with a balancing entry in “Gains or losses on financial assets and liabilities held for trading, net”, “Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net” and “Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net” in the consolidated income statement, except for fair value changes due to returns accrued on the financial instrument other than from trading, which are recognised under “Interest income”, “Interest expenses”, and “Dividend income” in the consolidated income statement, depending on their nature. Returns on debt instruments included in this category are calculated using the effective interest method.

The amount of the change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss is recognised in “Accumulated other comprehensive income” in the consolidated balance sheet, unless it would create or enlarge an accounting mismatch, which must be appropriately documented and justified. In this case, the entity may elect to recognise the full amount of the change in fair value initially and definitively in profit or loss.

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

  The liabilities issued by consolidated entities which, although considered capital for legal purposes, do not meet the requirements for classification as equity; i.e., basically any shares issued by the consolidated entities that do not carry voting rights and entitle their holders to receive dividends if certain conditions are met, are accounted for in the same way as the rest of the financial liabilities classified as at amortised cost, and are recognised under "Financial liabilities measured at amortised cost - Debt securities issued" in the consolidated balance sheet.

  This category also includes financial liabilities arising from issues of contingent convertible bonds convertible into ordinary Bankia shares.

  The financial liabilities included in this category are initially measured at fair value adjusted by the amount of transactions costs that are directly attributable to the issue of the financial liability, which are allocated to the consolidated income statement using the effective interest method defined in prevailing regulations through maturity. They are subsequently measured at amortised cost using the effective interest method.

  The interest accrued on these liabilities from initial recognition, calculated using the effective interest method, is recognised under "Interest expenses" in the consolidated income statement, except for coupons accrued on the issuance of contingent convertible bonds convertible into ordinary Bankia shares, which are recognised in equity as they are payable at the Group's discretion. Exchange differences on liabilities denominated in currencies other than the euro are recorded as set out in Note 2.4. Financial liabilities included in fair value hedges are recognised in accordance with Note 2.3.

Assessment of business models

The business model refers to how the Bank manages its financial assets in order to generate cash flows. The assessment of the business model of the various financial assets recognised in the balance sheet is performed at the level that best reflects how groups of financial assets are managed together to achieve a particular objective.

Accordingly, the assessment is not carried out on an instrument-by-instrument basis, but rather on a higher level of aggregation, based on the following factors:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to Management.

- The risks that affect the performance of the business model and the way in which those risks are managed.

- How managers and Management in charge of these businesses models are compensated.

Contractual cash flow characteristics

The second step in the process carried out by the Bank to classify financial assets is to assess whether the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest, which also include the consideration for other risks (e.g. liquidity risk) and costs.

However, if a contractual cash flow characteristic could have an effect on the contractual cash flows that is more than de minimis or that cash flow characteristic is genuine, and introduces exposure to risks or volatility that is unrelated to a basic lending arrangement, it does not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Nevertheless, financial instruments that should be considered as non-current assets held for sale in accordance with IFRS 5 are recognised in the consolidated financial statements as explained in Note 2.20.

(2.2.5) Reclassification of financial instruments between portfolios

When, and only when, the Group changes its business model for managing financial assets, it reclassifies all affected debt instruments. On the basis that a change in the business model is considered to be exceptional or infrequent.

The Group has defined the following business models:

- Hold assets in order to collect contractual cash flows, whose objective is to hold financial assets to maturity in order to collect the contractual cash flows. Some sales are permitted, if those sales are infrequent or insignificant in value or that irrespective of their frequency and value are carried out due to an increase in the assets' credit risk.

- Hold assets in order to collect contractual cash flows and sell financial assets, whose objective is to hold financial assets to maturity, but also to sell them in order to realise the contractual cash flows by selling them. These financial assets are measured at fair value through other comprehensive income.

- Hold assets for sale, whose objective is to manage the financial assets in order to realise cash flows by selling them, which normally involves frequent purchases and sales of the assets. These financial assets are measured at fair value through profit or loss.

The following diagram illustrates potential reclassifications of debt instruments among categories:

Reclassification to:		Reclassification to:		
		Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost
	Fair value through profit or loss		▪ Fair value at the date of reclassification as gross carrying amount ▪ Recognition of subsequent changes in fair value in accumulated other comprehensive income	▪ Fair value at the date of reclassification as gross carrying amount
	Fair value through other comprehensive income	▪ Fair value at the date of reclassification as gross carrying amount ▪ Reclassification of the amount accumulated in accumulated other comprehensive income to profit or loss at the date of reclassification		▪ Fair value at the date of reclassification as gross carrying amount, adjustment for the elimination of the amount accumulated in other comprehensive income (which coincides with amortised cost) ▪ No changes are made to the effective interest rate or expected credit losses
	Amortised cost	▪ Fair value at the date of reclassification as gross carrying amount ▪ Recognition of the difference between amortised cost and fair value in profit or loss	▪ Fair value at the date of reclassification as gross carrying amount ▪ Recognition of the difference between amortised cost and fair valur in accumulated other comprehensive income ▪ No changes are made to the effective interest rate or expected credit losses	

There have been no changes in the Group's business model during the period, and therefore no reclassification of debt instruments.

In no circumstance does the Group reclassify derivatives to a category other than fair value through profit or loss, nor does it reclassify any financial liabilities.

Reclassification to fair value through profit or loss is not allowed for equity instruments not held for trading and irrevocably designated at initial recognition as measured at fair value through other comprehensive income.

Similarly, the Group does not reclassify equity instruments measured at fair value through profit or loss to financial assets at fair value through other comprehensive income.

(2.3) Hedge accounting and mitigation of risk

The Group has elected to continue applying the recognition and measurement criteria for hedges included in IAS 39.

The Group 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 IAS 39, they qualify for hedge accounting.

When the Group 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 Group to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Group enters into hedges on a transaction-by-transaction basis in accordance with criteria explained previously, 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.

To measure the effectiveness of hedges designated as such, the Group 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.

The Group 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.

The Group'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.

  The Bank applies hedge accounting to reduce the risk that the fair value of fixed-rate assets and liabilities will fluctuate as if they were instruments indexed to a floating interest rate. The Bank only hedges changes in the fair value of the hedged instrument attributed to changes in the reference rate, which constitutes the main element of the total fluctuation in the fair value of the hedged item.

  The Group uses the hypothetical derivative method to assess effectiveness, by comparing changes in the fair value of the hedging instruments and hedged items attributable to the change in the reference rate, as explained for fair value hedges. This method implies modelling a derivative instrument whose characteristics perfectly match those of the hedged risk, so that the change in the fair value of the hypothetical derivative should be equivalent to the change in the present value of the expected future cash flows of the hedged item. The measurement of hedge ineffectiveness is based on a comparison between the changes in the fair of the derivative actually entered into as a hedge and the changes in the fair value of the hypothetical derivative

  The Bank also matches the principal of the hedging instruments with the principal of the hedged items.

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

  - Financial assets at fair value through profit or loss: fixed-rate debt securities, whose risk is hedged with interest rate derivatives (basically swaps).
  - Financial assets at amortised cost: fixed-rate loans, whose risk is hedged with interest rate derivatives (basically swaps).
  - Financial liabilities at amortised cost: long-term fixed-rate deposits and marketable debt securities issued by the Group, whose risk is hedged with interest rate derivatives (basically swaps).

The main reason for the ineffectiveness of this type of hedge may arise from the divergence between payment dates of the hedging instruments and the use of different interest rate curves for the discount of the hedging instruments and the hedged item.Specifically, for financial instruments designated as hedged items and hedges, the differences in value are recognised as follows:

- 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 fair value of the hedged instrument.
- When hedge accounting is discontinued for a fair value hedge, in the case of hedged items at amortised cost, the value adjustments made as a result of the hedge accounting 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.

- **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.

The Bank applies hedge accounting to reduce the risk that the cash flows of floating-rate assets and liabilities will fluctuate as if they were instruments indexed to a fixed interest rate.

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

- Financial assets at fair value through other comprehensive income
  - Floating-rate debt securities, whose risk is hedged with interest rate derivatives (basically swaps).
- Financial assets at amortised cost.
  - Floating-rate loans, whose risk is hedged with interest rate derivatives (basically swaps).

The Group uses the hypothetical derivative method to assess effectiveness, by comparing changes in the fair value of the hedging instruments and hedged items attributable to the change in the reference rate, as explained for fair value hedges. The cash flow hedges entered into by the Group relate entirely to transactions in which the hedged transaction matches the hedging derivative. As a result, no significant causes of ineffectiveness for this type of hedge have arisen.

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

– The gains or losses attributable to the portion of the hedging instruments that qualifies as an effective hedge are recognised temporarily in consolidated equity under “Accumulated other comprehensive income - Items that may be reclassified to profit or loss - Hedging derivatives. Cash flow hedges [effective portion”. Financial instruments hedged in this type of hedging transaction are recognised as explained in “Classification and measurement of financial assets and liabilities”, 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 consolidated income statement until the gains or losses on the hedged item are recognised in the consolidated 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.

– 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 cumulative gain or loss on the hedging instrument recognised in equity under “ Equity - Accumulated other 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.

- **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 Group whose activities are based or undertaken in a different country or in a currency other than the euro. The treatment for this type of hedge is the same as for cash flow hedges.The amounts recognised as valuation adjustments in equity in accordance with the aforementioned criteria are recognised in the consolidated income statement when they are disposed of or derecognised.

(2.4) Foreign currency transactions

(2.4.1) Functional currency

The Group'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 consolidated balance sheet at 31 December 2018 and 2017 denominated in foreign currency is as follows:

(Thousands of euros)

	31/12/2018		31/12/2017	
ITEM	Assets	Liabilities	Assets	Liabilities
Balances in US dollars				
Cash, cash balances at central banks and other demand deposits	79,109	-	67,498	-
Finacial assets and liabilities held for trading	187,719	104,014	213,706	123,457
Financial assets at amortised cost	1,522,615	-	1,377,824	-
Financial liabilities at amortised cost	-	984,708	-	1,013,474
Financial assets designated at fair value through profit or loss	25,123	-	20,854	-
Other	36,781	31,948	8,472	37,746
Total	**1,851,347**	**1,120,670**	**1,688,354**	**1,174,677**
Balances in sterling pounds				
Cash, cash balances at central banks and other demand deposits	4,732	-	11,936	-
Financial assets and liabilities held for trading	104,020	106,939	124,143	126,094
Financial assets at amortised cost	160,692	-	123,716	-
Financial liabilities at amortised cost	-	96,180	-	206,178
Other	3,784	42	76	112
Total	**273,228**	**203,161**	**259,871**	**332,384**
Balances in other currencies				
Cash, cash balances at central banks and other demand deposits	21,812	-	28,807	-
Finacial assets and liabilities held for trading	791	2,176	21,836	20,094
Financial assets at amortised cost	119,869	-	152,279	-
Financial liabilities at amortised cost	-	64,372	-	45,981
Other	233	2,843	-	9,713
Total	**142,705**	**69,391**	**202,922**	**75,788**
Total foreign currency balances	**2,267,280**	**1,393,222**	**2,151,147**	**1,582,849**

(2.4.2) Criteria for translation of foreign currency balances

Balances in foreign currencies are translated to euros in two consecutive phases:

- Translation of foreign currency to the functional currency of the Group entities, joint ventures and entities accounted for using the equity method; and
- Translation to euros of the balances of consolidated companies or companies accounted for using the equity method whose reporting currency is not the euro.

The functional currencies of all the Group entities or entities accounted for using the equity method in the consolidated financial statements are the same as their respective reporting currencies.

Translation of foreign currency to the functional currency: Foreign currency transactions performed by consolidated entities or entities accounted for using the equity method are initially recognised in their respective financial statements at the equivalent value in their functional currencies, translated using the exchange rates prevailing at the transaction date. Subsequently, the consolidated entities translate the foreign currency monetary items to their functional currencies using the exchange rates at year end.

Furthermore:

- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
- No-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.

Entities whose functional currency is not the euro: The balances in the financial statements of the consolidated entities and entities accounted for using the equity method whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.
- Income and expenses and cash flows, at the average exchange rates for the year.
- Equity items, at the historical exchange rates.

(2.4.3) Exchange rates applied

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

(2.4.4) Recognition of exchange differences

Exchange differences arising on translating foreign currency balances into the functional currency of consolidated entities and their branch offices are generally recognised at their net value in the consolidated 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 consolidated 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 exchange rate differences arising in non-monetary items, whose fair value is adjusted against counterparty in equity, are recognised in consolidated equity under “Accumulated other comprehensive income- Items that may be reclassified to profit or loss-Foreign currency translation” in the consolidated balance sheet until they are realised.

The exchange differences arising on the translation to euros of the financial statements in the functional currencies of the consolidated entities, whose functional currency is not the euro, are recognised in consolidated equity under “Accumulated other comprehensive income- Items that may be reclassified to profit or loss-Foreign currency translation” in the consolidated balance sheet, whereas those translated to euros of the financial statements of entities accounted for using the equity method are recognised under “Accumulated other comprehensive income- Items that may be reclassified to profit or loss- Share of other recognised income and expense of investments in joint ventures and associates”

(2.5) Recognition of income and expenses

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

(2.5.1) 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 IFRS 9. Dividends received from companies other than those within the scope of consolidation of the Group are recognised as income when the consolidated entities' right to receive them arises.

However, when a debt security is assessed to be impaired individually or collectively because recovery is considered unlikely, except for purchased or originated credit-impaired financial assets, the interest accrued in the consolidated income statement is the result of applying the effective interest rate to amortised cost (i.e. adjusted for any loss allowance), recognising an impairment loss for the same amount.

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.

(2.5.2) 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 consolidated 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 consolidated 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.

(2.5.3) Non-finance income and expenses

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

(2.5.4) Deferred income and accrued expenses

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

(2.6) Offsetting

Asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, when, and only when, they arise from transactions in which a contractual or legal right of set-off exists and the Group intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

In this regard, when presenting the financial assets subject to valuation adjustments for depreciation or impairment net of these adjustments is not considered "offsetting"

In addition, the Group 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:

- the entity has a legally enforceable right to set off the recognised amounts of the instruments; and
- the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

IAS 32 "Financial Instruments: Presentation outlines" 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 9 and 13 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.

(2.7) 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 Group 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:
    - If the transferor does not retain control of the transferred financial asset, the transferred financial assets is derecognised and any right or obligation retained or created as a result of the transfer is recognised.

- If the transferor retains control of the transferred financial asset, it continues to recognise it in the consolidated 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 27.1 contains a summary of the main circumstances of the principal transfers of assets outstanding at 2018 and 2017 year end which did not lead to the de-recognition of the related assets.

(2.8) 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 consolidated financial statements, the foreclosure of assets to recover amounts owed to consolidated entities 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 IAS 16 and IAS 38, 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.

(2.9) Impairment of financial assets

The entry into force of IFRS 9 has resulted in a substantial change to the impairment model, replacing the incurred loss approach included in IAS 39 with an expected loss approach.

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

The criteria for assessing and classifying transactions in the consolidated financial statements in accordance with their credit risk includes both the credit risk attributable to insolvency and the country risk to which the transactions are exposed. For those credit transactions that are expose to both credit risk attributable to insolvency and country-risk are classified in the category attributable to insolvency risk. Notwithstanding, impairment losses attributable to insolvency are estimated on country-risk basis when the latter requirements are more stringent.

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

A) Classification of transactions for credit risk attributable to insolvency

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

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

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

Significant increase in credit risk

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

To perform this assessment from a quantitative perspective, the Group has developed a specific approach for comparing probability of default (PD), whereby current PD is compared to the original PD associated with the rating level at inception. If the assessment shows an increase above absolute and relative thresholds, the Group considers that there has been a significant increase in the risk of the instrument. These thresholds were calibrated in accordance with the criteria set out in the Group's Risk approval policy and consider the individual characteristics of the loan portfolios. For purposes of comparison, the Group availed of the simplification allowed in the standard, which entails changes in the risk of a default occurring over the next 12 months as a reasonable approximation to changes in lifetime risk of default of the instrument.

The Group's credit risk management systems also include other quantitative and qualitative components which, combined or separately, could give rise to consideration that the credit risk of the financial instrument has increased significantly. such as adverse changes in the borrower's financial position, downgrades in credit rating, unfavourable changes in the sector in which they operate, their regulatory or technological environment, among others, that do not provide evidence of impairment.

Irrespective of the assessment based on probability of default and indications of deterioration in the credit risk of the exposure, a significant increase in credit risk is determined in transactions presenting the following circumstances:

- More than 30 days past due rebuttable assumption, based on reasonable and supportable information. The Group has not applied a longer period of time for these purposes.
- Refinance or restructuring that does not present evidence of impairment. Appendix X shows the classification and allowance policies and criteria applied by the Group for this type of transactions.
- Special debt sustainability agreement that does not present evidence of impairment until the cure criteria is applied.
- Repeat default or increase in the default ladder that does not present evidence of impairment of mortgage loans extended to individuals.
- Transactions with companies classified in risk-monitoring levels I and II, provided they are not classified as doubtful or assessed collectively.
- Transactions considered that there has been a significant increase in risk caused by an increase in PD from the grant date (increase established in the Bank's policies).

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

Default and credit-impaired financial assets

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

In this respect, the Group considers that default occurs in credit exposures in the following circumstances:

- More than 90 days past due. This includes all transactions of an obligor when the amount of balances more than 90 days past due exceeds 20% of the amount outstanding.
- There are reasonable doubts that the full amount of the asset will be repaid.

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

- Significant financial difficulty of the issuer or the borrower.
- Breach of contract, such as a default or past-due event.
- Grant by the lender, for economic or contractual reasons relating to the borrower's financial difficulty, a concession(s) to the borrower that it would not otherwise consider. Appendix X includes the classification and hedging policies and criteria applied by the Group/Bank in this type of transaction.

- It's becoming probable that the borrower will enter creditors' agreement or other financial reorganisation.
- The disappearance of an active market for that financial instrument because of the issuer's financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

B) Approaches for estimating expected credit losses attributable to insolvency

The estimation of expected credit losses considers the following aspects, among others:

- The existence of several possible outcomes for determining the various weights based on the probability of occurrence of the various scenarios.
- The time value of money.
- The estimation is based on the latest available information without undue cost or effort, reflecting past events, current conditions and forecasts of future economic conditions.

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

B.1) Individual estimation of allowances and provisions

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

- Individual assessment to determine the accounting classification: in this case, all borrowers exceeding the EUR 5 million EAD threshold, excluding those identified as having low credit risk, except for those classified as Stage 3 – Doubtful exposure.
- Individual estimation of allowances and provisions: in this case for:
  - All borrowers that exceed the aforementioned threshold and classified as Stage 3 - Doubtful exposure determined by the Rating Committee including borrowers classified as Stage 3 – Doubtful exposure for reasons other than arrears, or in Stage 2 – Standard exposure under special monitoring, except those classified on the basis of automatic classification factors.
  - Also subject to individual assets are borrowers with transactions identified as having low risk classified as Stage 3 – Doubtful exposures but below the threshold of significance.

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

- Forecast future cash flows: includes all the amounts the Group expects to obtain over the instrument's remaining term. In this regard, it considers both going concern and gone concern approaches; i.e. settlement and enforcement of collateral.
- Credit exposure: carrying amount of transactions at the calculation date and off-balance sheet amounts expected to be disbursed in the future. To estimate the amounts of off-balance-sheet exposures expected to be disbursed bearing credit risk, a credit conversion factor (CCF) is applied to the nominal amount of the transaction.

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

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

B.2) Collective estimation of allowances and provisions

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

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

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

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

a) *Criteria of grouping transactions*

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

The Group uses certain factors to group these assets in clusters, including type of borrower or issuer, type of transaction, type of guarantee or collateral and amount of time classified in Stage 3 – Doubtful exposure.

b) *Risk parameters*

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

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

c) *Scenarios and use of forecasts of future economic conditions*

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

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

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

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

- Gross Domestic Product (“GDP”).
- No. of Social Security registrations
- House prices

C) Credit risk attributable to country risk

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

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

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

(2.10) 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.

In accordance with IFRS-EU, the Group generally treats financial guarantees provided to third parties as financial instruments within the scope of IFRS 9.

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 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 the Group 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 Group initially recognises the financial guarantees provided on the liabilities side of the consolidated 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 consolidated 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 liabilities side of the consolidated balance sheet at the higher of the following two amounts:

- The amount determined in accordance with IRFS 9, taking into account that set forth in Appendix IX of Bank of Spain Circular 4/2017 in this estimate. 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 2.9 above.
- The amount initially recognised for these instruments, less the related amortisation which, in accordance with IRFS 15, is charged to the consolidated 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 consolidated balance sheet. These provisions are recognised and reversed with a charge or credit, respectively, to “(Provisions or (-) reversal of provisions)” in the consolidated 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 liabilities side of the consolidated balance sheet, are reclassified to the appropriate provision.

(2.11) Accounting for leases

(2.11.1) 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 Group 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 price of exercising 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 Group act as lessors 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 “Financial assets at amortised cost” in the consolidated balance sheet based on the type of lessee.

When the Group act as the lessees in a finance lease transaction, they present the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise 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 Group’s property, plant and equipment for own use (see Note 2.15).

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 consolidated income statement and the accrued interest is estimated using the effective interest method as defined in IFRS 9.

(2.11.2) 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 Group act as lessors in operating leases, they present 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 consolidated income statement.

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

(2.11.3) Asset sale and leaseback transactions

Where transactions involve the sale to a third party of an asset owned by the Group that is subsequently leased back by the Group selling the asset, the terms and conditions of the lease agreement are analysed by the Group to determine whether it should be considered a finance lease or an operating lease, in accordance with the criteria stipulated in Notes 2.11.1 and 2.11.2 above.

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

However, if a sale and leaseback transaction by the Group 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 consolidated income statement. If the sale price is below fair value of the asset sold by the Group, any profit or loss shall be recognised immediately in the consolidated income statement, except that, if the loss is offset by future lease payments at below market price, it shall 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 Group.

(2.12) Investment funds, pension funds, assets under management and savings insurance policies marketed and managed by the Group

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in “Fee and commission income” in the consolidated income statement. Details of third-party assets managed by the Group at 31 December 2018 and 2017 are disclosed in Note 27.3.

The investment funds and pension funds managed and savings insurance policies marketed and managed by the Group are not recognised on the Group's consolidated balance sheet since the related assets are owned by third parties (see Note 27.3). The fees and commissions earned in the year for the services rendered by the Group entities to these funds (asset management and custody services, etc.) are recognised under “Fee and commission income” in the consolidated income statement (see Note 33).

(2.13) Staff costs

(2.13.1) Post-employment benefits

(2.13.1.1) Types of commitments

Post-employment benefits are forms of compensation payable after completion of employment. The Group 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 Group's post-employment obligations to its employees are deemed to be "defined contribution plan obligations" wherever the Group makes predetermined contributions to a separate entity and will have no legal or effective obligation to pay further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. 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 Group are covered by pension plans and insurance policies.

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

(2.13.1.2) Description of the post-employment obligations undertaken by the Group

The post-employment obligations assumed by the Group with employees and their characteristics:

- Non-accrued pensions**:**

  A system is in place whereby The Group 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 2018, there were 5 employees with defined-benefit obligations for retirement who were pre-retired. These obligations are covered with the pension plan or insurance policies.

- Vested pensions:

  All the commitments for vested pensions assumed by Group are externalised through the pension plan and insurance policies.

In addition to these obligations, Note 6 describes the obligations with members of the Board of Directors of Bankia, S.A. and senior executives of Bankia.

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

As a rule, the Group 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
- actuarial assumptions, which when determined:
    - 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 consolidated financial statements for the period in which the obligations should be settled;
    - the interest rate used to discount cash flows is based on market rates at the date of the consolidated financial statements corresponding to the issuance of high quality bonds or obligations.

(2.13.1.4) Accounting criteria for post-employment commitments

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

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

  If at 31 December 2017 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 2018, 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 consolidated balance sheet, the Group 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 consolidated 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 Group, 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; and,
- they cannot be returned to the Group unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan or of the Group to current and former employees, or they are returned to reimburse employee benefits already paid by the Group;
- they may not be non-transferable financial instruments issued by the Group if held by a long-term post-employment benefits fund or entity.

If the Group 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 Group 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.

Pursuant to the provisions of IAS 19, the Bankia Group recognised in its consolidated 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 consolidated 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).

(2.13.2) 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 consolidated income statement, with the special features disclosed below for each specific case.

(2.13.2.1) Pre-retirements and partial retirements

At 31 December 2018, these commitments were covered by insurance policies and an internal fund.

(2.13.2.2) 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.

(2.13.2.3) Labour Agreement - Bankia Restructuring Plan

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%.

(2.13.2.4) 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".

(2.13.2.5) 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) 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.

(2.13.2.6) 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 1.15), 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. The collective procedure includes up to a maximum of 2,000 Bank employees, along with geographical mobility arrangements.

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

At 31 December 2018, the Group 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 20).

(2.13.2.7) Death and disability

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

The amount accrued and paid in 2018 to cover these obligation was EUR 5,072 thousand (EUR 2,191 thousand on 31 December 2017) of which EUR 4,429 thousand were covered by the Employee Pension Plan and EUR 643 thousand recognised under "Administrative expenses - Staff costs" in the income statement for the year.

(2.13.3) 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.

Where appropriate, 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.

(2.13.4) Termination benefits

Under current legislation, Spanish consolidated companies and certain foreign companies are required to pay termination benefits to employees made redundant without just cause. Termination benefits must be recognised when the Group 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 2.13.2 and as explained in Note 1.2., the Bank signed a labour agreement whose related commitments are adequately covered with insurance policy and provisions recognised at 31 December 2018 (see Note 20).

(2.14) Income tax

Expenses for Spanish corporate income tax and similar taxes levied on foreign consolidated subsidiaries are recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity. In this case, the income tax is also recognised in the Group'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 26).

The Group 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 Group to make a payment to the relevant tax authorities. A deductible temporary difference is one that will generate a right for the Group to a rebate or a reduction in the amount payable to the related tax authorities in the future.

Tax credit and tax loss carry forwards 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 Group 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. In any case, there will be no recognition of deferred tax liabilities arising from accounting for goodwill.

The Group 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 consolidated 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 26.5 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 26 provides a breakdown of the companies making up the Tax Group headed by Bankia, S.A. in 2018.

(2.15) Tangible assets

(2.15.1) Property, plant and equipment for own use

Property, plant and equipment for own use include assets, owned by the Group 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 consolidated entities 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 consolidated 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,
- If relevant, 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 consolidated 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 Group assess at the reporting date whether there is any internal or external indication that an intangible asset 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 "" in the consolidated income statement.

Similarly, if there is an indication of a recovery in the value of an impaired tangible asset, the consolidated entities 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" in the consolidated 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 tangible assets for own use are recognised as an expense in the consolidated income statement in the period in which they are incurred.

Tangible 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.

The Group's buildings for own use that are no longer part of its branch network and that, under 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 are measured as described in Note 2.20.

(2.15.2) Investment property

"Investment property" on the consolidated 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 2.15.1).

However, in the process for estimating impairment losses on investment properties foreclosed or received in payment of debt (see Note 2.20) reclassified from non-current assets held for sale to investment properties, among others, when the property is earmarked for lease, when determining the appropriate method for estimating fair value, the Group assesses whether the lease transaction satisfies the follow two requirements:

- The lessee's ability to pay is sufficient to service the lease payments; and
- The lease price indicates that the market value of the leased asset is above its carrying amount

If either of these two requirements is not met, fair value is estimated as explained in Note 2.20 for investment properties foreclosed or received in payment of debt classified as non-current assets held for sale.

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

(2.16) 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 consolidated entities. Only intangible assets whose cost can be estimated reasonably objectively and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses.

(2.16.1) Goodwill

Any differences between the cost of investments in consolidated entities accounted for by the equity method and other forms of business combinations other than those carried out with no transfer of consideration, carried out with respect to the net fair values of the assets and liabilities acquired, adjusted by the acquired percentage holding of the net assets and liabilities in the event of purchase of shareholdings, at the date of acquisition, are recognised as follows:

- If the acquisition price exceeds the aforementioned fair value, as goodwill under "Intangible assets - Goodwill" on the asset side of the consolidated balance sheet. In the case of acquisition of holdings in associates or joint ventures accounted for using the equity method, any goodwill that may arise from the acquisition is recognised as forming part of the value of the investment and not as an individual item under "Intangible assets - Goodwill".
- Any negative differences between the costs of acquisition less the aforementioned fair value are recognised, once the valuation process has been completed, as income in the consolidated income statement under “Negative goodwill recognised in profit or loss”.

Positive goodwill (excess between the acquisition price of an investee or business and the net fair value of the assets, liabilities and contingent liabilities acquired from this entity or business) - which is only recognised on the consolidated balance sheet when acquired for consideration - thus represents advance payments made by the acquiring entity for future economic benefits arising from the assets of the entity or business acquired that are not individually and separately identifiable and recognisable.

Goodwill is allocated to one or more cash-generating units that are expected to benefit from the synergies of the business combination. The cash-generating units represent the smallest identifiable group of assets that generates cash inflows to the Group that are largely independent of the cash inflows from other assets or groups of assets of the Group. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment.

The cash-generating units to which goodwill has been allocated are tested for impairment (including the amount of goodwill allocated in their carrying amount). Impairments tests are carried out at least annually, or whenever there is any indication that an asset may be impaired.

Goodwill is not amortised, but tested for impairment regularly and written down if there is evidence of impairment of goodwill. A cash-generating unit to which goodwill has been allocated is tested for impairment by comparing the unit's carrying amount, excluding any goodwill attributable to non-controlling interests if the entity has opted not to measure non-controlling interests at fair value, with its recoverable amount.

The recoverable amount of a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. To estimate value in use, the Group generally uses models based on the following assumptions:

- The recoverable value is the value in use of the investment, obtained from the present value of the cash flows that are expected to be obtained from the cash-generating unit, from its ordinary activities (adjusted for extraordinary items) or from the possible disposal thereof.
- Estimated cash flow projections usually have a maximum time horizon of five years and include cyclical growth rates based on various factors such as the economic situation at the time the assessment is performed, growth in the industry, historical rates etc. At 31 December 2018, no estimates had been made with cash flows for longer periods.

- The cash flows are discounted using specific discount rates for each asset, on the basis of a risk-free interest rate which is increased by a risk premium for each investment based on various capital-weighting factors (ratings, internal scorings, etc.).

If the carrying amount of the cash-generating unit is higher than its recoverable amount, the Group recognises an impairment loss. The impairment loss is allocated, first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then, for any remaining amount of the impairment loss, to reduce the carrying amount of the other assets pro rata on the basis of the carrying amount of each asset in the unit. If the entity has opted to measure non-controlling interests at fair value, it would recognise the impairment of goodwill attributable to these non-controlling interests.

Impairment losses on goodwill are recognised "Impairment or (-) reversal of impairment on non-financial assets – intangible assets" in the consolidated income statement. Impairment losses recognised on goodwill recognised under "Intangible Assets-Goodwill" as indicated in the preceding paragraph cannot be reversed in a subsequent period.

(2.16.2) Other intangible assets

Intangible assets other than goodwill are recorded on the consolidated balance sheet at cost of acquisition or production, net of accumulated amortisation and any impairment losses.

Intangible assets can have an indefinite useful life – when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities – or a finite useful life, in all other cases.

Intangible assets with an indefinite useful life are not amortised. At the end of each reporting period, however, consolidated entities review the remaining useful life of each asset to confirm that it is still indefinite and, if this is not the case, appropriate action is taken.

Intangible assets with finite lives are amortised using the same criteria as for the depreciation of property, plant and equipment. Annual amortisation of items with a finite useful life is recognised under "Depreciation" in the consolidated income statement. None of the Group's significant intangible assets other than goodwill have an indefinite useful life. These intangible assets, which were developed by non-Group companies, have an average useful life of ten years.

The estimated useful life of these assets is updated periodically through an individual analysis of the various items, considering among other aspects the type of applications, their functional and technical state, and their alignment with business strategy. According to applicable accounting standards, the effects of changes in useful life are applied prospectively over the estimated years of useful life remaining. In 2018, the useful lives of intangible assets were updated. This did not have a material impact on the consolidated income statement.

Consolidated entities recognise 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 consolidated 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 2.15.1).

(2.17) Inventories

"Inventories" in the consolidated balance sheet includes non-financial assets:

- Held for sale in the ordinary course of business,
- In the process of production, construction or development for such sale, or
- To be consumed in the production process or in the rendering of services.

Consequently, inventories include land and other property (other than investment properties) held for sale or for inclusion in a property development.

Inventories are measured at the lower of cost (which comprises all costs of purchase, costs of conversion and direct and indirect costs incurred in bringing the inventories to their present location and condition, as well as the directly attributable borrowing costs, provided that the inventories require more than one year to be sold, taking into account the criteria set forth above for the capitalisation of borrowing costs relating to property, plant and equipment for own use) and net realisable value. Net realisable value is the estimated selling price of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventory items that are not normally exchangeable and the cost of goods and services produced and reserved for specific projects are determined individually for each case.

Any write-downs of inventories to net realisable value and any subsequent reversals of write-downs to below their carrying amount are recognised under ""Impairment or (-) reversal of impairment on non-financial assets – other" of the consolidated income statement.

The carrying amount of inventories sold is derecognised and recognised as an expense under "Other operating expenses - Changes in inventories" in the consolidated income statement.

For this purpose, the acquisition cost of foreclosed inventories or inventories otherwise acquired in payment of debts is estimated as the lower of:

– Financial assets recognised at their book value.

– 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 Group has the ability to realise the asset at the estimated fair value, up to the limit of the cumulative impairment loss.

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

(2.18) Provisions and contingent liabilities

When preparing the consolidated financial statements, the Group'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 Group, 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 consolidated entities.

The Group's financial statements include all significant provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in accordance with the requirements of IAS 37.

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 IAS 37.92, in rare cases, where disclosure of information can be expected to prejudice seriously the Group's position, generally in a class action lawsuit, the Group 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 consolidated income statement, unless expressly indicated otherwise.

(2.18.1) Legal proceedings related to the 2011 IPO

Civil proceedings regarding the invalidity of the subscription of shares.

At present, there are claims being processed, albeit a small number, 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 Summary Proceedings 1/2018 with 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. Since retail investors have been reimbursed for virtually the entire amounts invested in the IPO through civil lawsuits or the voluntary repayment process carried out by Bankia, the contingency existing with these is practically resolved.

On 23 November 2015, as part of the civil liability proceedings, a bail deposit of EUR 38.3 million was set. At present, requests for bail deposits amounting to EUR 5.8 million had been issued for which a ruling by the Court is pending.

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 14, 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.

The trial began on 26 November 2018 and is expected to run through the first half of 2019.

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.
- In the separate case related to credit cards, the Supreme Court issued a ruling on 3 October 2018 upholding the sentence handed down on 23 February 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.

On 26 November 2018, an enforcement decree was issued opening the individual subsidiary civil liability cases of each convicted party, determining and establishing the amounts payable by them.

The Group considered the lawsuit included in the Abreviated Proceeding 1/2018(with origin in the 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 Group in its accounting treatment.

(2.18.2) Other court proceedings / claims in process

At year-end 2018, the Group 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 20), the conclusion of these proceedings and claims will not have a material impact on the Group's financial situation.

The main claims against the Group 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. Although two class actions rejecting the proposed actions have concluded over the past year.
- Claims seeking nullity of floor clauses. There were 6,415 legal proceedings underway regarding individual actions seeking nullity at 31 December 2018. Bankia, in addition to virtually all Spanish financial institutions, is also being sued in a class action brought by ADICAE being processed in Madrid mercantile court 11, under case no. 471/2010. On 12 November 2018, Section 28 of the Madrid Regional Court issued ruling no. 603/2018 rejecting the appeals filed by the financial institutions against the ruling in first instance partially upholding the claim. This ruling upholds the injunctions and restitution of amounts exercised by ADICAE and, as a result, ordering the defendants (including Bankia in its own name and as successor of Banco Mare Nostrum, SA [BMN]) (i) to eliminate the floor clauses in contracts with consumers and (ii) to reimburse the amounts paid as a result of these stipulations, with no statute of limitations. The main argument for the declaration of nullity is the abstract of judgement of material or substantive transparency after an examination of each bank's standard loan arrangement practices. The analysis focused primarily on the wording and contractual treatment of the floor clause in the contract clauses with a view to determining whether, in the eyes of the average consumer, there was a lack of transparency. The implications of the sentence, without prejudice to potential appeals before the Supreme Court, are limited for Bankia because of the out-of-court procedure. Nevertheless, the ruling of the Madrid Regional Court does not have any automatic effects on all consumers, especially with respect to the claim for restitution of the amounts paid which, as appropriate, must be addressed in enforcement of the ruling on a case-by-case basis.
- Lawsuits presented in connection with mortgage arrangement fees. At 31 December 2018, a total of 16,367 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.

Other lawsuits

- Lawsuits filed in accordance with Law 57/68. At 31 December 2018, there were 691 legal proceedings in progress.

- Lawsuits related to derivatives. There were 262 legal proceedings in progress at 31 December 2018.
- 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 of the shareholders of the concessionaire and the company that owns it. 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 (Asociación de pequeños accionistas de Banco de Valencia) 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 and 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.

  On 25 June 2018, Central Court of Instruction 1 issued a ruling rejecting the appeal filed by Fundación Bancaja de carácter especial de la Comunidad de Valencia against the ruling of 13 December 2017 holding it subsidiarily liable. Therefore, Fundación Bancaja remains subsidiarily liable, along with BFA and Bankia.

  On 1 October 2018, the court issued a ruling requiring the parties to submit a request for stay or continuance of the summary process. BFA and Bankia have requested the stay. The Tax Minister requested an extension of the pre-trial stage to complete outstanding actions (i.e. take statements by Banco de Valencia managers).

  On 19 October 2018, a ruling was issued rejecting the FROB's appeal against the ruling upholding BFA's subsidiary civil liability, with a dissenting vote implying that the FROB -a public body- cannot be included in the proceedings because subsidiary civil liability is required of BFA, in which it has 100% ownership.
- Complaint presented before 481/41 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. The ruling of 28 February 2018 of section 6 of the Madrid Regional Court resolves the appeals and confirms, definitively, the inadmissibility of the file to extend the scope of the lawsuit of the developer.

  Pending in these proceedings are the procedural appeals filed by the accused and investigated parties –first before Court of Instruction 1 of Coslada and second before the Regional Court- against the Transformation Ruling of 17 January 2018 dropping the suit against former Caja Madrid employees and not seeking subsidiary civil liability against Bankia.

- Appeals against the forfeiture of construction and operation surety bonds issued to toll road concessionaires, particularly against the following resolutions of the Council of Ministers:
  - Of 20 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the Alicante ring-road toll highway, the El Campello toll-free bypass, and ordering the forfeiture of the surety bonds deposited with the government by concessionaire Ciralsa, S.A. (five bonds issued by CaixaBank for half and jointly and severally to the debtor).
  - Of 13 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the Madrid to Guadalajar section of the R-2 toll road and the Madrid M-50 ring road, sub-section from the N-II to the N-1 highways, and ordering the forfeiture of the bonds deposited with the government by concessionaire Autopista del Henares, S.A. (nine bonds issued solely by CaixaBank).
  - Of 13 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the following sections: M-40 Arganda del Rey, of the R-3 toll road direction Madrid to Arganda del Rey; M-40 Navalcarnero, of the R-5 toll road, direction Madrid to Navalcarnero, and of the M-50 between the A-6 highway and the M-409 highway, and ordering the forfeiture of the bondes deposited with the government by concessionaire Accesos de Madrid, Concesionaria Española, S.A. (10 bonds issued solely by Bankia).
  - Of 20 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the Madrid to Guadalajar section of the A-10 toll road and the Madrid M-40 ring road, sub-section from the N-II to the N-1 highways, and ordering the forfeiture of the bonds deposited with the government by concessionaire Autopista del Henares, S.A. (nine guarantees issued solely by CaixaBank).

Administrative appeal filed before the Supreme Court agreeing the injunction on the suspension of the effectiveness of the agreement.

(2.19) Non financial guarantees provided

The guarantees or guarantee agreements in which the Group undertakes to compensate an obligee in the event of non-compliance with a specific obligation other than a payment obligation by a particular debtor of the obligee, 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 purpose of preparing these consolidated financial statements, to be insurance contracts.

When the Group provides the guarantees or sureties indicated in the preceding paragraph, it recognises them under “Other Liabilities” in the consolidated 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 in the consolidated income statement under “Interest income” in the consolidated income statement; and the value of the amounts initially recognised in liabilities is allocated on a straight-line basis to the consolidated income statement (or, if applicable, using another method which must be indicated). In the event that, in accordance with IAS 37, 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 the aforementioned provision.

(2.20) Non-current assets and disposal group classified as held for sale and discontinued operations

“Non-assets and disposal groups classified as held for sale” in the consolidated balance sheet includes the carrying amounts of items -individual (“non-current assets”) or items that form part of a group (“disposal group”) or part of a business unit to be disposed of (“discontinued operations”)- whose sale is highly probable in their current conditions within one year from the date of the consolidated financial statements. Therefore, the carrying amount of the items –which may be financial or non-financial– is expected to be recovered through a sale transaction rather than through continuing use.

Subsidiaries that meet the criteria to be classified as non-current assets held for sale are fully consolidated and their assets and liabilities are presented and measured accordingly as a disposal group. Also considered, where appropriate, as non-current assets held for sale are investments in associates or joint ventures that meet the requirements of the preceding paragraph.

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

In general, non-current assets and disposal groups 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. As long as they are classified in this category, the tangible and intangible assets, which by their nature would be depreciable, are not depreciated.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Group 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 consolidated income statement. If the fair value of such assets subsequently increases, the Group reverses the losses previously recognised and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a counterpart in the same heading of the consolidated 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 consolidated 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.

Income and expenses of components classified as discontinued operations are shown, net of the related tax effect, under "Profit or (-) loss after tax from discontinued operations" in the consolidated income statement.

Assets foreclosed or received in payment of debts by the Group, for the full or partial settlement of debtors' payment obligations, are considered non-current assets held for sale unless the Group has decided to make continuing use of the assets or to hold them to earn rentals and/or for future capital appreciation, in which case they are measured as described in Note 2.15.

Non-current assets held for sale foreclosed or received in payment of debts are measured initially at the lower of:

– Financial assets recognised at their book value.

– Fair value at the time of adjudication or reception of the asset net of the estimated sales costs.

After initial recognition, the Group updates the reference value used to estimate fair value less costs to sell, at least annually.

The Group has devised an internal methodology for estimating discounts on the reference value and costs to sell real estate assets foreclosed or received in payment of debt classified as non-current assets held for sale. This method is based on the Group's prior experience of sales of similar assets, in terms of time scales, prices and volumes, and the time taken for their sale. The methodology complies with the principles and requirements governing the development and use of internal methodologies for estimating discounts on the reference value and the cost of sale of foreclosed assets or those received in payment of debt. It has also undergone the necessary internal validation process prior to its approval and use. Application of this standard for the first time 2018 did not have a significant impact on the Group's consolidated financial statements.

Real estate assets foreclosed or received in payment of debts classified as non-current assets held for sale for which the Group has not attained sufficient sales volume, meaning therefore that its management unit does not possess the sales experience needed to sell or otherwise realise those assets at their fair value, are measured by taking the reference value and applying the percentage discount rates estimated by the Bank of Spain as alternative solutions, based on its experience and the information it holds on the banking sector, as set out in Bank of Spain Circular 4/2017.

All court costs associated with the claiming and foreclosure of these assets are recognised immediately in the consolidated 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. All expenses related to the administration and management of the assets are recognised in the consolidated income in the period in which they are accrued.

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

(2.21) Consolidated statement of cash flows

The following terms are used in the consolidated 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 paragraph i)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.
- 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.

- 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 preparing the consolidated 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 consolidated balance sheet was considered as cash and cash equivalents.

(2.22) 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 38.8.

(2.23) 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 Group at 31 December 2018 and 2017.

Note 22.2 includes the disclosures required by applicable regulations regarding transactions with treasury shares.

(2.24) Consolidated statement of recognised income and expense

As indicated above, according to the options available under IAS 1, the Group has elected to present separately, first, a statement displaying the components of consolidated profit or loss ("Consolidated income statement") and, secondly, a statement that begins with profit or loss for the year and displays the components of other comprehensive income for the year, which in these consolidated financial statements, in accordance with the terminology of Bank of Spain Circular 4/2017, is termed the "Consolidated statement of recognised income and expense".

The consolidated statement of recognised income and expense presents the income and expenses generated by the Group as a result of its business activity in the year. A distinction is made between income and expenses recognised in the consolidated income statement, on one hand, and, on the other, income and expenses recognised directly in consolidated equity pursuant to prevailing laws and regulations.

Accordingly, this statement presents:

- Consolidated profit or loss for the years ended 31 December 2018 and 2017.
- The net revenue or expenses temporarily recognised in consolidated equity as valuation adjustments.
- The net revenue or expenses definitively recognised in consolidated equity.
- The tax accrued on the items referred to in the preceding two subparagraphs, except in relation to impairment losses on investments in associates or joint ventures using the equity method, which are presented on a net basis.
- Total recognised consolidated income and expense for the year, calculated as the sum of four previous amounts, showing separately the total amounts attributable to equity holders of the parent and to non-controlling interests.
- The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of the nature of the related items, under” Share of other recognised income and expense of investments in joint ventures and associates”.

The changes in consolidated income and expenses recognised in consolidated equity under “Valuation adjustments” are broken down – subject to the constraints set out above – as follows:

- Revaluation gains/ (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in consolidated equity. The amounts recognised in the year under this item are maintained in this line, but in the same year are transferred to the consolidated 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 consolidated equity, even in the same year, which are taken to the consolidated income statement.
- Amount transferred to the initial carrying amount of hedged items: comprises the valuation gains and losses previously recognised in consolidated 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 consolidated statement of recognised income and expense may be recognised in the consolidated income statement except “Actuarial gains or (-) losses on defined benefit pension plans “.

The amounts of these items are presented gross and, except as indicated above for the items relating to Share of other recognised income and expense of Investments in joint ventures and associates, the related tax effect is recognised in this statement under “Income tax relating to items that may be reclassified to profit or loss(-)”.

(2.25) Statement of changes in consolidated equity

The consolidated statement of changes in equity (which appears in these consolidated financial statements as "Statement of changes in total equity" in accordance with the terminology used by Bank of Spain Circular 4/2017) reflects all the changes in consolidated equity, including those due to accounting policy changes and error corrections. This statement accordingly presents reconciliation between the carrying amount of each component of the consolidated equity at the beginning and at the end of the period, separately disclosing any change into the following headings:

- Adjustments due to accounting policy changes and error adjustments: includes changes in Group 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 consolidated equity.

(3) Risk management

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

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

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

1. General principles 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:

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

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

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

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

   The Recovery Plan, also approved BY Board of Directors, establishes the potential measures to be adopted in a hypothetical crisis situation. The measures would be triggered if the predefined level of any of the selected indicators in the plan were exceeded. They are consistent with those determined by the tolerance levels in the 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 annual budget, beyond the requirement to be commensurate with the risk appetite statement, was drawn up comparing business development proposals with the optimal portfolios provided by the system.

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

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

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

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

   - *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.

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

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

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

- To enhance the supervisor relationship model in terms of risks, thereby improving compliance with SREP recommendations and the Annual Supervision Programme.
- To reinforce the holistic view of risk with a forward-looking approach aligned with a sustainable and profitable business model, embracing the risk culture across the entire organisation.
- To improve the risk control by implementing a new internal control tool (for credit and market risk) that identifies, measures and control the critical risks of key processes.
- To strengthen the credit risk management and control environment within a framework of revitalization that improves the roll-out of the credit growth strategy, in addition to optimisation of the recoveries model.
- To adapt the risk function to a three lines of defence model, thereby complying with prevailing regulations and supervisory expectations.

A crucial aspect is internal risk control, organised in accordance with a three lines of defense system. The first line entails operational areas, business lines or support units, as well as risk areas that directly service the business. All of these are responsible for complying with the risk frameworks, policies and procedures established by the governing bodies.

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

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

Meanwhile, the functions of the Audit and Compliance Committee, which reports to the Board of Directors, include supervising the effectiveness of the Company's internal controls, internal audit (where applicable) and risk management systems (including tax risks) and discussing with the statutory auditor any material weaknesses of the internal control system that may have been detected in the audit, all while safeguarding independence.

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

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

- The Risk Advisory Committee (Executive 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 (Executive Committee of the Board of Directors). Organ 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: Its responsibility to ensure compliance with prevailing standards for recognising impairments for credit risk; approve the framework of risk classification policies, criteria and approaches and of allowances under the general framework of policies established by the Board of Directors; to monitor and control the budget of non-performing loans and NPL provisions, as well as watchlist; to approve the proposals of individual classification following the appearance of evidence of impairment; to authorize the approvals scheme to allow the

risks teams to decide on the classification and individualised allowances for borrowers and exposures of smaller amounts; to approve reclassifications (standard, watchlist , doubtful ,failed) and changes in portfolio provisions of sets of exposures; to approve the approach for determining credit valuation adjustments (CVA) in the derivatives portfolio; and to monitor the CVA.

- The Models Committee. Its main job is to manage, approve and monitor the Entity's internal models (including the extension/modification of existing 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.
- Risk Control and Oversight Committee: Its risk-related functions include controlling, overseeing and exercising effective challenge to trends in the Group's risk profile, the risk appetite approved by the Board of Directors, and the business model from a holistic and forward-looking perspective, analysing any deviations affecting the Group's risk profile, solvency and/or liquidity, proposing, where necessary, any measures considered appropriate.

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, 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.

(3.1) Exposure to credit risk

(3.1.1) Credit risk management objectives, policies and processes

A. Aim of credit risk management

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 obligations. This risk is inherent to all traditional banking products of financial institutions (loans, credits, financial guarantees given, etc.), and other types of financial assets (debt securities, derivatives and other) and affects financial assets measured at both amortised cost and fair value.

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.
- Alignment with the Risk Appetite Framework. Policies must be seen as a set of action guidelines and restrictions aimed at ensuring compliance with the Risk Appetite statement approved by the Board of Directors.
- Establishing criteria that feed through to best banking practices. In this vein, specific policies are defined for industries or borrowers that may be sensitive on account of their social implications, such as investments in or financing of controversial businesses, such as arms and ammunition, or that infringe on human rights, or any activity that could compromise the Entity's ethics.
- Transparent environment. It creates a transparent environment, integrating the various systems developed to prevent crimes and correct fraud, acting at all times in compliance with applicable law.
- Stable general approval criteria. Although the specific conditions are subject to change, the general guidelines have a vocation for permanence.
- Adaptation. Segment-specific criteria should combine stability with adaptation to the Group's strategic targets, as well as the prevailing economic environment.
- Adapting price to risk, Adapting price to risk, considering both the customer as a whole and individual transactions, and guaranteeing the achievement of business objectives and coverage of cost of risk.
- Data quality. To assess risk appropriately, sufficient and accurate data are required. Therefore, the coherence and integrity of the data must be assured.

- Two-way relationship with internal scoring systems. Policies must establish clear lines of action designed to ensure that the internal scoring systems are fed with accurate and sufficient information to guarantee that they work properly. At the same time, decisions related to credit risk must be shaped by the rating of the borrower and/or the transactions.
- Continuous monitoring of exposures. Monitoring is underpinned by the allocation of specific management responsibilities for customers/transactions, supported by policies, procedures, tools and systems that allow for their appropriate identification and assessment throughout their life-cycle.
- Fostering the recovery activity. Based on policies, procedures, tools and systems that ensure a flexible and early procedure by the parties, specified in actions and decision-making aimed at minimising the loss from exposures for the Entity.

Moreover, the Group develops credit risk implementation and management based on:

- The involvement of senior management in decision-making.
- A holistic view of the credit risk management cycle.
    - Planning the key credit risk metrics to guide the actions of the business and risk-taking.
    - Specialising in each stage of risk management with policies, procedures and resources according to each: approval, monitoring and recoveries.
- An approval policy containing criteria that identify, for instance, minimum requirements of transactions and customers, the Group's desired target profile for each type of material risk in line with the Risk Appetite Framework, and the elements or variables to be considered in the analysis and decision-making.
- Preventative customer monitoring system.
- Flexible recoveries model, adaptable to changes in the regulatory environment.
- Tools to assist risk decision-making and measurement, underpinned by credit quality of exposures (scoring, rating), with a view of objectifying and maintaining a risk management policy attuned with the strategy pursued by the Group at any given time.
- Clear separation of roles and responsibilities. The Bank understands the risk control function as a function that is spread across the entire organisation and is based on a three-lines-of-defence system, as explained below.
    - First line: Departments that own and manage the risk.
    - Second line: Departments that oversee the risks.
    - Third line: Departments that provide independent assurance.

B. Credit risk management policies

To achieve these objectives, the Group has a "Credit Risk Document Structure" in place approved by the Board of Directors in May 2018 to replace its previous Credit Risk Statement and Manual, for which the last amendment was authorised by the Board of Directors in December 2017, to reflect the completion of the Group restructuring plan on 31 December 2017, in addition to the amendments included as a result of the entry into force of Bank of Spain Circular 4/2017 on 1 January 2018 (see Note 1.3.1).

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

- The Credit Risk Policies, Methods and Procedures Framework contains criteria and guidelines to ensure adequate management of the approval, monitoring and recovery process and the proper classification and coverage of transactions over their entire life cycle. It also allows the Group to establish high-level action limits by setting general principles that are adjusted accordingly in the policies.
- The Credit Risk Policies contain a set of rules and main instructions governing the management of credit risk. They are effective and consistent with the general principles set out in the Policies Framework and in the Risk Appetite Framework

and are applied across the entire Group. They are used internally to create and develop rules and regulations on risks when it comes to competencies related to risk strategy, implementation and control.

- The Specific Criteria Manuals provide a detailed description of the criteria set out in the policies regulating the activities carried out by the Bank. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously put in place by minimising operational risk. The Specific Criteria Manuals combine with the Credit Risk Policies to provide transversal risk management across the Group.
- The Operating Manuals are methodological documents that develop and expand upon the criteria set out in the Specific Criteria Policies and Manuals. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously established. These manuals remain permanently in sync with the Credit Risk Policies and Criteria Manuals.

C. Assessment, monitoring and control of credit risk

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

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

Approval and amendment of credit risk transactions

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

To this end, the Approval Policy is aligned with the standards established by senior management in terms of segments, products, markets, risk-adjusted return and other variables, in line with the management objectives set out in the Risk Appetite Framework. The policies include general approval criteria, underpinned by next cornerstones:

- Responsible approval.
- Activity geared toward Retail – SMEs banking in Spain.
- Borrower solvency.
- Operation: financing commensurate with the customer size and profile, balance with short- and long-term financing, assessment of guarantees or collateral.
- Environmental and social risk.

The approval policies are governed by credit scoring systems, which allow a response to be given that is objective, consistent and coherent with the 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 higher cut-off points.
  - Accept, if the score is above the higher cut-off point.
- Indebtedness. The level of indebtedness is established based on the financial burden which the transaction represents over the stated net income of the applicants. In no case can the resulting available income after allowing for debts represent a noticeable limit to cover the living expenses of the borrower. Specifically, in the mortgage segment, the longer the term of the loan, the higher the maximum limit of indebtedness with a view to mitigating the increased sensitivity to fluctuations in interest rates.
    - Exclusion filters.*:* The Group uses databases, both internal and external, that provide information on the credit, financial and patrimonial situation of the clients or counterparts; The existence of incidents in the situation of the clients or counterparts, may imply the resolution to deny

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

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, of 27 June, addressed to credit institutions and payment service providers, on transparency of banking services and responsibility in the granting of loans, also 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 Bank provides its customers from the following pre-contract documentation:

- Pre-contract information file (PCIF): A document prepared for delivery to the customer describing the characteristics and general conditions of the product.
- Personalised information file (PIF): 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 Good 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 Bank for a period of 14 calendar days from delivery.

In relation to changes in authorised credit transactions, Appendix X shows a summary of the policies and standards established by the Group for refinancing or forbearance transactions, in addition to quantitative information relating to these transactions.

Monitoring of credit risk transactions

The monitoring activity is predicated on anticipation, proactiveness and efficiency and the core principles for managing monitored customers are:

- Integral view of the customer: the monitoring approach is geared towards overall management of customers (or groups), not just at contract level.
- Involvement of all Bank centres in monitoring activity.
- Symmetry with the approval process.
- Efficiency and sharing opinions.
- Executive in terms of 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.

Recovery credit risk transactions

Recovery management is defined as a full process that begins even before a payment is missed, covering all phases of the recovery cycle until an amicable or contentiou 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 during the period 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.

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 Directorate is equally responsible for revitalising the lending business, providing tools and establishing criteria that identify potential customers, simplify the decision-making processes and allocate risk lines, always within pre-defined tolerance levels. It has tools and pre-authorisation and limit assignment processes for lending to both companies and retail customers.

Risk classification

Rating and scoring tools are used to classify borrowers and/or transactions by risk level. Virtually all segments of the portfolio are classified, mostly based on statistical models. This classification not only aids in decision-making, but allows for the addition of the appetite and tolerance of risk decided by the governing bodies through the limits established the Policies.

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

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

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

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

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

Risk quantification

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

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

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

The entry into force of IFRS 9 (see Note 1.3.1), represents substantial changes in estimating credit risk allowances, moving from an incurred loss to an expected loss approach, which includes the use of forecasts for future economic conditions. This change prompted the Group to carry out a project in 2017 for implementation of the new standard.

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

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

(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 Group is the maximum amount the Group would have to pay if the guarantee were executed.

At 31 December 2018 and 2017, the original credit risk exposure, without deducting collateral or any other credit enhancements received, and without applying the credit conversion factors grouped in accordance with the main exposure segments and activities established, is as follows:

31 December 2018

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives - Hedging accounting	Loan commitments, financial guarantees and contingent commitments given.
Loans and advances	**-**	**9,161**	**-**	**-**	**122,719,195**	**-**	**33,820,938**
Credit institutions	-	-	-	-	4,433,419	-	3,170,181
Government agencies	-	-	-	-	5,139,351	-	509,456
Others financial companies	-	-	-	-	1,662,479	-	349,509
Companies	-	9,161	-	-	33,222,032	-	24,353,861
Households	-	-	-	-	78,261,914	-	5,437,931
Mortgage loans	-	-	-	-	70,524,379	-	-
Consumer credit	-	-	-	-	4,821,710	-	-
Cards	-	-	-	-	854,877	-	-
Others		-	-	-	2,060,948	-	-
Debts	**281,570**	**187**	**-**	**15,559,415**	**33,742,245**	**-**	**-**
Credit institutions	-	-	-	27,633	29,992	-	-
Government agencies	276,188	-	-	15,042,412	14,376,789	-	-
Other financial companies	1,992	136	-	213,477	19,335,464	-	-
Companies	3,390	51	-	275,893	-	-	-
Households	-	-	-	-	-	-	-
Equity instruments	**3,901**	**-**	**-**	**76,300**	**-**	**-**	**-**
Derivatives	**6,022,496**	**-**	**-**	**-**	**-**	**2,626,997**	**-**
Total	**6,307,967**	**9,348**	**-**	**15,635,715**	**156,461,440**	**2,626,997**	**33,820,938**
Memorandum item: Breakdown by country of the Public Agency							
Spanish government agencies	94,421	-	-	12,409,056	15,956,718	-	509,456
Italian government agencies	181,767	-	-	2,632,473	2,786,092	-	-
French government agencies	-	-	-	-	773,330	-	-
Other government agencies	-	-	-	883	-	-	-
Total	**276,188**	**-**	**-**	**15,042,412**	**19,516,140**	**-**	**509,456**

31 December 2017

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives - Hedging accounting	Loan commitments, financial guarantees and contingent commitments given.
Loans and advances	**-**	**-**	**-**	**-**	**126,052,617**	**-**	**31,683,978**
Credit institutions	-	-	-	-	3,027,935	-	2,885,062
Government agencies	-	-	-	-	5,532,390	-	443,428
Other financial companies	-	-	-	-	2,846,190	-	455,592
Companies	-	-	-	-	32,241,930	-	22,685,546
Households	-	-	-	-	82,404,172	-	5,214,350
Mortgage loans	-	-	-	-	75,084,955	-	-
Consumer credit	-	-	-	-	4,146,470	-	-
Cards	-	-	-	-	829,956	-	-
Other	-	-	-	-	2,342,791	-	-
Debts	**2,001**	**-**	**-**	**22,673,961**	**32,658,113**	**-**	**-**
Credit institutions	-	-	-	1,587,197	2,815	-	-
Government agencies	2,001	-	-	20,495,149	11,464,020	-	-
Other financial companies	-	-	-	278,347	21,191,278	-	-
Companies	-	-	-	313,268	-	-	-
Households	-	-	-	-	-	-	-
Equity instruments	**73,953**	**-**	**-**	**70,929**	**-**	**-**	**-**
Derivatives	**6,697,537**	**-**	**-**	**-**	**-**	**3,067,035**	**-**
Total	**6,773,491**	**-**	**-**	**22,744,890**	**158,710,730**	**3,067,035**	**31,683,978**
Memorandum item: Breakdown by country of the Public Agency							
Spanish government agencies	2,001	-	-	16,215,085	15,638,504	-	443,428
Italian government agencies	-	-	-	4,279,208	376,769	-	-
French government agencies	-	-	-	-	981,137	-	-
Other government agencies	-	-	-	856	-	-	-
Total	**2,001**	**-**	**-**	**20,495,149**	**16,996,410**	**-**	**443,428**

(3.1.3) Breakdown of original exposure by product

Original credit risk exposure (net of impairment for credit risk) at 31 December 2018 and 2017, by product (excluding equity products), is shown in the table below. Loans and credits, account 69.66% at 31 December 2018 (67.85% at 31 December 2017). Fixed income products represent the second-highest customer demand, accounting for 24.06% at 31 December 2018 (25.97% at 31 December 2017).

The breakdown at 31 December 2018 is as follows:

(Thousands of euros)

PRODUCT	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives - Hedging accounting	Loan commitments, financial guarantees and contingent commitments given.
Loans and credits	-	9,161	-	-	118,285,776	-	20,887,127
Fixed income	281,570	187	-	15,559,415	33,742,245	-	-
Interbank deposits	-	-	-	-	4,433,419	-	-
Guarantees and documentary credits	-	-	-	-	-	-	12,933,811
Derivatives	6,022,496	-	-	-	-	2,626,997	-
Total	**6,304,066**	**9,348**	**-**	**15,559,415**	**156,461,440**	**2,626,997**	**33,820,938**

The breakdown at 31 December 2017 is as follows:

(Thousands of euros)

PRODUCT	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives - Hedging accounting	Loan commitments, financial guarantees and contingent commitments given.
Loans and credits	-	-	-		123,024,682	-	18,517,340
Fixed income	2,001	-	-	22,673,961	32,658,113	-	-
Interbank deposits	-	-	-	-	3,027,935	-	-
Guarantees and documentary credits	-	-	-	-	-	-	13,166,638
Derivatives	6,697,537	-	-	-	-	3,067,035	-
Total	**6,699,538**	**-**	**-**	**22,673,961**	**158,710,730**	**3,067,035**	**31,683,978**

(3.1.4) Credit quality

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.

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, 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 Group's original credit risk exposure (net of impairment for credit risk) at 31 December 2018 and 2017, excluding variable income and derivatives, with the average ratings per segment, is as follows:

Breakdown at 31 December 2018

(Thousands of euros)

	With Rating		Without Rating
SEGMENT	Amount	Average rating	Amount
Credit institutions	2,478,382	A-	5,176,310
Government agencies	35,171,774	BBB+	107,091
Other financial companies	21,226,722	A-	328,504
Companies	53,851,193	BB+	505,638
Households	80,001,123	BB	1,055,258
Mortgage loans	67,938,738	BB	-
Consumer credit	4,773,385	BB-	287
Cards	846,167	BB-	388
Rest	6,442,833	BB	1,054,583
Total (default excluded)	**192,729,194**	**BBB-**	**7,172,801**
Total (Default)	**6,230,716**	**D**	**-**

Breakdown at 31 December 2017

(Thousands of euros)

	With Rating		Without Rating(1)
SEGMENT	Amount	Average rating	Amount
Credit institutions	1,720,193	BBB+	5,784,522
Government agencies	32,646,748	BBB+	5,094,274
Other financial companies	1,991,613	BBB	22,763,762
Companies	45,355,529	BB+	6,058,932
Households	68,184,375	BB+	16,758,478
Mortgage loans	58,643,155	BB+	13,834,771
Consumer credit	3,618,108	BB-	505,632
Cards	719,461	BB-	106,733
Rest	5,203,651	BB	2,311,342
Total (default excluded)	**149,898,458**	**BB+**	**56,459,968**
Total (Default)	**6,712,244**	**D**	**-**

(1) Mostly unrated exposures corresponding to the business combination closed in December 2017 (see Note 1.15)

Credit quality. Rating distribution by exposure of financial institutions, Public sector 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)

RATING	31/12/2018	31/12/2017
AAA to A-	45,929,192	1,535,717
BBB+ to BB-	12,604,858	34,518,757
B+ to B-	281,004	252,922
CCC+ to C	61,825	51,159
Not rated (1)	5,613,177	33,770,644
Default	78,422	82,205
Total	**64,568,478**	**70,211,404**

(1) Mostly unrated exposures corresponding to the business combination closed in 31 December 2017 (see Note 1.15).

Credit quality. Rating distribution by exposures of corporates

The distribution of the original exposure (net of impairment for credit risk) by credit ratings at 31 December 2018 and 2017, is shown in the table below:

(Thousands of euros)

RATING	31/12/2018	31/12/2017
AAA to A-	5,756,225	2,911,737
BBB+ to BB-	37,184,274	32,454,225
B+ to B-	10,258,074	9,432,012
CCC+ to C	652,620	555,127
Not rated (1)	553,061	5,924,660
Default	3,460,134	3,962,983
Total	**57,864,388**	**55,240,744**

(1) Mostly unrated exposures corresponding to the business combination closed in December 2017 (see Note 1.15).

Credit quality. Rating distribution by exposures of Households

The distribution of the original exposure (net of impairment for credit risk) by credit ratings at 31 December 2018 and 2017, is shown in the table below:

(Thousands of euros)

RATING	31/12/2018	31/12/2017
AAA to A-	6,115,931	6,059,948
BBB+ to BB-	46,611,735	41,115,512
B+ to B-	27,050,181	20,793,342
CCC+ to C	175,922	224,186
Not rated (1)	1,053,915	16,758,478
Default	2,692,161	2,667,056
Total	**83,699,845**	**87,618,522**

(1) Mostly unrated exposures corresponding to the business combination closed in December 2017 (see Note 1.15).

Credit quality. Historical default rates

The Group's default rate, understood as the ratio between default risks at any given time and the Group's total credit risks stood at 6.48% at 31 December 2018 (8.89% at 31 December de 2017). This rate increases to 7.46% factoring in doubtful exposures transferred to the portfolio of non-current assets and disposal groups classified as held for sale (see Note 18)

(3.1.5) Concentration of risks

Appendix X 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 NACE code and regardless of the purpose of the financing at 31 December 2018 and 2017.

(Thousands of euros)

SECTOR	31/12/2018		31/12/2017	
	Thousands of euros	%	Thousands of euros	%
Foodstuffs	958,305	0.46%	1,005,691	0.47%
Associations	350,037	0.17%	743,355	0.35%
Automotive and auto services	1,510,913	0.73%	1,165,926	0.55%
Wholesale	6,536,369	3.17%	5,530,713	2.60%
Retail	2,147,656	1.04%	2,028,835	0.95%
Construction and development (*)	9,643,115	4.68%	9,956,213	4.67%
Machinery and equipment manufacturing	3,461,446	1.68%	3,396,808	1.59%
Manufacturing of intermediate products	4,549,021	2.21%	4,123,479	1.94%
Finance	30.052.040	14.58%	32,829,194	15.41%
Catering and tour operators	2,405,481	1.17%	2,559,765	1.20%
Food, beverages and tobacco industry	2,924,093	1.42%	2,634,338	1.24%
Basic manufacturing, textiles, furniture	815,880	0.40%	686,854	0.32%
Mining, energy and infrastructures	4,583,488	2.22%	4,483,964	2.10%
Public sector	34,566,632	16.77%	36,729,554	17.24%
Company services	3,925,349	1.90%	4,030,555	1.89%
Leisure, culture, health and education	4,635,816	2.25%	3,355,322	1.57%
Supplies: electricity, gas, steam, water	5,599,447	2.72%	6,087,837	2.86%
Telecommunications	1,172,831	0.57%	1,045,765	0.49%
Transport	2,369,453	1.15%	1,826,557	0.86%
Other sectors (home included)	83,925,339	40.71%	88,849,945	41.70%
TOTAL	**206,132,711**	**100.00%**	**213,070,670**	**100.00%**

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

The Group 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 2.6), 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)

	31/12/2018		31/12/2017	
Derivatives (trading and hedging)	Assets	Liabilities	Assets	Liabilities
Gross exposure	**12,678,569**	**10,136,780**	**16,186,672**	**13,878,116**
Amount netted (Notes 9 and 13)	(4,029,076)	(4,029,076)	(6,422,100)	(6,422,100)
Carrying amount	**8,649,493**	**6,107,704**	**9,764,572**	**7,456,016**
Netting agreement	(4,256,967)	(4,256,967)	(5,399,879)	(5,399,879)
Collaterals (*)	(3,516,355)	(1,848,773)	(3,383,850)	(2,083,771)
Net exposure	**876,171**	**1,964**	**980,843**	**(27,634)**

(*) Guarantee value received included.

In addition, under the framework of repurchase and reverse repurchase transactions carried out by the Group (see Note 27.1), 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)

	31/12/2018		31/12/2017	
Collateral	Delivered	Received	Delivered	Received
Cash	8,269	17,438	5,840	35,454
Securities	-	81,512	46,341	-
Total	**8,269**	**98,950**	**52,181**	**35,454**

(3.1.7) Exposure with collateral received and other credit enhancements

At 31 December 2018 and 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:

31 December 2018

(Thousands of euros)

	Net exposure of impairment from credit risk				
SEGMENT	Mortgage Collateral	Other Collateral	Unsecured Guarantees	Other Guarantees	TOTAL
Credit Institutions	-	-	7,661,225	-	7,661,225
Public Administrations	219,781	195,846	34,927,549	1,020	35,344,196
Otras Public Administrations	91,724	18,083	21,450,650	2,600	21,563,057
Companies	7,849,113	6,252,901	42,773,878	988,496	57,864,388
Households	71,495,487	142,284	11,925,684	136,390	83,699,845
Mortgage loans	70,523,596	772	11	-	70,524,379
Consumer Credits	-	4,647	4,808,103	8,960	4,821,710
Cards	-	-	854,877	-	854,877
Rest	971,891	136,865	6,262,693	127.430	7,498,879
TOTAL	**79,656,105**	**6,609,114**	**118,738,986**	**1,128,506**	**206,132,711**

31 December 2017

(Thousands of euros)

	Net exposure of impairment from credit risk				
SEGMENT	Mortgage Collateral	Other Collateral	Unsecured Guarantees	Other Guarantees	TOTAL
Credit Institutions	-	-	7,503,009	-	7,503,009
Public Administrations	306,614	225,700	37,404,310	364	37,936,988
Otras Public Administrations	87,227	158,029	24,522,062	4,089	24,771,407
Companies	8,291,670	6,430,505	39,656,352	862,217	55,240,744
Households	76,263,258	130,130	11,082,677	142,457	87,618,522
Mortgage loans	75,081,182	3,769	4	-	75,084,955
Consumer Credits	293,509	238	3,843,598	9,126	4,146,471
Cards	-	-	829,956	-	829,956
Rest	888,567	126,123	6,409,119	133,331	7,557,140
TOTAL	**84,948,769**	**6,944,364**	**120,168,410**	**1,009,127**	**213,070,670**

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.

Note 12 shows additional information on the guarantees received.

(3.1.8) Renegotiated financial assets

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

Appendix X contains the classification and hedging policies and criteria applied by the Group 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

Following are the changes in 2018 and 2017 in the Group's impaired financial assets that were not recognised on the consolidated balance sheet because their recovery was considered unlikely, although the Group had not discontinued actions in order to recover the amounts owed ("written-off assets"):

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Accounting balance at the beginning of the year	**1,980,236**	**1,289,699**
Additions from:		
Assets unlikely to be recovered	361,355	372,299
Uncollected past-due amounts	163,598	70,679
Sum	**524,953**	**442,978**
Derecognition through:		
Cash collection (Note 12)	(100,058)	(27,547)
Foreclosure of assets and other causes	(573,826)	(223,370)
Sum	**(673,884)**	**(250,917)**
Net change due to exchange differences	290	(1,284)
Additions due to business combination	-	499,760
Accounting balance at the end of the year	**1,831,595**	**1,980,236**

(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 Group managing to liquidate its assets in reasonable time and price conditions.

The Group strives 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 Group to manage its balance sheet without short-term liquidity pressures.

For this purpose, the Group's liquidity position is identified, controlled and monitored daily. According to the retail business model underpinning the Group'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 Group has deposited certain assets in the European Central Bank (ECB) that it can use to raise liquidity immediately. Through ongoing monitoring of assets, the Group 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 Group to confront internal and systemic stress events:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Cash (*)	2,921	2,206
Undrawn amount on the facility	11,339	10,918
Highly liquid available assets (**)	17,678	19,703

(*) 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 Financial Management 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, 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 businesses, 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 Group'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 2018 the LCR complies with the risk limits of the entity and the regulatory requirements.

In addition to the regulatory LCR, the Markets and Operational Risks Department 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 Group has a sufficient buffer of liquid assets to weather any possible crisis of liquidity.

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 Group's issues at 31 December 2018 and 2017, by type of founding instrument, including promissory notes and issues placed via the network.

31 December 2018

(Thousands of euros)

ITEM	2019	2020	2021	> 2021
Mortgage-backed bonds and securities	2,764,179	417,917	2,025,000	12,880,508
Senior debt	1,004,662	-	35,000	100,352
Subordinate, preference and convertible securities	1,000,000	-	175,000	1,750,000
Securitizations sold to third parties	-	-	-	1,601,774
Total maturities of issues (*)	**4,768,841**	**417,917**	**2,235,000**	**16,332,634**

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

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	983,000	-	135,740
Subordinate, preference and convertible securities	-	1,000,000	-	1,425,000
Securitizations sold to third parties	-	-	-	1,841,011
Total maturities of issues (*)	**3,097,314**	**4,747,180**	**417,917**	**17,807,259**

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

Issuance capacity

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Mortgage-backed securities issuance capacity (Appendix VIII)	16,526,637	15,539,614
Territorial bond issuance capacity	1.278.790	1,595,168

(3.3) Residual maturities

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

31 December 2018

(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	4,753,800	-	-	-	-	-	4,753,800
Loans and advances to credit institutions	-	3,146,641	528,938	751,104	-	-	4,426,683
Loans and advances to customers	-	3,393,616	5,658,849	10,170,061	31,683,010	71,414,136	122,319,672
Financial assets held for trading and financial assets at fair value through profit or loss	-	6,052	-	1,000	198,646	76,059	281,757
Other portfolios - Debt securities	-	8,892	4,770,600	6,477,600	20,723,909	17,329,293	49,310,294
Derivatives (trading and hedging) (1)	-	224,023	429,460	1,483,597	5,272,130	5,269,359	12,678,569
Total	**4,753,800**	**6,779,224**	**11,387,847**	**18,883,362**	**57,877,695**	**94,088,847**	**193,770,775**
Liabilities							
Deposits from central banks and credit institutions	-	9,023,709	2,274,908	3,046,133	18,303,610	2,990,798	35,639,158
Customer deposits	82,856,589	4,834,334	6,298,548	22,555,681	5,764,879	2,824,977	125,135,008
Marketable debt securities	-	1,508,980	6,927	1,299,190	5,439,731	9,158,446	17,413,274
Other financial liabilities (2)	1,545,259	-	-	-	-	-	1,545,259
Derivatives (trading and hedging) (1)	-	13,656	386,371	1,412,624	4,648,682	3,675,447	10,136,780
Total	**84,401,848**	**15,380,679**	**8,966,754**	**28,313,628**	**34,156,902**	**18,649,668**	**189,869,479**

(1) Gross exposure excluding netting arrangements (see Notes 3.1.6, 9 and 13).

(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 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	4,503,911	-	-	-	-	-	4,503,911
Loans and advances to credit institutions	-	2,506,168	1,323	500,090	14,097	636	3,022,314
Loans and advances to customers	-	3,636,896	4,706,666	10,642,139	30,099,270	79,513,169	128,598,140
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	22,263,090	55,340,269
Derivatives (trading and hedging) (1)	-	426,294	489,644	1,997,177	5,970,691	7,302,866	16,186,672
Total	**4,503,911**	**6,688,624**	**8,171,403**	**29,835,222**	**49,374,386**	**109,079,761**	**207,653,307**
Liabilities							
Deposits from central banks and credit institutions	-	10,653,998	2,137,646	3,682,179	18,171,604	2,996,810	37,642,237
Customer deposits	75,672,049	9,573,469	9,035,309	24,875,641	6,764,285	3,249,101	129,169,854
Marketable debt securities	-	3,497	10,725	1,869,824	6,651,459	10,166,529	18,702,034
Other financial liabilities (2)	1,067,385	-	-	-	-	-	1,067,385
Derivatives (trading and hedging) (1)	-	326,253	548,609	1,735,519	5,413,677	5,854,058	13,878,116
Total	**76,739,434**	**20,557,217**	**11,732,289**	**32,163,163**	**37,001,025**	**22,266,498**	**200,459,626**

(1) Gross exposure excluding netting arrangements (see Notes 3.1.6, 9 and 13).

(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

(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 Group's results. Interest rate risk management is designed to lend stability to margins, maintaining levels of solvency that are appropriate for the Group's level of risk tolerance.

Interest rate risk monitoring and management at the Group 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 interest margin (net interest income projections in different interest-rate scenarios for horizons of 1 and 2 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 basic 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 2018, 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 -1.97% (-3.95% at 31 December 2017).
- Impact on economic value of equity, understood as the present value of estimated cash flows from different assets and liabilities. At 31 December 2018, 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 -9.7% of consolidated equity and -4.77% of economic value of the Bank (7.39% and 3.92%, respectively, at 31 December 2017).

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.

(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.

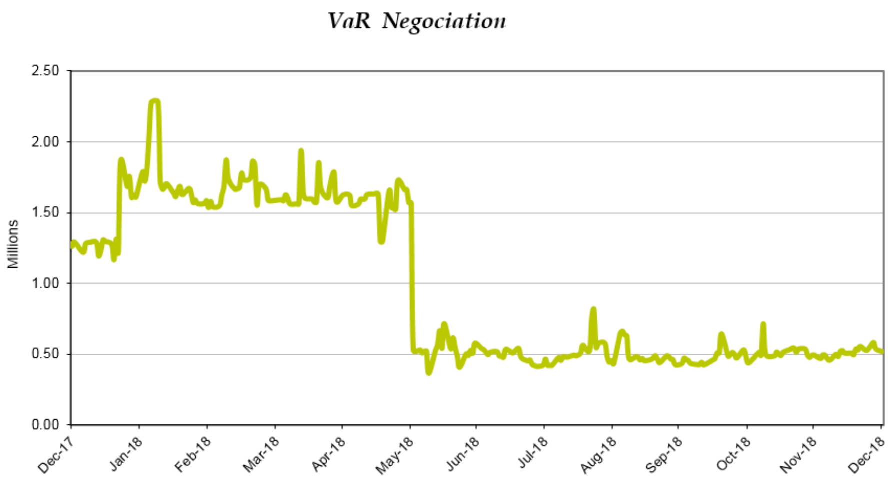
The Board of Directors delegates proprietary trading in financial markets to the Financial Department and its business areas, so they can exploit business opportunities using the most appropriate financial instruments at any given time, including interest rate, exchange rate and equity derivatives. In 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 In 2018, there were changes in the methods used to make the estimates included in the consolidated financial statements from those used the preceding year. Specifically, in the second half we switched from using an aggregate or incremental VaR metric to using a diversified VaR metric.

The following chart shows the trend in one day VaR with a 99% confidence level for operations in the markets area in trading activities in 2018.



The impact on equity and on the accompanying consolidated income statement of reasonable future changes in the various market risk factors at 31 December 2018 and 2017, calculated for the Group's portfolio registered at fair value (excluding investments held for trading), is as follows:

(Thousands of euros)

	Accumulated Other Comprehensive Income (1)		Impact on profit and loss (1)	
MARKET RISK FACTORS	2018	2017	2018	2017
Interest rate	(233,518)	(345,824)	1,825	(3,967)
Equity instruments		(3,977)	(11)	(189)
Exchange rates	-	-	335	(986)
Credit spread	(246,528)	(333,444)	(465)	-

(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 2018 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 2018 is EUR 46,724,398 thousand (EUR 50,611,564 thousand at 31 December 2017). 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)

	31/12/2018			31/12/2017		
	Interest rate risk	Credit risk (spreads)	Total	Interest rate risk	Credit risk (spreads)	Total
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	(234)	(247)	(481)	(346)	(333)	(679)
Financial assets at amortised cost	-	(522)	(522)	-	(327)	(327)
Total	**(234)**	**(769)**	**(1,003)**	**(346)**	**(660)**	**(1,006)**

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 consolidated 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 consolidated 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 2018 and 2017, the Bankia Group'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 IV") 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 IV 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 l 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 IV, 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 IV 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 (Single Supervision Mechanism or SSM by its acronym). This regulation allows supervisory authorities to impose additional capital requirements to the Pillar I minimum capital requirements for risks not covered therein; known as Pillar II capital requirements.

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%).

In February 2019, the European Central Bank notified the Bankia Group of the capital requirements applicable to it in 2019: a minimum Common Equity Tier 1 ratio of 9.25% and a minimum Total Capital ratio of 12.75%, both measured in relation to its transitional (phase-in) regulatory capital. These thresholds include the minimum required under Pillar I (4.5% in terms of common equity tier 1 capital and 8% at the total capital level), as well as the Pillar II requirement (2%) and the combined buffers applicable to the Group (2.063%).

Regarding combined capital buffer requirements, bearing in mind the phase-in period provided for in Law 10/2014, the capital conservation buffer applicable in 2018 will be 1.875% (which will amount to 1.250% in 2017), corresponding to 75% (50% in 2017) 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 2018, it must meet 75% (50% in 2017) of this buffer; i.e. 0.1875% (0.1250% in 2017). Finally, the Group's own countercyclical buffer, calculated based on the geographical location of its exposures, is 0%. This is because the Group's exposures are located in countries (mainly Spain) whose supervisors have established the buffer at 0% for exposures in their territories. The combined buffer requirements applicable for 2019 will be 2.75% (2.5% for the capital conservation buffer and 0.25% for the "other systemically important institution" (O-SII)) buffer after the end of the phase-in period.

To further strengthen the resilience of banks, on 23 November 2016, the European Commission presented a package of banking reforms to prevailing legislation on capital requirements (the CRR and CRD IV), and on the resolution of banks (Bank Recovery and Resolution Directive or BRRD). From that date, the package of banking reforms was subject to a public consultation, until in November 2018 it was submitted for consideration by the European Parliament and Council, and subsequently endorsed by the ECOFIN on 4 December 2018. The reforms are expected to become effective in early 2019 after final approval by the European Parliament and publication in the Official Journal of the European Union

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

- 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.
- Royal Decree Law 22/2018 of 14 December 2018 establishing macroprudential tools and limits on sectoral concentration, along with conditions on the granting of loans and other exposures. In this respect, the Bank of Spain may require application of a countercyclical buffer for all of an entity's exposures or exposures in a specific sector.

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.

The following table provides a detail of the Bankia Group's capital levels at 31 December 2018 and 2017 as well as the RWA (Risk Weighted Assets) calculated in accordance with the CRR and CRD IV:

(Thousands of euros and %)

ITEM	31/12/2018 (*)	31/12/2017
Common Equity Tier I (CET 1)	**11,366,652**	**12,173,453**
Equity	3,084,963	3,084,963
Share Premium	619,154	619,154
Profit or loss admissible attributable to owners of the parent	703,211	504,513
Reserves and treasury shares	8,606,331	9,001,491
Other comprehensive eligible and accumulated income	123,001	261,982
Non-competing minority interests	-	4,863
Deductions	(1,770,008)	(1,303,513)
Deferred tax assets depend on future incomes	(846,699)	(586,600)
Prudent valuation related to assets side (AVA)	(35,947)	(35,266)
Dividend to be deducted for regulatory purposes	(357,115)	(340,086)
Intangible assets and others deductions	(530,247)	(341,561)
Additional Tier I Capital (AT1)	**1,250,000**	**682,125**
TIER I (TIER1=CET1+AT1)	**12,616,652**	**12,855,578**
TIER2	**1,862,961**	**1,631,837**
Subordinated debt	1,672,270	1,672,270
Others eligible/deductibles elements	190,691	(40,433)
Total capital (TIER1+TIER2)	**14,479,613**	**14,487,415**
Total Risk Weighted Assets	**82,381,200**	**86,041,890**
Credit risk, counterparty and dilution	**74,921,502**	**77,957,877**
Standardized approach	33,121,631	36,942,430
Internal ratings-based approach	41,799,871	41,015,447
By market risk	**1,578,723**	**1,607,737**
By operational risk	**5,880,975**	**6,476,276**
Common Equity Tier I ratio	**13.80%**	**14.15%**
Equity Tier I ratio	**15.31%**	**14.94%**
Total capital ratio	**17.58%**	**16.84%**

(*) Data estimated.

On 31 December 2018, the Bankia Group shows a surplus of EUR 4,313 million (EUR 5,398 million on 31 December 2017) over the regulatory minimum Common Equity Tier 1 of 8.563%. (7.875% on 31 December 2017) established considering Pillar I, Pillar II and the combined requirement of buffers.

At the same date, the Bankia Group shows a surplus of EUR 4,542 million (EUR 4,700 million on 31 December 2017) over the regulatory minimum Common Equity Tier 1 of 12.063%. (11.375% on 31 December 2017) 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 Capital Accord of December 2010 as a supplementary measure to the capital requirements. Therefore, plans are to make it a binding Pillar I requirement. 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. 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 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. The proposed banking reforms, which will become effective in early 2019, in line with Basel recommendations, establish a binding leverage ratio requirement of 3% of Tier 1 capital.

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 2018 and 2017 calculated in accordance with Commission Delegated Regulation (EU) No. 2015/62 is as follows:

(Thousands of euros and %)

ITEM	31/12/2018 (*)	31/12/2017
Tier I Capital	12,616,652	12,855,578
Exposure	207,077,825	213,504,901
Leverage ratio	**6.09%**	**6.02%**
(+) Exposures in balance sheet	193,061,853	201,141,814
(+) Derivatives exposures	2,516,452	2,241,736
(+)Counterparty credit risk add-on in securities financing transactions (SFTs)	3,925,402	3,254,634
(+) Exposure to off-balance sheet items (includes application of CCFs)	7,574,118	6,866,717
Total leverage ratio exposures	**207,077,825**	**213,504,901**

(*) Estimated data.

At 31 December 2018 and 2017, the leverage ratio exceeded the 3% minimum defined by the Basel Committee on Banking Supervision.

(4.3) Transparency Exercise 2018

During the second half of 2018, 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 14 December 2018, the European Banking Authority (EBA) published the results of its 2018 EU-wide transparency exercise, for 130 banks across the 25 EU countries with consolidated data as at 31 December 2017 and 30 June 2018. As on prior occasions, the information published relates to the banks' capital positions, risk-weighted assets, asset quality (non-performing exposures), profitability, sovereign exposures, credit and market risk exposures, all from the perspective of supervisor reporting. Since two years ago, this exercise is completed with the RAR (Risk assessment report) based on a sample of banks (150 EU institutions with information at consolidated level).

The capital ratios published are for the BFA Group, Bankia's parent, and do not include the earnings generated each year. At 31 December 2017, the phase-in common equity tier 1 ratio stood at 13.62%; this would have increased to 13.93% had these earnings been factored in. At 30 June 2018, the phase-in common equity tier 1 ratio stood at 13.20%; this would have increased to 13.93% had these earnings for the same period been factored in. According to the Risk Assessment of European Banking System, the average phase-in common equity tier 1 ratio for European banks at 30 June 2018 was 14.5%, up from 14.3% at 30 June 2017.

(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. 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 Group's resolution authorities, the Single Resolution Board, FROB, and the Bank of Spain in terms of resolution, 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 and, in addition, indicating its level of percentage terms by dividing the numerator by the Group's RWAs.

As noted previously, the package of banking reforms proposed by the European Commission, which are expected to enter into force in 2019, will introduce amendments to the BRRD; e.g. regarding minimum requirements of subordination of MREL eligible liabilities and the determination of a maximum distributable amount (MDA); i.e. limit on the discretionary distribution of capital, in terms of MREL. However, on 20 November 2018, the SRB published its annual policy paper on the MREL, which serves as a basis for setting minimum MREL requirements for banks not considered “complex” (subject to resolution colleges) and that, therefore, did not having binding targets in 2018, including the Bankia Group.

Although the Bankia Group expects to receive in the first half of 2019 official communication of its binding MREL target and the period for achieving it in the first half of 2019, the Group has already designed an issuance plan aimed at increasing its base of capital instruments and MREL eligible liabilities so that it can advance towards future compliance with the requirements.

(4.5) Capital management objectives and policies

The Group’s capital management covers two targets, a regulatory capital 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.

The capital planning process is part of the Strategic Planning process to ensure that the capital plan in consistent, coherent and aligned with the strategic objectives, the Group's Risk Appetite Framework and the rest of the tactical plans comprising the financial plan for the forecast macroeconomic environment. The Management Committee updates the financial plan and, accordingly, the capital plan annually then submits then for approval by the Board of Directors. They form the basis for all planning, for shorter periods and for the budgeted period, and for the preparation of the ICAAP as a supervisory review document that includes the simulation of scenarios (i.e. stress tests). An organisational structure with a clear segregation of duties that prevents potential conflicts of interest and allows for the functions to be discharged within the capital planning process is required to carrying out these processes.

In early 2017, the ECB embarked on a multi-year plan to drive improvements regarding the ICAAP so that the document meets supervisors’ expectations, publishing its guides to the ICAAP and ILAAP, which will be application in 2019 SREP. Accordingly, the Bankia Group will align its regulatory capital planning to the principles outlined in the guides. Capital planning starts from the need to have sufficient capital to guarantee the Entity's survival over time. The actions carried out are underpinned by risk management to comply with both Pillar I (credit, market and operational risk) and Pillar II (other risks; e.g. business, reputation) requirements, such as the Pillar I Requirement, Pillar II Guidance and capital buffers, which impact the Group and its remuneration policy (including the distribution of dividends). They are also geared towards integrated management of risks extended by the Entity in the scope of its corporate governance, the nature of the business, management of strategic planning and market demands, among other areas. Decision-making on capital management considers this enterprise-wide impact, whereby decisions are aligned with capital adequacy targets.

The capital planning exercise is based on financial planning (e.g. balance sheet, income statement, etc.) in the macroeconomic scenarios forecast by the Group and in the impact analysis of potential changes in capital adequacy regulations or those that may affect it.The Group's capital management policies are aligned with the Corporate Risk Appetite Framework and the Group's Strategic Plans established by senior management. The capital planning process is formally documented in the following reports approved by the Bank's Board of Directors, which are reviewed at least once a year:

- 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) Earnings per share and dividend policy

Basic and diluted earnings per share are calculated in accordance with the criteria stipulated in IAS 33:

- Earnings per share is calculated by dividing "Profit/(loss) attributable to the the parent", adjusted for the after-tax amount corresponding to remuneration recognised in equity in connection with the contingent convertible bonds (Note 19), by the weighted average number of shares outstanding, excluding the average number of shares held as treasury stock, over the course of the reporting period.

- Diluted earnings per share are determined using a method similar to that used to calculate basic earnings per share, by adjusting the weighted average number of shares in circulation and, where applicable, the profit for the year attributable to equity holders of the parent, in order to take into account the potential dilutive effect of certain financial instruments that could generate the issue of new Bank shares (share option commitments with employees, warrants on parent company shares, convertible debt instruments) or for discontinued operations.

The table below shows loss per share for the years ended 31 December 2018 and 2017:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017 (*)
Net earnings/loss attributed to the parent (thousands of euros)	703,210	504,513
Adjusted for: remuneration on contingent convertible bonds	(37,884)	(14,295)
Net earnings/loss attributed to the parent (thousands of euros)	665,326	490,218
Of which:		
Earnings/Loss for the year from discontinued operations (net) (thousands of euros)	6,047	-
Earnings/Loss from ordinary business (thousands of euros)	659,279	490,218
Weighted average number of shares outstanding	3,065,240,741	2,880,818,266
Basic earnings/(loss) per share (in euros)	**0.22**	**0.17**
Basic earnings/(loss) per share for discontinued operations (in euros)	**-**	**-**
Basic earnings/(loss) per share for continuing operations (in euros)	**0.22**	**0.17**
Entitlement to receive shares	-	-
Adjusted average number of shares for the calculation	3,065,240,741	2,880,818,266
Diluted earnings/(loss) per share (in euros)	**0.22**	**0.17**
Diluted earnings/(loss) per share for discontinued operations (in euros)	**-**	**-**
Diluted earnings/(loss) per share for continuing operations (in euros)	**0.22**	**0.17**

(*) The number of shares and earnings per share figures have been adjusted to reflect the reverse stock split undertaken in 2017 (Note 22.1).

Dividend Policy

At its meeting held on 24 January 2019, the Board of Directors agreed to submit a proposal to the General Meeting of Shareholders for the payment of a gross EUR 11.576 cents cash dividend out of 2018 profit.

A resolution was adopted at the General Meeting of Shareholders of Bankia held on 10 April 2018 to distribute, against earnings for the year ended 31 December 2017, a gross dividend of EUR 0.11024 per share of Bankia, S.A. entitled to dividend and outstanding at the date payment is made. The dividend was paid on 20 April 2018 with distribution of EUR 338,014,844.38 (Note 7).

(6) Remuneration of Board members and senior executives

(6.1) 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(3)	Long-term variable remuneration (4)	Remuneration for membership on Board committees	Termination benefits	2018
Mr. José Ignacio Goirigolzarri Tellaeche	500	-	228	72	-	-	800
Mr. José Sevilla Álvarez	500	-	236	64	-	-	800
Mr. Antonio Ortega Parra	500	-	235	65	-	-	800
Mr. Carlos Egea Krauel (1)	203	29	-	-	-	-	232
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. Antonio Greño Hidalgo	-	100	-	-	-	-	100
Mrs. Laura González Molero (2)	-	15	-	-	-	-	15

(1) Mr. Egea was appointed director of Bankia, in the category of "other external directors", via a resolution passed at the General Meeting of Shareholders held on 14 September 2017, and included in the Bank of Spain's Register of Senior Officers on 12 January 2018., which carries annual remuneration for all items of EUR 100,000. Subsequently, on 27 April 2018, he was appointed executive director, with total annual remuneration of EUR 300,000. The amounts shown correspond to the period from 1 January to 26 April 2018 as external director and from 27 April to 31 December 2018 as executive director.

(2) On 6 November 2018, Ms. González was appointed director, which carries annual remuneration for all items of EUR 100,000. The amounts shown correspond to the period from 6 November to 31 December 2018.

(3) The amount of annual bonuses for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(4) The amount of long-term bonuses for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega 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 Sir Goirigolzarri, Sevilla and Ortega 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. Mr. Egea's employment contract includes maximum severance equal to two years of his fixed remuneration, which will decrease proportionally as he provides service. After two years, he will not be entitled to any severance. 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 2018 as no amounts of variable compensation has paid.

iv) Long-term saving schemes

(Thousands of euros)

Name	Contribution Funds and Pension Plans (1) 2018 by the Entity	Life Insurance Premiums 2018 by the Entity
Mr. José Ignacio Goirigolzarri Tellaeche	-	-
Mr. José Sevilla Álvarez	-	-
Mr. Antonio Ortega Parra	-	-
Mr. Carlos Egea Krauel	-	-
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. Antonio Greño Hidalgo	-	-
Mrs Laura González Molero		

(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 2018
Mr. José Ignacio Goirigolzarri Tellaeche	800 (3)(4)	-	800 (3)(4)
Mr. José Sevilla Álvarez	800 (3)(4)	-	800 (3)(4)
Mr. Antonio Ortega Parra	800 (3)(4)	-	800 (3)(4)
Mr. Carlos Egea Krauel (1)	232	-	232
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. Antonio Greño Hidalgo	100	-	100
Mrs Laura González Molero (2)	15	-	15

(1) Mr. Egea was appointed director of Bankia, in the category of “other external directors”, via a resolution passed at the General Meeting of Shareholders held on 14 September 2017, and included in the Bank of Spain's Register of Senior Officers on 12 January 2018, which carries annual remuneration for all items of EUR 100,000. Subsequently, on 27 April 2018, he was appointed executive director, with total annual remuneration of EUR 300,000. The amounts shown correspond to the period from 1 January to 26 April 2018 as external director and from 27 April to 31 December 2018 as executive director.

(2) On 6 November 2018, Ms. González was appointed director, which carries annual remuneration for all items of EUR 100,000. The amounts shown correspond to the period from 6 November to 31 December 2018.

(3) The amount of annual bonuses for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(4) The amount of long-term bonuses for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(6.2) Remuneration of the Bank's senior executives (Management Committee)

a) Remuneration accrued at the Bank

For the purposes of these consolidated financial statements, the members of the Management Committee, without taking into consideration the executive directors, were considered as senior executives. A total of five people, Mr. Miguel Crespo Rodríguez, Mrs. Amalia Blanco Lucas, Mr. Fernando Sobrini Aburto, Mr. Gonzalo Alcubilla Povedano and Mr. Joaquin Canovas Paéz, 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 ECO/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 (3)	Termination benefits	Total(4)
Senior Executives	2,535	260	135	-	2,930

(1) Includes the target variable remuneration for 2018 of the five Management Committee members, which amounts to EUR 719 thousand, although the definitive assessment and approval is pending.

(2) The targeted amount of long-term remuneration for the five members of the Management Committee was EUR 350 thousand in 2018; 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 remuneration accrued in 2018 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(3) Corresponds to contributions made in respect of pensions and life insurance premiums.

(4) Mr. Cánovas' remuneration relates to the period from 7 May 2018, the date of his inclusion in the Bank of Spain's registry of senior officers, until 31 December 2018.

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 five 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 2018.

(6.3) Situation of conflict of interest of Bank directors

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 2018, 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 2018:

- On 6 occasions, Bank directors (Mr. Joaquín Ayuso García, Mrs. Eva Castillo Sanz, Mr. Jorge Cosmen Menéndez-Castañedo, Mr. Carlos Egea Krauel and Mr. 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 Mr. José Ignacio Goirigolzarri Tellaeche, Mr. Antonio Ortega Parra and Mr. Francisco Javier Campo García, 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, Mr. José Sevilla Álvarez and Mr. 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 Mr. 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 merger of Bankia and Banco Mare Nostrum.

(7) Proposed distribution of profit of Bankia, S.A.

The allocation of individual profit of Bankia, S.A. for the financial year ended 31 December 2018 proposed by the Board of Directors of Bankia, S.A., to be submitted for approval at the General Meeting of Shareholders (with data for 2017 presented for purposes of comparison), is as follows:

(Thousands of euros)

ITEM	2018	2017
To reserves	476,553	128,666
To dividends	357,115	340,086
Net profit for the year	**833,668**	**468,752**

(8) 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 consolidated balance is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Cash	929,837	878,210
Balances with Central Banks	3,170,075	2,531,005
Other demand deposits	653,888	1,094,696
Total	**4,753,800**	**4,503,911**

(9) Financial assets and liabilities held for trading

Breakdown

The detail, by counterparty and type of instrument, of these items in the consolidated balance sheet at 31 December 2018 and 2017, showing the carrying amounts is as follows:

(Thousands of euros)

	31/12/2018		31/12/2017	
ITEM	Asset positions	Liability positions	Asset positions	Liability positions
By counterparty				
Credit institutions	3,991,768	5,209,333	4,574,819	6,557,821
Resident public sector	224,060	35	148,361	3,043
Other resident sectors	1,799,775	783,865	1,716,411	792,789
Other non-resident sectors	292,364	53,363	333,900	67,338
Total	**6,307,967**	**6,046,596**	**6,773,491**	**7,420,991**
By type of instrument				
Trading derivatives	6,022,496	5,924,515	6,697,537	7,077,562
Equity instruments	3,901	-	73,953	-
Debt securities	281,570	-	2,001	-
Short positions	-	122,081	-	343,429
Total	**6,307,967**	**6,046,596**	**6,773,491**	**7,420,991**

Note 3.1 contains information on the credit risk assumed by the Group 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 Group in relation to the financial assets included in this category.

Note 25 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 consolidated balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	31/12/2018			31/12/2017		
ITEM	Fair Value	Amount netted	Carrying amount	Fair Value	Amount netted	Carrying amount
Debit balances:						
Unmatured foreign currency purchases and sales	51,453	-	51,453	72,198	-	72,198
Securities derivatives	4,563	-	4,563	7,935	-	7,935
Interest rate derivatives	9,719,224	(3,821,047)	5,898,177	12,682,927	(6,106,161)	6,576,766
Credit derivatives	2,170	-	2,170	1,485	-	1,485
Other	66,133	-	66,133	39,153	-	39,153
Total	**9,843,543**	**(3,821,047)**	**6,022,496**	**12,803,698**	**(6,106,161)**	**6,697,537**
Credit balances:						
Unmatured foreign currency purchases and sales	43,322	-	43,322	37,554	-	37,554
Securities derivatives	4,785	-	4,785	7,941	-	7,941
Interest rate derivatives	9,623,931	(3,821,047)	5,802,884	13,084,705	(6,106,161)	6,978,544
Credit derivatives	2,573	-	2,573	1,665	-	1,665
Other	70,951	-	70,951	51,858	-	51,858
Total	**9,745,562**	**(3,821,047)**	**5,924,515**	**13,183,723**	**(6,106,161)**	**7,077,562**

The detail, by maturity, of the notional amount of the trading derivatives at 31 December 2018, 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	3,002,558	117,052	-	3,119,610
Securities derivatives	1,385,251	2,741,433	437,000	4,563,684
Interest rate derivatives	73,858,398	79,759,295	63,018,362	216,636,055
Credit derivatives	929,730	-	-	929,730
Other	4,509,180	-	-	4,509,180
Total	**83,685,117**	**82,617,780**	**63,455,362**	**229,758,259**

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	115,670,935	93,462,168	299,683,139
Credit derivatives	-	324,777	-	324,777
Other	2,551,369	-	-	2,551,369
Total	**97,008,302**	**119,531,953**	**93,639,168**	**310,179,423**

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 Group's exposure to the risks associated with these products.

Financial Assets held for trading. Equity instruments

The breakdown of this heading in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Shares of resident companies	3,639	73,945
Shares of non-resident foreign companies	262	8
Total	**3,901**	**73,953**

Financial Assets held for trading. Debt securities

The breakdown of this heading in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Spanish government debt securities	94,421	2,001
Foreing public debt	181,767	-
Debt issued by financial entities	-	-
Other foreing fixed-income securities	1,992	-
Other Spanish fixed-income securities	3,390	-
Total	**281,570**	**2,001**

The average effective annual interest rate of debt securities included in the held-for trading investments portfolio at 31 December 2018 was 1.22% (0.81% at 31 December 2017).

(10) Non-trading financial instruments mandatorily measured at fair value through profit or loss

Breakdown

The detail, by counterparty and type of instrument, of these items in the consolidated balance sheet at 31 December 2018 and 2017, showing the carrying amounts is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Other resident sectors	9,348	-
Total	**9,348**	**-**
By type of instrument		
Debt securities	187	-
Loans and advances	9,161	-
Customers	9,161	-
Total	**9,348**	**-**

Note 3.1 contains information on the credit risk assumed by the Group 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 Group in relation to the financial assets included in this category.

Note 25 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.

(11) Financial assets at fair value through other comprehensive income

Breakdown

The detail of this item, by type of counterparty and type of financial instrument in the accompanying consolidated balance sheet, is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Credit institutions	54,107	1,611,383
Resident public sector	12,409,054	16,215,081
Non-resident public sector	2,633,356	4,280,064
Other resident sectors	174,786	211,736
Other non-resident sectors	365,520	427,783
Doubtful assets	-	3,467
Impairment losses	(1,108)	(4,624)
Total	**15,635,715**	**22,744,890**
By type of instrument		
Debt securities	15,559,415	22,673,961
Spanish government debt securities	12,409,054	16,215,080
Government bonds and obligations	12,100,879	15,850,135
Regional administrations	308,175	364,945
Foreign government debt securities	2,633,356	4,280,064
Issued by financial institutions	27,633	1,589,866
Other fixed-income securities	490,480	593,575
Impairment losses	(1,108)	(4,624)
Equity instruments	76,300	70,929
Total	**15,635,715**	**22,744,890**

Note 3.1 contains information on the credit risk assumed by the Group 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 Group in relation to the financial assets included in this category.

Note 23 provides details of the gains and losses on these financial instruments recognised under "Accumulated other comprehensive income in the accompanying consolidated balance sheet.

Note 25 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 2018 was 0.87% (1.28% at 31 December 2017).

Past-due and/or impaired assets

At 31 December 2018 and 2017, 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 2018 and 2017, is as follows:

Impaired assets

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Credit institutions	-	2,677
Other non-resident sectors	-	790
Total	**-**	**3,467**

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 years 2018 and 2017 are as follows:

At 31 December 2018

(Thousands of euros)

ITEM	Total
Balances at 31 December 2017	**4,624**
Adjustments first application IFRS 9	(719)
Balances at 1 January 2018	**3,905**
Impairment losses for the year charged to income	1,251
Available credit loss allowance	(280)
Net provision/(release) charged/(credited) to income statement (Note 42)	**971**
Amount used for depreciated assets	(766)
Other changes	(3,002)
Balances at 31 December 2018	**1,108**
Of which by type of counterparty:	**1,108**
Entities resident in Spain	852
Entities resident abroad	256

At 31 December 2017

(Thousands of euros)

ITEM	Total
Balances at 31 December 2016	**7,914**
Impairment losses for the year charged to income	5,168
Available credit loss allowance	(7,006)
Net provision/(release) charged/(credited) to income statement (Note 42)	**(1,838)**
Amount used for depreciated assets	(4,878)
Additions due to business combination	3,426
Balances at 31 December 2017	**4,624**
Of which by type of counterparty:	**4,624**
Entities resident in Spain	318
Entities resident abroad	4,306

During 2018 and 2017, the Group has not registered in the consolidated income statement for impairment losses on equity instruments recognised under "Non-current assets and disposal group classified as held for sale".

(12) Financial assets at amortised cost

(12.1) Breakdown

The detail of this item in the accompanying consolidated balance sheets, based on the nature of the related financial instruments, is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Financial assets at amortised cost		
Loans and advances	126,749,755	131,620,454
Credit institutions	4,426,683	3,022,314
Customers	122,323,072	128,598,140
Debt securities	33,749,771	32,661,684
Subtotal	**160,499,526**	**164,282,138**
Impairment losses	(4,219,010)	(5,767,094)
Other valuation adjustments	180,924	195,686
Total	**156,461,440**	**158,710,730**

Note 3.1 contains information on the credit risk assumed by the Group 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 Group in relation to the financial assets included in this category.

Note 25 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.

(12.2) Credit quality of Financial assets at amortised cost

The following table shows financial assets at amortised cost, based on their credit risk classification, differentiating between gross value from the related impairment losses at 31 December 2018 and 1 January 2018.

(Thousands of euros)

ITEM	31/12/2018	1/01/2018
Gross Amount (*)		
Stage 1 – Standard risk	144,313,389	140,176,548
Stage 2 – Standard riskunder special monitoring	8,635,397	11,952,799
Stage 3 – Doubtful risk	7,731,664	11,318,382
Sum	**160,680,450**	**163,447,729**
Impairment allowace		
Stage 1 – Standard risk	(226,317)	(226,037)
Stage 2 – Standard risk under special monitoring	(619,333)	(937,888)
Stage 3 – Doubtful risk	(3,373,360)	(5,255,830)
Sum	**(4,219,010)**	**(6,419,755)**
Net carrying amount		
Stage 1 – Standard risk	144,087,072	139,950,511
Stage 2 – Standard risk under special monitoring	8,016,064	11,014,911
Stage 3 – Doubtful risk	4,358,304	6,062,552
Sum	**156,461,440**	**157,027,974**

(*) Includes “other measurement asjustemnts”.

(12.3) Credit quality of Financial assets at amortised cost. Guarantees received

The breakdown at 31 December 2018 and 2017 of guarantees received related to Loans and Receivables in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018 (*)	31/12/2017 (*)
Value of the collateral	82,095,229	86,764,244
Of which: collateral with standard risks under special monitoring	5,250,599	6,568,193
Of which: collateral with default risks	9,254,904	10,213,726
Value of others collateral	-	-
Of which: collateral with standard risks under special monitoring	-	-
Of which: collateral with default risks	-	-
Total	**82,095,229**	**86,764,244**

(*) 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.

(12.4) Financial assets at amortised cost. Loans and advances. Credit institutions

The detail, by instrument type, of this caption on the consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By instrument type		
Time deposits	157,569	114,398
Reverse repurchase agreements	2,029,395	685,968
Other financial assets	2,233,695	2,221,312
Doubtful assets	6,024	636
Subtotal	**4,426,683**	**3,022,314**
Impairment losses	(1,205)	(626)
Other valuation adjustments	7,941	6,247
Total	**4,433,419**	**3,027,935**

The average effective annual interest rate of financial instruments included under this heading at 31 December 2018 was 0% (0% at 31 December 2017).

(12.5) Financial assets at amortised cost. Loans and advances. Customers

The detail, by loan type and status and counterparty, of this caption on the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Public sector	5,139,351	5,532,391
Other financial corporations	1,662,479	2,847,333
Non-financial corporations	33,222,032	32,240,786
Households	78,261,914	82,404,172
Total	**118,285,776**	**123,024,682**
By loan type and status		
Commercial credit	5,245,839	5,134,911
Secured loans	74,892,673	78,527,150
Reverse repurchase agreements	13,618	255,649
Other term loans	30,637,255	29,636,524
Receivable on demand and other	2,949,292	2,597,627
Other financial assets	867,957	1,141,902
Doubtful assets	7,716,438	11,304,377
Subtotal	**122,323,072**	**128,598,140**
Impairment losses	(4,210,278)	(5,757,348)
Other valuation adjustments	172,982	183,890
Total	**118,285,776**	**123,024,682**

The carrying amount recorded in the foregoing table, disregarding the portion relating to “Other valuation adjustments”, represents the Group'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 2018 was 1.68% (1.68% at 31 December 2017).

“Financial assets at amortised cost - Loans and advances - Customers” in the accompanying consolidated balance sheet includes certain loans with mortgage collateral which, as indicated in Appendix VIII 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 consolidated balance sheet (see Note 2.2.2). The amounts shown in the accompanying consolidated balance sheet related to securitised loans are:

(Thousands of euros)

Securitised loans	31/12/2018	31/12/2017
Securitised mortgage-backed assets	10,147,246	11,603,686
Of which:		
Receivable on demand and other	2,324	2,720
Doubtful assets	535,652	586,295
Other securitised assets	3,910	727
Total securitised assets (Note 27.1.1)	**10,151,156**	**11,604,413**
Of which:		
Liabilities associated with assets kept on the balance sheet (*)	1,741,860	2,059,762

(*) Recognised under "Financial liabilities at amortised cost - Marketable debt securities" in the accompanying consolidated balance sheet.

Other securitised loans were derecognised from the accompanying consolidated balance sheet as the Group did not retain substantially either the risks or rewards, as follows:

(Thousands of euros)		
Securitised loans	31/12/2018	31/12/2017
Securitised mortgage-backed assets	197,352	341,728
Other securitised assets	-	50
Total securitised assets (Note 27.1.1)	**197,352**	**341,778**

In 2012 assets classified under this consolidated balance sheet heading were transferred to the SAREB. In 2013, 2015 and 2016, an adjustment was made to the deed of transfer of assets.

(12.6) Doubtful assets

The amounts shown in the accompanying consolidated balance sheet related to doubtful assets are:

(Thousands of euros)		
ITEM	2018	2017
Accounting balance at the beginning of the period	**11,304,377**	**10,717,085**
Additions	3,367,121	1,712,992
Disposals	(6,955,060)	(3,389,520)
Through foreclosure	(312,165)	(478,176)
Through portfolios sales	(1,312,273)	(338,420)
Through reversals and others	(3,542,368)	(1,991,618)
Through forgiveness and disposals of assets	(415,105)	(581,306)
Through to a Disposal group (Note 18.5.1)	(1,373,149)	-
Additions due to business combination	-	2,263,820
Accounting balance at the end of the period	**7,716,438**	**11,304,377**

(12.7) Financial assets at amortised cost. Loans and advances. Credit institutions and customers. Past-due and impaired assets (doubtful)

Following is a detail of assets classified as " Financial assets at amortised cost - Loans and advances -Credit institutions" and " Financial assets at amortised cost - Loans and advances- Customers", considered to be impaired at 31 December 2018 and 2017, and of the assets which, although not considered to be impaired, include any past-due amounts as at those dates, by counterparty.

(12.8) Impaired doubtful assets at 31 December 2018 and 2017

The table below shows the classification of the Bankia Group's doubtful assets related to "Financial assets at amortised cost - Loans and advances - customers" and "Financial assets at amortised cost - Loans and advances - credit institutions" at 31 December 2018 and 2017, 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	31/12/2018	31/12/2017
By counterparty		
Credit institutions	6,024	626
Resident public sector	116,016	128,209
Other financial corporations	20,648	31,110
Non-financial corporations	3,669,584	5,503,368
Households	3,484,453	4,839,441
Total	**7,296,725**	**10,502,754**
By age		
Up to 6 monts	3,532,635	4,653,855
Between 6 and 9 months	431,230	506,216
9 to 12 months	197,238	230,321
More than 12 months	3,135,622	5,112,362
Total	**7,296,725**	**10,502,754**
By type of collateral		
Operation with full mortgage collateral	5,008,659	6,955,661
Operation with other collateral	76,860	90,328
Operation without collateral	2,211,206	3,456,765
Total	**7,296,725**	**10,502,754**

The amount of past-due and impaired not accumulated doubtful assets by 31 December 2018 amounts to EUR 444,175 thousand (EUR 401,117 thousand by 31 December 2017).

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	31/12/2018	31/12/2017
Lower than or equal to 40%	734,079	972,300
Greater than 40% and lower than or equal to 60%	1,002,813	955,798
Greater than 60% and lower than or equal to 80%	1,294,739	1,975,405
Greater than 80%	2,053,888	3,142,486
Total	**5,085,519**	**7,045,989**

(12.9) Assets including past-due amounts not considered to be impaired at 31 December 2018 and 2017

The table below shows the classification of assets past-due but not impaired related to loans and advances to customers and credit institutions at 31 December 2018 and 2017, by counterparty, age past-due and type of collateral:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Credit institutions	30,705	515
Public sector	36,116	15,143
Other financial corporations	16,054	15,058
Non-financial corporations	610,595	300,859
Households	306,212	625,496
Total	**999,682**	**957,071**
By age		
Less than 1 month	605,993	330,847
Between 1 and 3 months	66,359	92,700
More than 3 months	327,330	533,524
Total	**999,682**	**957,071**
By type of collateral		
Operation with full mortgage collateral	432,952	812,354
Operation with other collateral	1,280	3,622
Operation without collateral	565,450	141,095
Total	**999,682**	**957,071**

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	31/12/2018	31/12/2017
Lower than or equal to 40%	213,590	302,187
Greater than 40% and lower than or equal to 60%	117,672	236,913
Greater than 60% and lower than or equal to 80%	53,044	173,042
Greater than 80%	49,926	103,834
Total	**434,232**	**815,976**

(12.10) Movement of provisions

The table below shows the changes for the years ended 31 December 2018 and 2017in provisions for impairment losses and fair value adjustments due to credit risk in relation to assets in " credit institutions" and "customers" under "Financial assets at amortised cost -Loans and advances " on the accompanying consolidated balance sheet:

31 December 2018

(Thousands of euros)

ITEM	Impairment losses due to credit risk	Country risk allowance	Total
Balances at 31 December 2017	**5,752,977**	**4,997**	**5.,757,974**
Individually assessed	2,263,709	-	2,263,709
Collectively assessed	3,489,268	4,997	3,494,265
Adjustments first application IFRS 9 (Note 1.3.2.3)	652,914	-	652,914
Balances at 1 January 2018	**6,405,891**	**4,997**	**6,410,888**
Impairment losses for the year charged to income	851,447	3,122	854,569
Available credit loss allowance	(324,147)	(3,775)	(327,922)
Net provision/(release) charged/(credited) to income statement	**527,300**	**(653)**	**526,647**
Amounts used for depreciated assets	(1,958,947)	-	(1,958,947)
Exchange differences	7,774	2	7,776
Other changes (*)	(774,852)	(28)	(774,880)
Balances at 31 December 2018	**4,207,166**	**4,318**	**4,211,484**
Individually assessed	1,574,212	-	1,574,212
Collectively assessed	2,632,954	4,318	2,637,272
Of which:			
Type of counterparty:	**4,207,166**	**4,318**	**4,211,484**
Entities resident in Spain	4,044,917	-	4,044,917
Entities resident abroad	162,249	4,318	166,567

(*) Includes transfer to Non-current assets helf for sale.

The following table shows these movements by the classification of the exposures according to credit risk attributable to insolvency:

(Thousands of euros)

ITEMS	Standard	Special monitoring	Doubtful	Total
Balances at 1 January 2018	**231,181**	**937,172**	**5,242,535**	**6,410,888**
Changes due to origination and acquisition, derecognition and variation of credit risk (net)	(7,313)	(350,725)	884,685	526,647
Use of allowances for written-off assets	-	-	(1,958,947)	(1,958,947)
Transfers to non-current assets held for sale and other movements	2,342	31,826	(801,272)	(767,104)
Balances at 31 December 2018	**226,210**	**618,273**	**3,367,001**	**4,211,484**
Of which assessed individually	-	88,649	1,485,563	1,574,212
Of which assessed collectively	226,210	529,624	1,881,438	2,637,272

In 2018, there were transfers to standard exposure under special monitoring of items classified originally as standard exposure, for a gross EUR 1,313 million, and from items originally classified as doubtful exposure, for EUR 472 million. In addition, items classified originally as standard exposures under special monitoring for a gross amount of EUR 3,316 million were transferred to standard exposure, and items classified originally as standard exposure and standard exposure under special monitoring for a gross amount of EUR 940 million to doubtful exposure.

31 December 2017

(Thousands of euros)

ITEM	Impairment losses due to credit risk	Country risk allowance	Total
Balances at 31 December 2016	**5,901,638**	**16,441**	**5,918,079**
Individually assessed	2,738,630	-	2,738,630
Collectively assessed	3,163,008	16,441	3,179,449
Impairment losses for the year charged to income	1,901,953	8,322	1,910,275
Available credit loss allowance	(1,532,920)	(19,802)	(1,552,722)
Net provision/(release) charged/(credited) to income statement	**369,033**	**(11,480)**	**357,553**
Amounts used for depreciated assets	(1,417,613)	-	(1,417,613)
Exchange differences	(46,999)	-	(46,999)
Other changes (*)	946,918	36	946,954
Balances at 31 December 2017	**5,752,977**	**4,997**	**5,757,974**
Individually assessed	2,263,709	-	2,263,709
Collectively assessed	3,489,268	4,997	3,494,265
Of which:			
Type of counterparty:	**5,752,977**	**4,997**	**5,757,974**
Entities resident in Spain	5,354,962	-	5,354,962
Entities resident abroad	398,015	4,997	403,012

(*) Contains additions due to business combination

The different items recognised in 2018 and 2017 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	31/12/2018	31/12/2017
Net charge for the year	525,659	353,831
Written-off assets recovered	(100,124)	(23,422)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss – Loans and receivables (Note 42)	**425,535**	**330,409**

Financial assets at amortised cost. Debt securities

The breakdown, by counterparty, of this consolidated balance sheet heading:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Credit institutions	29,992	2,815
Resident public sector	10,817,367	10,204,196
Non-resident public sector	3,559,422	1,259,824
Other resident sectors	19,289,243	21,046,785
Other non-resident sectors	44,544	134,695
Doubtful assets	9,203	13,369
Subtotal	**33,749,771**	**32,661,684**
Impairment losses	(7,526)	(9,120)
Other valuation adjustments	-	5,549
Total	**33,742,245**	**32,658,113**
By type of instrument		
Spanish government debt securities	10,817,367	10,204,196
Foreign government debt securities	3,559,422	1,259,824
Bonds and obligations	19,372,982	21,203,213
Impairment loss	(7,526)	(9,120)
Total	**33,742,245**	**32,658,113**

The balances in “Other resident sectors” and “Bonds and obligations” include the debt securities issued by Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB) backed by the Spanish government, which were received as consideration for the assets transferred by the BFA Group to SAREB in December 2012, at a price of EUR 22,317 million —EUR 2,850 million at BFA in respect of the part of the price relating to its own assets and those of its subsidiaries and EUR 19,467 million at Bankia in respect of the part of the price relating to its own assets and those of Bankia subsidiaries—. They also include the debt securities received as consideration for the assets originally transferred by the BMN Group in February 2013 for EUR 5,820 million —absorbed following its merger by the Bankia Group.

The securities received by the Group (with original maturities at 31 December 2013, 2014 and 2015 and 28 February 2014, 2015 and 2016) include an annual renewal option for the issuer, although the estimated value of that option does not generate any negative difference between the fair value of the instruments and the nominal value at the transaction date.

In 2013 and subsequent periods, the SAREB redeemed and delivered new bonds. Accordingly, the securities received by the Bank and recognised under "Financial assets at amortised cost" at 31 December 2018 were as follows:

(Thousands of euros and %)

Titles	Amount	Maturity	Interest rate
SAREB 2018-3 Bonds	7,624,200	31.12.2020	-
SAREB 2018-2 Bonds	5,550,100	31.12.2019	-
SAREB 2017-2 Bonds	2,425,000	28.02.2019	-
SAREB 2018-4 Bonds	1,236,300	31.12.2021	-
SAREB 2018-1 Bonds	1,681,300	28.02.2019	-
SAREB 2016-2 Bonds	638,300	28.02.2019	0.20%

As these cancellations were made at the nominal amount, there were no differences with respect to the carrying amounts. Therefore, the transactions did not have a significant impact on the Group's consolidated income statement for prior periods.

On 31 December 2018, 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 2018. Rollovers of bonds carried out in previous years also did not have any impact on the Bank's income statement for those years.

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 25 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 classified in the available-for-sale financial assets portfolio at 31 December 2018 was 0.55% (0.76% at 31 December 2017).

The Group's debt securities classified as financial assets at amortised cost included assets of EUR 9,203 thousand at 31 December 2018 (EUR 13,369 thousand at 31 December 2017) that were assessed individually to be impaired due to credit risk.

At 31 December 2018 and 2017, the Group had no debt securities classified as financial assets at amortised cost with past-due amounts and not impaired.

On 30 October 2018, the arbitration process between Sareb and, on the other hand, other entities, including Bankia (jointly referred to as the "Entities"), arising from the bonds issued by Sareb to deal with the payment of certain assets that the Entities transferred to Sareb in compliance with the obligation imposed by Law 9/2012, of 14 November. The discrepancy submitted to arbitration concerning the possibility that the quarterly coupon of the bonds corresponding to the Senior Issues of 2017 and 2018 could be negative and the Entities would be obliged to pay Sareb the amount of the negative coupon. The ruling concludes that the quarterly coupon of the Senior Bonds of the 2017-3 and 2018-1 issues cannot be negative and must be limited to 0%; a limitation that extends to future issues of Sareb Bonds when the calculation formula yields a negative result.

A summary of the changes in impairment losses, due to credit risk, on debt securities recognised as Financial assets at amortised cost for the years ended 31 December 2018 and 2017 are as follows:

31 December 2018

(Thousands of euros)

ITEM	Total
Balances at 31 December 2017	**9,120**
Adjustments for first-time application of IFRS 9	(253)
Balances at 1 January 2018	**8,867**
Impairment losses for the year charged to income	3,199
Available credit loss allowance	(4,187)
Net provision/(release) charged/(credited) to income statement	**(988)**
Provisions used for written-off assets and other movements (net)	(598)
Other changes	245
Balances at 31 December 2018	**7,526**
Of which:	
Type of counterparty:	**7,526**
Entities resident in Spain	7,368
Entities resident abroad	158

31 December 2017

(Thousands of euros)

ITEM	Total
Balances at 31 December 2016	**6,849**
Impairment losses for the year charged to income	685
Available credit loss allowance	(4,407)
Net provision/(release) charged/(credited) to income statement	**(3,722)**
Provisions used for written-off assets and other movements (net)	(2,687)
Additions due to business combination	8,680
Balances at 31 December 2017	**9,120**
Of which:	
Type of counterparty:	**9,120**
Entities resident in Spain	8,853
Entities resident abroad	267

(13) Derivatives– hedge accounting

At 31 December 2018 and 2017, the Group 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 Group 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 2.3 details the Group'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 2018 and 2017:

(Thousands of euros)

	31/12/2018			31/12/2017		
ITEM	Fair Value	Netting	Carrying Amount	Fair Value	Netting	Carrying Amount
Debit Balance:						
Operations of fair value hedges	2,833,235	(208,029)	2,625,206	3,380,607	(315,939)	3,064,668
Operations of cash flow hedges	1,791	-	1,791	2,367	-	2,367
Total	**2,835,026**	**(208,029)**	**2,626,997**	**3,382,974**	**(315,939)**	**3,067,035**
Credit Balance:						
Operations of fair value hedges	344,063	(208,029)	136,034	677,421	(315,939)	361,482
Operations of Cash flow hedges	47,155	-	47,155	16,972	-	16,972
Total	**391,218**	**(208,029)**	**183,189**	**694,393**	**(315,939)**	**378,454**

The detail, by maturity, of the notional amount of the derivatives classified as hedging derivatives at 31 December 2018 and 2017 is as follows:

(thousand of euros)

	Remaining term to maturity as of 31 December 2018			
ITEM	0 to 3 years	3 to 10 years	More than 10 years	Total
Interest rate derivatives	7,273,672	13,722,988	9,217,839	30,214,499
Total	**7,273,672**	**13,722,988**	**9,217,839**	**30,214,499**

(thousand of euros)

	Remaining term to maturity as of 31 December 2017			
ITEM	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**

Operations of fair value hedges:

The following table presents a breakdown, by classes of hedged items, of the value of outstanding fair value hedges in the balance sheet and the accumulated amount of fair value hedge adjustments at 31 December 2018:

(Thousands of euros)

		31/12/2018		
ITEMS		Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item	
Debit Balance:				
Fixed rate debt securities	A	6,148,118	149,846	D
Fixed rate loans and advances	B	102,592	2,117	
Total		**6,250,710**	**151,963**	
Credit Balance:				
Fixed rate deposit	C	6,398,715	(867,928)	E
Fixed rate debts issued by the Group	C	11,236,732	(1,436,970)	F
Total		**17,635,447**	**(2,304,898)**	

The hedged item and the fair value hedge adjustment on the hedged item are recognised in the balance sheet under the following line items:

A. Financial assets at fair value through other comprehensive income

B. Financial assets at amortised cost

C. Financial liabilities at amortised cost

In addition to the accumulated amount of fair value hedge adjustments on hedged items for outstanding hedges, also recognised at 31 December 2018 is the amount of fair value hedge adjustments of terminated hedges to be amortised in the hedged items, as explained below:

A. Debt securities classified as financial assets at fair value through other comprehensive income for EUR 5,543 thousand.

B. Deposits classified as financial liabilities at amortised cost for EUR 91,687 thousand.

C. Debt securities issued classified as financial liabilities at amortised cost for EUR 326 thousand.

The following table presents a breakdown, for of fair value hedges, by type of derivative, fair value and the notional amount of derivatives designated as hedging instruments at 31 December 2018:

	31/12/2018		
ITEM	Notional Amount	Value in balance	
		Debit Balance:	Credit Balance:
Interest rate derivatives	23,663,934	2,625,206	136,034
Total	**23,663,934**	**2,625,206**	**136,034**

The following table presents a breakdown, for fair value hedges, of the change in the fair value of the hedging instrument and the hedged item used as a basis for recognising hedge ineffectiveness in 2018:

(Thousand of euros)

		31/12/2018		
ITEM		Gains/(losses) attributable to the hedged risk		Ineffectiveness
Hedged item	Hedging instruments	Hedged item	Hedging instrument	
Debit Balance:				
Debt securities	Interest rate derivatives	13,426	(26,435)	(13,009)
Loans at amortised cost	Interest rate derivatives	(8,463)	8,367	(96)
Total		**4,963**	**(18,068)**	**(13,105)**
Credit Balance:				
Deposit	Interest rate derivatives	84,349	(85,265)	(916)
Debt securities issued	Interest rate derivatives	184,922	(199,435)	(14,513)
Total		**269,271**	**(284,700)**	**(15,429)**

The detail, by maturity, the notional amount of derivatives classified as fair value hedges at 31 December 2018 is as follows:

(Thousand of euros)

	Remaining term to maturity as of 31 December 2018			
ITEM	0 to 3 years	3 to 10 years	More than 10 years	Total
Debts				
Interest rate derivatives	561,800	5,344,667	10,000	5,916,467
Loans at amortised cost				
Interest rate derivatives	15,148	55,890	91,037	162,075
Deposit				
Interest rate derivatives	1,612,226	2,963,920	889,569	5,465,715
Debt securities Issued				
Interest rate derivativesInterest rate derivatives	5,002,550	4,895,700	2,221,427	12,119,677
Total	**7,191,724**	**13,260,177**	**3,212,033**	**23,663,934**

Operations of cash flow hedges:

The cash flow hedges relate entirely to micro-hedges. Therefore, the hedged item and hedging derivative are perfectly identified. As a result, in 2018 and 2017, there was no ineffectiveness that, according to applicable regulations, required recognition on the Group's income statement for that year.

The table below presents, for cash Flow hedges, a breakdown, by type of hedged iitem, of the change in the balance value of the hedged element in the year, and of the cash Flow hedge reserves as of 31 December 2018:

(Thousand of euros)

		31/12/2018		
ITEM		Change in the value of the hedged item used as a the basis for recognising hedge ineffectiveness for the period	Cash flow hedge reserve	
			Continuing hedges	Discontinued hedges
Debit balance:				
Floating rate debt securities (*)	A	10,290	3,375	-
Floating rate loans and advances (*)	B	944	359	(7,019)
Total		**11,234**	**3,734**	**(7,019)**

(*) Not taking into consideration the related tax effect.

The hedged item is recognised in the balance sheet under the following headings:

A. Financial assets at fair value through other comprehensive income

B. Financial assets at amortised cost

The detail for cash flow hedges, by class of derivative, fair value, notional amount, change in fair value of the hedging instrument used as a basis to recognise the ineffectiveness in the year, the ineffectiveness recognised in the year, and the amount reclassified due to the cash flow hedge adjustment at 31 December 2018, is as follows:

(Thousan of euros)

ITEMS	Notional amount	Carrying amount		31/12/2018 Change in the value of the hedging instrument used as a the basis for recognising hedge ineffectiveness for the period			Amount reclassified to profit or loss	
				Total	Effective portion	Ineffectiveness		
		Debit balances	Credit balances		Accumulated other comprehensive income (*)	Gains or (-) losses from hedge accounting, net	Net interest income	Gains or (-) losses from hedge accounting, net
Interest rate derivatives	6,550,565	1,791	47,155	11,234	11,234	-	-	-
Total	**6,550,565**	**1,791**	**47,155**	**11,234**	**11,234**	**-**	**-**	**-**

(*) Not taking into consideration the related tax effect.

The detail of the periods after 31 December 2018 and 2017 at which it is estimated that the amounts recognised in consolidated equity under "Accumulated other comprehensive income- Items that may be reclassified to profit or lossHedging derivatives. Cash flow hedges [Effective portion]" at that date will be recognised in future consolidated income statements is as follows:

(Thousand of euros)

ITEM	Remaining term to maturity as of 31 December 2018				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	TOTAL
Losses (*)	-	-	(442)	(6,100)	(6,542)
Profits (*)	4	3,237	484	518	4,243
Total	**4**	**3,237**	**42**	**(5,582)**	**(2,299)**

(*) Taking into consideration the related tax effect.

(Thousand of euros)

ITEM	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)
Profits (*)	14	4,965	427	233	5,639
Total	**(9,980)**	**4,594**	**(388)**	**(4,389)**	**(10,163)**

(*) Taking into consideration the related tax effect.

The detail, by maturity, of the notional amount and average fixed interest of derivatives classified as cash value hedges at 31 December 2018 is as follows:

(thousands of euros)

CONCEPTOS	Remaining term to maturity as of 31 December 2018			
	0 to 3 years	3 to 10 years	More than 10 years	Total
Interest rate derivativesInterest rate derivatives				
Notional amount	81,948	462,811	6,005,806	6,550,565
Avegare fixed interest rate (%)	0.001	1.470	0.226	0.311
Total	**81,948**	**462,811**	**6,005,806**	**6,550,565**

The table below presents an estimate at 31 December 2018 of future receipts and payments hedged with cash flow hedges by the time from that date that the hedges are expected to take effect in the form of receipt or payment:

(Thousand)				
	Remaining term to maturity as of 31 December 2017			
ITEM	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Charges	131,899	9,466	41,670	30,694
Payment	(128,603)	(8,179)	(44,243)	(30,711)
Total	**3,296**	**1,287**	**(2,573)**	**(17)**

(14) Investments in subsidiaries, joint ventures and associates

(14.1) Changes in the Group's composition

Other than that disclosed in Note 1.15, there were no other material changes in the Group's composition or consolidation scope in 2018.

(14.2) Investments in joint ventures and associates

The detail of the investments included in this heading in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)		
Company name	31/12/2018	31/12/2017
Bankia Mapfre Vida, S.A., de Seguros y Reaseguros	132,365	231,719
Redsys Servicios de Procesamiento, S.L.	9,889	7,848
CajaGranada Vida Cia. Seguros y Reaseguros, S.A. (see Note 18.5.2)	-	19,590
CajaMurcia Vida y Pensiones de Seguros y Reaseguros, S.A. (see Note 18.5.2)	-	11,272
Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A	112,947	-
CA CF - Bankia, S.A.	3,818	-
Subtotal	**259,019**	**270,429**
Goodwill	46,868	50,168
Total	**305,887**	**320,597**

Goodwill relates entirely to Bankia Mapfre Vida, S.A. de Seguros and Reaseguros. As explained in Note 2.16.1, the cash-generating units to which goodwill has been allocated are tested for impairment (including the amount of goodwill allocated in their carrying amount). Impairments tests are carried out at least annually, or whenever there is any indication that an asset may be impaired. A market multiples-based valuation method was used to perform the impairment test. After the goodwill was tested for impairment (see Note 2.16.1), an impairment loss of EUR 3,300 thousand was recognised in 2018 (EUR 3,600 thousand in 2017) (see Note 43).

As described in Note 1.15, in 2018, the investment in Caser was reclassified from “Financial assets at fair value through other comprehensive income” to “Investments in associates” and accounted for using the equity method.

The tests carried out at 31 December 2018 did not uncover a need to make additional allowances for investments in associates, and gave rise to a reversal of impairment of EUR 40,623 thousand, recognised in the accompanying consolidated income statement, for the investment held in Caser.

The cash flow estimates for this investment are obtained from the company's strategic plan for 2018-2022, excluding the potential positive impact of structural changes in future periods. Growth to perpetuity of 1.5% is forecast for the remaining years. The discount rate applied for these flows was 10.5%.

Given the uncertainty of these estimates, the Group also performed a sensitivity analysis for the most significant variables to obtain more stressed scenarios compared to the baseline, factoring in potential variations in the main variables, specifically the discount rate (-0.5%, +0.5%), and the growth rate (-0.5%, +0.5%). The results of the sensitivity analysis did not uncover the need to recognise any additional impairment losses.

The detail of the entities in the accompanying consolidated balance sheet is as follows at 31 December 2018 and 2017:

(Thousands of euros)

ITEMS	31/12/2018 Caja de Seguros, Compañía de Seguros y Reaseguros, S.A.(*)	CA CF- Bankia, S.A. (*)	Redsys Servicios de Procesamiento, S.L. (*)	Bankia Mapfre Vida, S.A., de Seguros y Reaseguros (*)
Received dividends	-	-	-	109,847
Current assets	802,322	1,658	34,054	73,526
Non-current assets	6,714,941	8,465	87,981	7,884,469
Current liabilities	41,012	2,330	48,208	401,019
Non-current liabilities	6,723,275	-	11,785	7,286,844
Ordinary income	102,294	284	184,587	535,375
Profit or (-) loss from continuing operations	89,864	(2,207)	11,308	77,781
Other comprehensive income	148,658	-	-	78,953
Total comprehensive income	89,250	(2,207)	11,308	77,781

(*) Latest available data unaudited

(Thousands of euros)

ITEMS	31/12/2017 Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. (*)	Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.U. (*)	Redsys Servicios de Procesamiento, S.L. (*)	Bankia Mapfre Vida, S.A., de Seguros y Reaseguros (*)
Received dividends	3,661	3,978	-	39,181
Current assets	264,491	163,225	23,890	7,835,319
Non-current assets	12,435	5,241	107,785	523,442
Current liabilities	34,390	13,396	47,331	337,498
Non-current liabilities	203,357	132,524	35,104	7,548,367
Ordinary income	28,690	39,930	138,400	356,016
Profit or (-) loss from continuing operations	10,929	9,495	7,800	79,190
Other comprehensive income	7,031	3,924	-	67,166
Total comprehensive income	17,960	13,419	7,800	146,356

(*) Latest available data unaudited.

The reconciliation of this information with the carrying amount of the investment is as follows:

(Thousands of euros)

ITEMS	31/12/2018 Caja de Seguros, Compañía de Seguros y Reaseguros, S.A.	CA CF- Bankia, S.A.	Redsys Servicios de Procesamiento, S.L.	Bankia Mapfre Vida, S.A., de Seguros y Reaseguros
Adjusted Parent equality	752,978	7,793	62,042	270,132
Current interest attributable to the parent	15%	49%	16%	49%
Adjusted Equility attributable to the parent	112,947	3,818	9,889	132,365
Consolidated current interest value (*)	112,947	3,818	9,889	132,365

(*) Latest available data unaudited.

(Thousands of euros)

ITEMS	31/12/2017 Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A.	Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.U.	Redsys Servicios de Procesamiento, S.L.	Bankia Mapfre Vida, S.A., de Seguros y Reaseguros (*)
Parent adjusted equility	39,179	22,545	49,240	472,896
Current interest attributable to the parent	50%	50%	16%	49%
Adjusted equility attributable to the parent	19,590	11,272	7,848	231,719
Consolidated current interest value	19,590	11,272	7,848	231,719

(*) The goodwill is not considered in the carrying amount.

Regarding the change in the value of the stake in Bankia Mapfre Vida, S.A., de Seguros y Reaseguros, this company paid dividends in 2018, with the Group. receiving EUR 109,847 thousand according to its percentage stake. This dividend was eliminated on consolidation.

(15) Tangible assets

The detail of this item in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	For own use	Investment property	Total
Cost			
Balances at 31/12/2016	**3,799,093**	**350,907**	**4,150,000**
Additions/disposals (net)	100,410	(15,101)	85,309
Transfers to non-current assets held for sale and other changes (1)	(122,828)	36,496	(86,332)
Additions due to business combination	1,087,961	590,578	1,678,539
Balances at 31/12/2017	**4,864,636**	**962,880**	**5,827,516**
Additions/disposals (net)	22,408	(35,433)	(13,025)
Transfers to non-current assets held for sale and other changes (1)	(63,050)	(202,084)	(265,134)
Balances at 31/12/2018	**4,823,994**	**725,363**	**5,549,357**
Accumulated depreciation			
Balances at 31/12/2016	**(2,397,376)**	**(20,258)**	**(2,417,634)**
Additions/disposals (net)	13	1,618	1,631
Depreciation during the year (Note 40)	(85,121)	(5,482)	(90,603)
Transfers to non-current assets held for sale and other changes (1)	86,490	5,414	91,904
Additions due to business combination	(576,400)	(40,585)	(616,985)
Balances at 31/12/2017	**(2,972,394)**	**(59,293)**	**(3,031,687)**
Additions/disposals (net)	44,150	4,606	48,756
Depreciation during the year (Note 40)	(101,141)	(11,908)	(113,049)
Transfers to non-current assets held for sale and other changes (1)	(9,828)	36,955	27,127
Balances at 31/12/2018	**(3,039,213)**	**(29,640)**	**(3,068,853)**
Impairment losses			
Balances at 31/12/2016	**(8,064)**	**(66,194)**	**(74,258)**
Net provision/(release) charged/(credited) to income statement (Note 43)	(221)	309	88
Transfers to non-current assets held for sale and other changes (1)	(687)	(5,369)	(6,056)
Additions due to business combination	(125,760)	(166,209)	(291,969)
Balances at 31/12/2017	**(134,732)**	**(237,463)**	**(372,195)**
Net provision/(release) charged/(credited) to income statement (Note 43)	12	(22,736)	(22,724)
Transfers to non-current assets held for sale and other changes (1)	19,258	84,850	104,108
Balances at 31/12/2018	**(115,462)**	**(175,349)**	**(290,811)**
Total at 31 December 2017	**1,757,510**	**666,124**	**2,423,634**
Total at 31 December 2018	**1,669,319**	**520,374**	**2,189,693**

(1) In the case of assets for own use and investment properties, relates mainly to the transfer to "Non-current assets held for sale" of properties and facilities earmarked for disposal. In adition on 2017, in the case of assets for investment property, mainly to the disposal of the investment in subsidiary Torre Norte Castellana, S.A.

Recoverable amount at 31 December 2018 exceeded carrying amount.

(15.1) Tangible asset for own use

The detail, by type of asset, in this heading in the accompanying consolidated balance sheet is as follows:

31 December 2018

(Thousands of euros)

ITEM	Cost	Accumulated depreciation	Impairment losses	Net balance
Buildings and other structures	1,900,977	(469,466)	(63,839)	1,367,672
Furniture and vehicles	217,676	(186,626)	-	31,050
Facilities	1,566,580	(1,298,934)	(51,623)	216,023
Office equipments and mechanization	1,138,761	(1,084,187)	-	54,574
Balance at 31 December 2018	**4,823,994**	**(3,039,213)**	**(115,462)**	**1,669,319**

31 December 2017

(Thousands of euros)

ITEM	Cost	Accumulated depreciation	Impairment losses	Net balance
Buildings and other structures	1,996,081	(476,136)	(66,266)	1,453,679
Furniture and vehicles	236,067	(200,591)	(3,167)	32,309
Facilities	1,493,291	(1,219,562)	(61,772)	211,957
Office equipments and mechanization	1,139,197	(1,076,105)	(3,527)	59,565
Balance at 31 December 2017	**4,864,636**	**(2,972,394)**	**(134,732)**	**1,757,510**

At 31 December 2018 and 2017, 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.

(15.2) Tangible assets - Investment property

"Investment property" includes land, buildings and other structures held either to earn rentals or for capital appreciation.

At 31 December 2018 and 2017, the Group did not have any significant contractual obligations in connection with the future operation of the investment properties included on the balance sheet, and there were no relevant restrictions thereon, other than those inherent to the current conditions of the property market.

During the year ended at 31 December 2018 net income from the Group's investment property totalled EUR 22,677 thousand (EUR 12,952 thousand in 2017) (see Note 36).

(16) Intangible assets

(16.1) Goodwill

The breakdown by company of goodwill in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

COMPANY	31/12/2018	31/12/2017
Bankia Pensiones, S.A. Entidad Gestora de Fondos de Pensiones	90,862	93,262
Total	**90,862**	**93,262**

The movements (gross amount) in goodwill recognised under this item in the consolidated balance sheet in the years ended 31 December 2018 and 2017 were as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Accounting balance at the beginning of the year	**93,262**	**95,662**
Provisions charged to the income statement (Note 43)	(2,400)	(2,400)
Accounting balance at the beginning of end year	**90,862**	**93,262**

As explained in Note 2.16.1, the cash-generating units to which goodwill has been allocated are tested for impairment, including the amount of goodwill allocated in their carrying amount. Impairments tests are carried out at least annually, or whenever there is any indication that an asset may be impaired. (Note 32)

(16.2) Other intangible assets

The breakdown of assets under this heading on the accompanying consolidated balance sheets is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
With a finite useful life	**207,353**	**144,638**
Computer software	1,152,194	1,032,436
Other	1,168	2,670
(Accumulated amortisation)	(946,009)	(890,468)
Total assets net of depreciation	**207,353**	**144,638**
Impairment losses	**(661)**	**(401)**
Total	**206,692**	**144,237**

The movements in this heading of the consolidated balance sheet during the years ending on 31 December 2018 and 2017, have been the following:

(Thousands of euros)

ITEM	2018	2017
With finite useful life		
Carrying amount at the beginning of the year	144,237	124,153
Additions	123,312	103,770
Amortisation recognised in income (Note 40)	(60,863)	(83,687)
Derecognition for disposal or other	-	(1)
Other changes	6	2
Accounting balance at the end of the year	**206,692**	**144,237**
Total	**206,692**	**144,237**

(17) Other assets

Details of “Other assets” on the consolidated balance sheets at 31 December 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Insurance contracts linked to pensions (Note 38.2)	1,034,030	432,981
Other items	605,539	440,974
Total	**1,639,569**	**873,955**

“Other items“contains, inter alia, transactions in transit, accruals associated with operating income, and unaccrued prepayments.

Inventories

The Group’s inventories at 31 December 2018 and 2017 are classified as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Raw materials and goods held for conversion (land)	**682**	**682**
Of which: acquired in payment of debt	-	-
Other	682	682
Total gross	**682**	**682**
Less: impairment losses	**(682)**	**(682)**
Raw materials and assets acquired for conversion (land)	(682)	(682)
Total net	**-**	**-**

The changes affecting the impairment losses of these items, which include the adjustments necessary to reduce their cost to net realisable value, during the years ended 31 December 2018 and 2017, are as follows:

(Thousands of euros)

ITEM	2018	2017
Accounting balance at the beginning of the year	**682**	**31,742**
Net provisions charged against/(credited to) profit for the year (Note 43)	(43)	4,203
Disposals during the year	-	(35,263)
Transfers to/from non-current assets held for sale	-	-
Disposals for inclusion in consolidation scope	43	-
Accounting balance at the end of the year	**682**	**682**

Appendix IX contains information concerning foreclosed assets or assets acquired in settlement of debts classified as inventories, as required by applicable regulations.

(18) Non-current assets and disposal groups classified as held for sale

(18.1) Breakdown

The breakdown of this heading of the asset side of the accompanying consolidated balance sheet 31 December 2018 and 2017:

31 December 2018

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Non-current Assets Held for Sale	**2,745,359**	**(682,700)**	**2,062,659**
Tangible asset for own use	281,110	(80,959)	200,151
Foreclosed real state or received in payment debts	2,308,926	(600,526)	1,708,400
Other equity instruments	132,227	-	132,227
Investments in joint ventures and associates	23,096	(1,215)	21,881
Disposal groups and discontinued operations	**3,501,008**	**(1,657,462)**	**1,843,546**
Total assets at 31 December 2018	**6,246,367**	**(2,340,162)**	**3,906,205**
Liabilities included in disposal groups	350,885	-	350,885
Total liabilities at 31 December 2018	**350,885**	**-**	**350,885**

31 December 2017

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Non-current Assets Held for Sale	**5,061,021**	**(1,818,667)**	**3,242,354**
Tangible asset for own use	408,473	(171,638)	236,835
Foreclosed real state or received in payment debts	4,359,145	(1,628,142)	2,731,003
Other equity instruments [(1)]	239,847	-	239,847
Investments in joint ventures and associates	53,556	(18,887)	34,669
Disposal groups and discontinued operations	**28,979**	**-**	**28,979**
Total assets at 31 December 2018	**5,090,000**	**(1,818,667)**	**3,271,333**
Liabilities included in disposal groups	8,797	-	8,797
Total liabilities at 31 December 2018	**8,797**	**-**	**8,797**

[(1)]Includes EUR 236,066 thousand as a result of the business combination (see Note 1.15)

(18.2) Tangible assets for own use

At 31 December 2018, the balance of this item comprised mainly certain of the Group's buildings for own use that are no longer part of its branch network and that, under 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 2.20, the Group measures these assets at the lower of their carrying amount and fair value less costs to sell. It recognised an impairment loss in 2018 of EUR 6,409 thousand (EUR 5,025 thousand in 2017) (see Note 45).

Meanwhile, as a result of the sale of buildings by the Bank in previous years, at 31 December 2018 it was party to operating leases with the purchasers of the buildings (investors). The lease arrangements have mandatory terms between 2 and 8 years, renewable for additional periods of five years. The weighted average maturity of such contracts is 8 years.The present value of the future minimum lease payments payable by the Group from the operating leases during the mandatory period is EUR 37 million within one year, EUR 137 million within two to five years, and EUR 298 million after five years.

Other significant features common to all these operating leases include:

- The agreed rents were based on market prices (similar to comparable transactions).

- 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 Group was reasonably assured.

- These leases include purchase options, whereby the Group may, on expiry of each lease, purchase the property at fair value as determined by independent appraisers at the expiry date.

The Group 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.

(18.3) Foreclosed real state or received in payment debts

The Group has devised an internal methodology for estimating discounts on the reference value and costs of sale of real estate assets foreclosed or received in payment of debt, based on its experience in selling by asset category in relation to terms, prices and volume, and the time it takes to sell them, which did not have a significant impact on the Bank's financial statements.

The method, therefore, excludes those assets for which the Group has not attained sufficient sales volume, meaning that its management unit does not possess the sales experience needed to sell or otherwise realise those assets at their fair value. The Group aims to maximise the use of internal approaches, so it will extend application of the model to these assets as it gathers sufficient sales experience. The value of the portfolio has been measured by taking its reference value and applying the percentage discount rates estimated by the Bank of Spain, as alternative solutions, on the basis of its experience and the information it holds on the banking sector, as set out in Bank of Spain Circular 4/2017.

The methodology complies with the principles and requirements governing the development and use of internal methodologies for estimating discounts on the reference value and the cost of sale of foreclosed assets or those received in payment of debt. It has also undergone the necessary internal validation process prior to its approval and use. The breakdown of assets foreclosed or received in settlement of debts recognised on the Group’s accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Property assets		
Finished dwellings	1,133,425	1,950,270
Managed rural property and offices, commercial and industrial premises	409,656	523,982
Building plots, plots and other property assets	165,319	256,751
Total	**1,708,400**	**2,731,003**

Significant changes

The changes recognised in assets in the years 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	2018	2017
Accounting balance at the beginning of the period	**2,731,003**	**2,056,052**
Additions during the year and other changes	259,636	294,876
Disposals during the year	(614,953)	(427,657)
Net impairment losses (Note 45)	(97,571)	(138,605)
Other changes	(569,715)	946,337
Accounting balance at the end of the period	**1,708,400**	**2,731,003**

Sales of foreclosed assets are made on an arm's length basis. In 2018, financing was granted for an amount of approximately EUR 136 million, on average, 82.0% of the sales amount was financed (EUR 201 million and 87.9% in 2017).

Proceeds on disposals of foreclosed assets, by type, in the years ended 31 December 2018 and 2017 were as follows:

31 December 2018

(Thousand of euros)

ITEM	Disposal of assets at carrying amount	Gain/(loss) recognised on disposal (*)
Finished dwellings	493,362	(3,537)
Managed rural property and offices, commercial and industrial premises	97,559	12,146
Building plots, plots and other property assets	24,032	16,973
Total	**614,953**	**25,582**

(*) Excludes fees paid to intermediaries.

31 December 2017

(Thousand of euros)

ITEM	Disposal of assets at carrying amount	Gain/(loss) recognised on disposal (*)
Finished dwellings	371,208	(13,939)
Managed rural property and offices, commercial and industrial premises	43,595	15,701
Building plots, plots and other property assets	12,854	3,791
Total	**427,657**	**5,553**

(*) Excludes fees paid to intermediaries.

Appendix IX provides further details on the Bank's property assets at 31 December 2018 and 2017, including the foreclosed assets referred to in the preceding paragraph.

The table below shows the net value of the foreclosed assets at 31 December 2018 and 2017, by their estimated ages as of the date of acquisition:

(Thousands of euros)

Age of foreclosed assets	31/12/2018	31/12/2017
Less than 12 months	178,691	399,830
12 months to 24 months	327,676	347,608
More than 24 months	1.202,033	1,983,565
TOTAL	**1.708,400**	**2,731,003**

The table below presents the detail of forclosed property assets or received in payment of debts (transactions in Spain) at 31 December 2018 held, according to their final purpose, as " Non current assets held for sale" and " Tangible assets- Investment Property" of the consolidated balance sheet by 31 December 2018, excluding those held as disposal groups (See Note 18.5.1):

(Thousand of euros)

ITEM	31/12/2018
Property assets from financing intended for construction and property developement	381,862
Finished products (completed property developments)	182,801
Work in progress (property developments under construction)	29,032
Lands	170,029
Property assets from mortgage-secured finacing granted to households for home in settlement of debt	1,742,882
Other real estate received in payment of debts	783,760

Appendix IX provides information on exposure to property and construction risk in Spain, including information on assets foreclosed or received in payment of debts and the real estate assets included in the preceding table.

(18.4) Other equity instruments and investments in joint ventures and associates

This includes balances related to investments in joint ventures and associates, and other equity instruments previously registered under " Financial assets at fair value through other comprehensive income" that the Group reclassifies, to "Non-current assets held for sale" (see Note 2.20). The following table shows a breakdown of the balance by item under which the investments were recognised before their classification under "Non-current assets held for sale”:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Financial assets at fair value through other comprehensive income	132,227	239,847
Investments in associates and joint ventures – joint ventures	24	22,260
Investments in associates and joint ventures – associates	21,857	12,409
TOTAL	**154,108**	**274,516**

Changes in the impairment of investments in joint ventures and associates in the years ended 31 December 2018 and 2017 were as follows:

31 December 2018

(Thousand of euros)

ITEM	Joint ventures	Associates	TOTAL
Accounting balance at the beginning of the year	**(5,440)**	**(13,447)**	**(18,887)**
Impairment losses charged to income	-	(158)	(158)
Net provision (Note 45)	-	**(158)**	**(158)**
Other changes	5,440	12,390	17,830
Total	-	**(1,215)**	**(1,215)**

31 December 2017

(Thousand of euros)

ITEM	Joint ventures	Associates	TOTAL
Accounting balance at the beginning of the year	**(5,456)**	**(16,260)**	**(21,716)**
Impairment losses charged to income	-	(4)	(4)
Net provision	**-**	**(4)**	**(4)**
other changes	5,456	16,242	21,698
Additions due to business combination	(5,440)	(13,425)	(18,865)
Total	**(5,440)**	**(13,447)**	**(18,887)**

Appendix IV provides additional information on joint ventures and associated classified as “Non-current assets and disposal groups classified as held for sale”.

(18.5) Assets and liabilities included in disposal groups and discontinued operations

A disposal group is defined as a group of assets, possibly with some directly associated liabilities, which will be disposed of in a single transaction. The Group has classified these disposal groups as non-current assets held for sale since they satisfy the requirements for classification as "non-current assets held for sale". Therefore, the assets and liabilities are presented and measured in accordance with the criteria established for "Disposal groups" (see Note 2.20).

(Thousand of euros)

ITEM	Cost or Gross value	Impairment losses	Carrying Amount
Assets			
Disposal groups	2,925,643	(1,657,462)	1,268,181
Loan and real estate assets portfolio	2,908,282	(1,657,462)	1,250,820
Group entities- assets	17,361	-	17,361
Discontinued operations - Bancassurance reorganisation	575,365	-	575,365
Total assets on 31 December 2018	**3,501,008**	**(1,657,462)**	**1,843,546**
Liabities			
Disposal groups	4,642	-	4,642
Group entities- liabilities	4,642	-	4,642
Discontinued operations - Bancassurance reorganisation	346,243	-	346,243
Total liabities on 31 December 2018	**350,885**	**-**	**350,885**

(18.5.1) Loans and real estate assets portfolio

As reported in a material disclosure on 17 December 2018, the Group reached an agreement with two subsidiaries of the Lone Star XI fund, in order to set up a company to administer, develop and have available a portfolio of foreclosed real estate assets and transfer a portfolio of non-performing loans , for a combined gross book value of approximately EUR 3,070 million –EUR 1,650 million of foreclosed assets and EUR 1.420 million of mortgage loans, approximately– in accordance with the scope of assets originally agreed at the date of identification.

The real estate assets will be contributed to two companies in which Bankia, S.A. holds, directly or indirectly, 20% of their capital, and the Lone Star Fund XI subsidiary, the remaining 80%. Meanwhile, the economic rights of the non-performing loans will be acquired in full by a wholly owned vehicle of Lone Star Fund XI for their subsequent securitisation by an asset-backed securitisation fund.

The transaction is subject to the pertinent administrative authorisations and is expected to be closed in the second quarter of 2019, after which the assets will be derecognised from the balance sheet. Until the transaction is completed, these assets have been classified as a disposal group of assets classified as held for sale since their carrying amount will be recovered through the transaction, which is considered to be highly probable.

At 31 December 2018, the gross values included in "Disposal groups – Portfolio of loans and real estate assets" were lower than estimated in the original scope indicated previously due to the trends and ordinary performance of the assets from the date of identification (e.g. receipts from redemptions or recoveries, foreclosures or payments in lieu, sales of foreclosed assets).

The breakdown of this item in the accompanying consolidated balance sheet by nature of the transaction is as follows:

(Thousand of euros)

ITEM	31/12/2018
Loans	1,377,441
Tangible Assets for own use	108,810
Assets from the foreclosed	1,422,031
Gross value	**2,908,282**
Impairment Losses	**(1,657,462)**
Net carrying amount	**1,250,820**

Loan portfolio

Virtually the entire loan portfolio –more than 99% of the gross balance– by counterparty sector relates to transactions with non-financial companies and by credit status to non-performing loans, for which additional information is provided below.

(Thousand of euros)

ITEM	31/12/2018
By age	
Up to 6 months	73,337
Between 6 and 9 months	21,001
9 to 12 months	25,334
More than 12 months	1,253,477
Total	**1,373,149**
By type of collateral	
Full mortgage collateral	1,373,149
Other collateral	-
Without collateral	-
Total	**1,373,149**

Below is the distribution 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 relations to the risks to which it is exposed:

(Thousand of euros)

ITEM	31/12/2018
Lower than or equal to 40%	107,553
Greater than 40% and lower than or equal to 60%	236,738
Greater than 60% and lower than or equal to 80%	520,718
Greater than 80%	508,140
Total	**1,373,149**

Appendix X includes the classification and impairment policies and criteria applied by the Group in refinancing and restructuring operations, along with their gross amount and the allowances and provisions for credit risk, with details of those classified as non-performing and a breakdown of those classified as "Non-assets and disposal groups classified as held for sale".

Appendix XI provides information on risk concentration by activity and geographic area. The information includes non-current assets classified as held for sale.

Real estate assets portfolio

The breakdown of real estate assets by classification in the balance sheet and type of asset is as follows:

(Thousand of euros)

ITEM	31/12/2018
Tangible assets for own use	**108,810**
Foreclosed assets	**1,422,031**
Finished dwellings - borrower's primary residence	1,011,401
Managed rural property and offices, commercial and industrial premises	226,536
Building plots, plots and other property assets	184,094
Total	**1,530,841**

The table below shows the net value of the foreclosed assets at 31 December 2018, by their estimated ages as of the date of acquisition:

(Thousand of euros)

Age of foreclosed assets	31/12/2018
Less than 12 months	462
12 months to 24 months	42,887
More than 24 months	1,378,682
TOTAL	**1,422,031**

The following table provides a breakdown of the gross balance at 31 December 2018 of real estate assets foreclosed or received in payment of debts (transactions in Spain) classified as a disposal group:

(Thousand of euros)

ITEM	31/12/2018
Property assets from financing intended for construction and property developement	336,789
Finished products (completed property developments)	135,841
Work in progress (property developments under construction)	23,968
Lands	176,980
Property assets from mortgage-secured finacing granted to households for home in settlement of debt	843,382
Other real estate received in payment of debts	241,760

Appendix IX provides information on exposure to property and construction risk in Spain, including information on assets foreclosed or received in payment of debts and the real estate assets included in the preceding table.

(18.5.2) Bancassurance reorganisation alliances

Following the merger by absorption of Banco Mare Nostrum, S.A. (see Note 1.15), the Group embarked on a reorganisation of its bancassurance business.

On 10 July 2018, on receiving authorisation by the competent authority and in the absence of opposition by the General Directorate of Insurance and Pensions (Dirección General de Seguros y Pensiones), the acquisition of 50% interests in insurance companies Caja Granada Vida Compañía de Seguros Reaseguros, S.A., (hereinafter, "Caja Granada Vida"), from Ahorro Andaluz, S.A., and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. (hereinafter, "Cajamurcia Vida"), from Aviva Europe, SE, by Bankia, S.A., for EUR 226,393 thousands, was completed, giving it whole ownership of both companies making an end to the bancassurance alliances with Aviva Europe, SE,.

After obtaining control of the companies, the Group intends to transfer its majority shareholdings in each, so they have been classified as Disposal groups - Discontinued operations.

On 4 December 2018, the Group announced the agreement reached with Grupo Mapfre in the life business for the sale of 51% of the shares of Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. to Mapfre Vida Sociedad Anónima de Seguros sobre la Vida Humana ("Mapfre Vida") for a total price of EUR 110 million, although Bankia maintains its exclusive bancassurance agreement with Group Caser in the Balearic Islands for the life insurance and pension business.Prior to the sale of this holdings, the agreements foresees the dividend distribution to be received by Bankia, as sole shareholder of the entities.

The effectiveness of the sale is subject to the pertinent regulatory and competition authorities' approvals, which are expected to be obtained in the first half of 2019. The derecognition of the investments will not have a material impact on the Bankia Group's equity since they are measured at their selling price net of the estimated amount of dividends to be distributed. The initial recognition of the companies at their fair value, which was equivalent to the sale price agreed with Mapfre, did not have any impact on the income statement since EUR 36 million of provisions set aside for the business combination with BMN to cover the transaction (see Note 20) were used.

The table below provides the detail of the assets and liabilities corresponding to the entities by line item in the accompanying consolidated balance sheet under which they were recognised before classification as non-current assets held for sale at 31 December 2018:

Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A

(Thousand of euros)

	31/12/2018		31/12/2018
Cash and balances with central banks and other demand deposits	27,703	Financial liabilities at amortised cost	13,349
Non-trading financial assets mandatorily at fair value through profit or loss	2,840	Liabilities under insurance contracts	178,861
Financial assets at fair value through other comprehensive income	17,853	Other liabilities	27,554
Financial assets at amortised cost	200,300		
Intangible assets	82,671		
Other assets	15,253		
TOTAL ASSETS	**346,620**	**TOTAL LIABILITIES**	**219,764**

Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.

(Thousand of euros)

	31/12/2018		31/12/2018
Cash and balances with central banks and other demand deposits	27,055	Financial liabilities at amortised cost	4,272
Non-trading financial assets mandatorily at fair value through profit or loss	11,693	Liabilities under insurance contracts	118,357
Financial assets at fair value through other comprehensive income	12,367	Other liabilities	3,850
Financial assets at amortised cost	95,242		
Intangible assets	1		
Tangible assets	79,946		
Other assets	7,441		
TOTAL ASSETS	**228,745**	**TOTAL LIABILITIES**	**126,479**

The post-tax profit from discontinued operations recognised in the income statement for 2018 was EUR 6,047 thousand.

Appendix II provides additional information on both companies

On 4 December 2018, the Group reached an agreement with CASER for the non-extinctive partial novation of the alliance with Sa Nostra Vida covering the distribution of life insurance and pension plans. The novation restricts the regional scope of the alliance to the Balearic Islands and modifies certain circumstances for the termination of the alliance, as well as the terms and conditions of the related termination options. The terms and conditions covering commissions in the original agreements were maintained. The price agreed by the parties for the novation has been EUR 35 million, paid in full by Bankia to Grupo Caser. This amount was paid out of the provisions set aside previously for this purpose (see Note 20).

In addition, on 4 December 2018, the Bankia Group and Caser, S.A. agreed to terminate their bancassurance alliance for the distribution of certain of CASER's general insurance branches and products through the BMN network. The price agreed by the parties to terminate this agreement was EUR 94 million. This amount was paid in full by the Bnakia Group in 2018. At the same time, on 4 December, the Group reached an agreement with Grupo Mapfre to extend the scope of the current bancassurance alliance for the distribution of non-life insurance. This agreement for the transfer of the insurance portfolio management business extending the brokerage and acquisition activities to the new network from BMN established a fixed price of EUR 51 million, which does not require approval by either the regulators or the competition authorities. This fixed price does not include any commitment by the Group regarding minimum volumes or future profits before the buyer, or modification of the terms and conditions regarding commissions in the original agreement. Both agreements were recognised in profit or loss for the year, with the difference between the two amounts covered out of provisions set aside for these risks (see Note 20).

The agreement with Mapfre also provides for certain additional variable income components based on trends in sales of this type of insurance through the BMN network, up to a maximum of EUR 28 million. The variable amounts were not recognised in the income statement, but will be as the commitments undertaken in the agreement are achieved.

(18.5.3) Group Entities- Assets and liabilities.

The following table presents subsidiaries that meet the criteria for classification as “disposal groups” whose assets and liabilities are, therefore, presented as “Non-current assets and disposal groups classified as held for sale” and “Liabilities included in disposal groups classified as held for sale”.

	% participation	
Entities	31/12/2018	31/12/2017
Corporación Financiera Habana, S.A.	60.00	60.00
Gestión y Recaudación Local, S.L.	99.75	99.75
Grama Desarrollos Comerciales, S.L. in settlement	-	100.00
Inversión General de Granada 2, S.L. in settlement	75.00	75.00
Kevir Inversiones, S.L.U.	-	100.00
Navicoas Asturias, S.L.	95.00	95.00
Summa Seguridad, S.L.U.	-	100.00
Viajes BMN, S.L.U. in settlement	-	100.00

The table below provides the detail at 31 December 2018 and 2017 of the assets and liabilities corresponding to these companies by line item in the accompanying balance sheet under which they were recognised before classification as non-current assets held for sale:

(Thousand of euros)

	31/12/2018	31/12/2017		31/12/2018	31/12/2017
Cash, cash balances at central banks and other demand deposits	14	168	Financial liabilities at amortised cost	3,099	4,496
Financial assets at amortised cost	13,468	23,897	Provisions	1,228	2,824
Tangible assets	21	257	Other liabilities	315	1,477
Intangible assets	159	247			
Other assets	3,699	4,410			
TOTAL ASSETS	**17,361**	**28,979**	**TOTAL LIABILITIES**	**4,642**	**8,797**

Appendix II provides additional information on these companies.

(19) Financial liabilities at amortised cost

Breakdown

The detail of this item in the accompanying consolidated balance sheets, based on the counterparty and nature of the related financial instruments, is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Financial liabilities at amortised cost		
Deposits from central banks	13,855,970	15,355,970
Deposits from credit institutions	21,783,188	22,286,267
Customer deposits	125,135,008	129,169,854
Debt securities issued	17,478,163	18,702,033
Other financial liabilities	1,545,259	1,067,385
Sum	**179,797,588**	**186,581,509**
Valuation adjustments	2,070,998	2,316,051
Total	**181,868,586**	**188,897,560**

Financial liabilities at amortised cost - Deposits from central banks

The breakdown of assets under this heading in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Bank of Spain / European Central Bank	13,855,970	15,355,970
Sum	**13,855,970**	**15,355,970**
Valuation adjustments	30	-
Total	**13,856,000**	**15,355,970**

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, under the framework of the programmes designed by the European Central Bank to improve its long-term funding, includes EUR 13,855,970 thousand taken under the T-LTRO II programme, with average maturity of one year and six months at 31 December 2018 (EUR 1,500,000 thousand taken under the T-LTRO I programme, with average maturity of 9 months and EUR 13,855,970 thousand taken under the T-LTRO II programme, with average maturity of 2 years and 7 months at 31 December 2017).

Regarding finance raised under the framework of the T-LTRO II programme, the Group received confirmation from the ECB that it had met the requirements to receive the incentive included in the terms of the programme. As a result, the Group recognised EUR 55,905 thousand in the year ended 31 December 2018 (EUR 46,931 in 2017) under "Interest income" in the consolidated income statement (Note 29).

Financial liabilities at amortised cost – Deposits from credit institutions

The detail of this item in the accompanying balance sheets, based on the nature of the related operations, is as follows:

(Thousands of euros)		
ITEM	31/12/2018	31/12/2017
Mutual accounts	-	1
Time deposits	3,769,763	3,403,959
Repos	14,643,061	15,557,780
Other accounts	3,370,364	3,324,527
Sum	**21,783,188**	**22,286,267**
Valuation adjustments	4,568	7,329
Total	**21,787,756**	**22,293,596**

At 31 December 2018, there was no balance of non-marketable (one-off) mortgage-backed securities issued by the Bank included under this item in the balance sheet (EUR 2,000 thousand at 31 December 2017) (See appendix VIII).

The average effective annual interest rate on deposits from central banks and other credit institutions at 31 December 2018 was 0.20% (0.21% at 31 December 2017).

Financial liabilities at amortised cost - Customer deposits

The detail of this item in the accompanying balance sheets, based on the nature of the related operations, is as follows:

(Thousands of euros)		
ITEM	31/12/2018	31/12/2017
Public sector	6,608,051	5,677,761
Current accounts	5,826,475	4,488,059
Term deposits	781,576	1,189,702
Other financial corporations	14,510,107	19,503,023
Current accounts	5,730,785	5,743,326
Term deposits	8,735,368	11,092,041
Repos	43,954	2,667,656
Non-financial corporations	14,340,179	16,186,456
Current accounts	12,033,995	12,408,062
Term deposits	2,306,184	3,778,394
Households	90,861,139	89,028,559
Current accounts	59,632,449	53,677,080
Term deposits	31,228,690	35,351,479
Total	**126,319,476**	**130,395,799**

This consolidated balance sheet item includes one-off non-marketable mortgage-backed securities issued by the Group amounting to EUR 6,247,854 thousand at 31 December 2018 (EUR 7,499,242 thousand at 31 December 2017) (see Appendix VIII).

The average effective annual interest rate of these instruments at 31 December 2018 increased up to 0.12% (0.10% at 31 December 2017).

Financial liabilities at amortised cost – Issued marketable debt securities

The detail of issues recognised under this heading in the consolidated balance sheet at 31 December 2018 and 2017 is set out in Appendix VI.

Interest accrued on subordinated liabilities in the year ended 31 December 2018 amounted to EUR 65.675 thousand (EUR 56,734 thousand at 31 December 2017), recognised under "Interest expense " in the consolidated income statement for the year

The average effective annual interest rate of these instruments at 31 December 2018 has been 1.06% (0.96% at 31 December 2017).

The coupons accrued on the issuance of contingent convertible bonds (convertible into ordinary shares of Bankia) have been recognised in Group equity as they are payable at the Entity's discretion. Specifically, at 31 December 2018, a negative balance of EUR 52,179 thousand after tax (year-end 2017: EUR 14,295) 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 2018 and 2017:

31 December 2018

(Thousands of euros)

TYPE OF ISSUE	31/12/2017	Issues	Refunds	Exchange rate adjustments and others	31/12/2018
Debt securities issued in an EU Member State requiring a prospectus to be registered	19,784,810	1,000,000	(2,556,587)	131,872	18,360,095
Debt securities issued in an EU Member State not requiring a prospectus to be registered	-	-	-	-	-
Other debt securities issued outside the EU	-	-	-	-	-
Total	**19,784,810**	1,000,000	(2,556,587)	131,872	**18,360,095**

31 December 2017

(Thousands of euros)

TYPE OF ISSUE	31/12/2016	Issues	Repurchases or repayments	Additions due to business	Exchange rate adjustments and others	31/12/2017
Debt securities issued in an EU Member State requiring a prospectus to be registered	19,846,163	1,250,000	(2,368,232)	865,692	191,187	19,784,810
Debt securities issued in an EU Member State not requiring a prospectus to be registered	-	-	-	-	-	-
Other debt securities issued outside the EU	-	-	-	-	-	-
Total	**19,846,163**	**1,250,000**	**(2,368,232)**	**865,692**	**191,187**	**19,784,810**

The main issues and repurchases or repayments in the first half of 2018 were:

– On 25 May 2018, the “CH Caja Madrid issuance maturing 25/05/18” was redeemed at maturity for EUR 2,060 million.

– On 1 June 2018, the “Bankia 2018-1 Covered Bond” issuance was placed for EUR 100 million.

– On 16 July 2018, the “Caja Madrid 2008-6 Bond” issuance was fully redeemed before maturity for EUR 172 million.

– EUR 500 million of perpetual contingent convertible bonds (convertible into new-issue ordinary shares of Bankia) were issued on 19 September 2018.

– On 9 October 2018, the “Bankia 2018-2 Mortgage-Covered Bond” issuance was placed for EUR 400 million.

Appendices VI and VII provide a detail of issues comprising consolidated the balance sheet disclousure item “Debt securities issued”, along with issuances, repurchases or repayments of debt securities in 2018 and 2017 by the Bank or other Group companies.

Other information

In terms of seniority, the subordinated bonds rank junior to the claims held by all general creditors over the issuing entities.

The subordinated bond issue recognised under “Financial liabilities at amortised cost” at 31 December 2017 includes an option for the issuer to call, redeem, repurchase or repay early the securities after (at least) five years from the date of payment and on each coupon payment date, 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 issuer 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 Group 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 Group 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 Group's main debt securites included in this heading is provided in Note 3.2, “Liquidity risk of financial instruments”.

Financial liabilities at amortised cost - Other financial liabilities

The detail, by type of transaction, of “Other financial liabilities” in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Obligations payable	156,738	192,760
Collateral received	2,098	15,031
Tax collection accounts	264,317	243,166
Special accounts and other items	1,076,719	568,998
Financial guarantees	45,387	47,430
Total	**1,545,259**	**1,067,385**

(20) Provisions

The detail of this heading in the accompanying consolidated balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Pensions and other post employment defined benefit obligations (see Note 38)	1,080,822	442,407
Pending legal issues and tax litigation	193,670	363,803
Commitments and guarantees given	373,082	379,484
Other provisions	274,542	848,881
Total	**1,922,116**	**2,034,575**

The changes in the provisions recognised in the consolidated balance sheet in the years ended 31 December 2018 and 2017 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 2016	**401,664**	**421,071**	**389,690**	**192,679**	**1,405,104**
Net provisions/(reversals) charged to profit recognised for the year (Notes 38 and 41)	**(1,222)**	**125,223**	**(19,412)**	**305,948**	**410,537**
Provisions charged to the income statement	1,830	125,284	78,548	450,183	655,845
Reversals credited to the income statement	(3,052)	(61)	(97,960)	(144,235)	(245,308)
Amounts used	(13,135)	(204,536)	-	(157,035)	(374,706)
Transfers and other movements	45,599	(15,437)	(6,836)	121,869	145,195
Additions due to business combination	9,501	37,482	16,042	385,420	448,445
Balances at 31 December 2017	**442,407**	**363,803**	**379,484**	**848,881**	**2,034,575**
Adjustments first application IFRS 9 (Note 1.3.2.3)	-	-	43,114	-	43,114
Balances at 1 January 2018	**442,407**	**363,803**	**422,598**	**848,881**	**2,077,689**
Net provisions/(reversals) charged to profit recognised for the year (Notes 38 and 41)	**(10,418)**	**2,104**	**(51,008)**	**69,296**	**9,974**
Provisions charged to the income statement	-	3,975	11,692	69,762	85,429
Reversals credited to the income statement	(10,418)	(1,871)	(62,700)	(466)	(75,455)
Amounts used	(31,767)	(172,237)	-	(643,635)	(874,639)
Transfers and other movements	680,600	)	1,492	-	682,092
Balances at 31 December 2018	**1,080,822**	**193,670**	**373,082**	**274,542**	**1,922,116**

Pensions and other post-employment defined benefit obligations

The balance of pension and similar obligations at 31 December 2018 and 2017, recognised under "Provisions - Pensions and other post-employment defined benefit obligations" in the accompanying consolidated balance sheets stood at EUR 1,080,822 thousand and EUR 442,407 thousand, as disclosed in Note 38.2. The difference was due, primarily, to the recognition of the externalisation of the restructuring plan obligations with Bankia Mapfre Vida and the inclusion of the externalisiation of the long-term employee obligations with Caser, after this company's consideration as a related party once significant influence was obtained.

Pending legal issues and tax litigation

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 2.18 the Group is involved in various legal pr oceedings related to Bankia's IPO.

<u>Criminal procedure in the National Court</u>

Both Bankia's IPO and its 2011 financial statements were investigated in preliminary proceedings no. 59/2012 (currently Summary Procedure 1/2018) 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 and appeals for inadmissibility against the transformation ruling were submitted, but were rejected, except the appeal by the savings banks' employees' union (CIC) with respect to the dismissal of the criminal liability charges against the external audit firm at the time of the IPO, which was accepted. As a result, an agreement was reached to keep external auditor in the proceeding.

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.

The trial began on 26 November 2018 and is expected to run through the first half of 2019.

In light of the above, the Group has treated this contingency, in accordance with the criteria explained in Note 2.18.1, as a contingent liability with an uncertain outcome at this date.

Civil proceedings by individual investors

In the years since Bankia's IPO, the Group 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 Group 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).

Until 31 December 2018, and as a result of the developments described above, the Group had utilised provisions in the amount of EUR 1,871 million, EUR 767 million of which corresponded to Bankia (EUR 551 million in respect of nullity of the share purchase contract and EUR 216 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.

At 31 December 2018, there are a total of 700 civil proceedings ongoing with respect to shares purchased in the IPO and subsequently.

Civil proceedings by institutional investors

Elsewhere, until 14 January 2019, 78 sentences have been handed down to institutional investors (of which 21 were favourable at first instance (17 legal persons and 4 natural person), 57 were unfavourable (46 legal persons and 11 natural persons). On appeal, a total of 34 judgements have been delivered by the provincial courts of Spain, 26 of which were unfavourable (relating to five natural persons and 21 legal persons) and 8 adverse (all relating to legal persons).

11 appeals have been lodged (four by high-profile investors, which have been duly contested by Bankia in due time and form, and seven have been lodged by Bankia, given the high profile of the investors)

The Group's directors consider, at 31 December 2018, that the provision is sufficient to cover the amounts that the Group 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 2.18.2, the Group has recognised the provisions it estimates will be necessary as of the reporting date.

The change in provisions in 2018 relates to provisions set aside to cover the aforementioned lawsuits and litigation, including those related to floor clauses detailed in Note 2.18.2.

Other provisions

As indicate in Note 20, to the 2017 consolidated financial statements, “Other provisions” mainly includes provisions for contingencies deriving from the business combination (see Note 2) and the EUR 445,000 thousand provision recognised to cover the headcount restructuring the enlarged Bank has to undertake.

Lastly, the Group used a total of EUR 55 million in restructuring provisions during 2018 mainly to cover the amounts paid to the employees who left the Group as a result of the collective redundancy agreement signed by Bankia with the workers' representatives in February 2018. The directors consider that the provisions currently set aside are enough to cover the amount the Group will have to pay as a result of the restructuring process. In addition, approximately EUR 248 million was transferred to “Pensions and other post-employment defined benefit obligations” after assuming the commitments of the Bankia Mapfre Vida restructuring plan explained previously.

In 2018, the Group terminated the service contracts for the management of unpaid debts and a set of real estate assets, as signed between BMN and various other companies. The process has required the Group to pay out EUR 108 million to those companies, for which it used the provisions specifically recognised to cover the termination of the contracts.

On 2 January 2018, the Group terminated the agreement between BMN and another company for the management and marketing of collective investment schemes, which was undertaken by Bankia Fondos, S.G.I.I.C., S.A. The cancellation required payment of EUR 15 million, which the Bank made using provisions set aside for the same amount. This new arrangement is part of a wider process of restructuring the asset management business following the merger with BMN in a bid to become more efficient. The deal had no significant impact on the consolidated income statement for 31 December 2018.

As described in Note 18.5.2, the merger by absorption of Banco Mare Nostrum, S.A. led to the reorganisation during the year of the bancassurance alliances of Bankia Group companies. The restructuring of the Bankia Group's bancassurance alliances will not have a material impact on the Group's equity after the derecognition of the investments in Caja Murcia Vida and Caja Granada Vida (see Note 18.5.2) following authorisation by the regulators and the pertinent competent authorities, considering the provisions already set aside, and the recognition of additional provisions amounting to EUR 49 million under “Other provisions” during the year. Recognition of the reorganisation of the bancassurance activity resulted in the use of EUR 115 million of provisions in the year.

(21) Other liabilities

The detail of this heading in the consolidated balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Transactions in transit	108,678	73,156
Other items (1)	997,539	798,238
Total	**1,106,217**	**871,394**

(1) Includes, inter alia, accruals associated with operating expenses.

(22) Equity

(22.1) Capital

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 1.15), were registered with the Valencia Companies Register on 8 January 2018.

At 31 December 2018, the Bank's share capital amount to EUR 3,084,963 thousand, represented by 3,084,962,950 fully subscribed and paid up registered shares with a par value of EUR 1 each of the same class and series.

During 2018 and 2017, no transaction costs were recognised for the issuance or acquisition of own equity instruments.

Bankia, S.A.'s main shareholders at 31 December 2018 and 2017 were as follows:

	Number of shares		% Ownership interest	
Shareholder	31/12/2018	31/12/2017	31/12/2018	31/12/2017
BFA, Tenedora de Acciones, S.A.U.	1,893,698,598	1,881,195,830	61.385%	60.980%

(22.2) Transactions with treasury shares

In the years 2018 and 2017, 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:

ITEM	31/12/2018 No. Shares	31/12/2018 Amount (thousands of euros)	31/12/2017 No. Shares	31/12/2017 Amount (thousands of euros)
Account balance at the beginning of the year	**20,023,158**	**79,837**	**52,059,789**	**44,758**
+ Purchases during the year	37,119,377	122,241	71,208,722	132,559
- Sales and other changes (1)	(27,598,698)	(105,432)	(103,245,353)	(97,480)
Account balance at the end of the year	**29,543,837**	**96,646**	**20,023,158**	**79,837**
Net incomes on transactions with treasury shares (reserves)		(6,429)		8,645

(1) Includes the reverse split 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 consolidated income statement.

Certain disclosures required by applicable regulations in connection with transactions involving treasury shares of Bankia, S.A. by the Group in 2018 and 2017 follow :

Acquisitions of treasury shares

- Number of treasury shares acquired in 2018: 37,119,377 sahres (71,208,722 shares at 31 December 2017).
- Par value of treasury shares acquired in 2018: EUR 37,119 thousand of EUR 1 par value (EUR 41,232 thousand of EUR 0.80 par value and EUR 19,668 thousand of EUR 1 par value at December 2017).
- Average price of treasury shares acquired in 2018: EUR 3,293 of EUR 1 par value (EUR 1.020 of EUR 0.8 par value and EUR 4,067 of EUR 1 par value at 31 December 2017).
- Total amount charged to equity in 2017: EUR 122,241 thousand (EUR 132,559 thousand at 31 December 2017).

Disposals of treasury shares

- Number of treasury shares sold in 2018: 27,598,698 shares (56,970,353 shares at 31 December 2017).
- Par value of treasury shares sold in 2018: EUR 27,599 thousand of EUR 1 par value (EUR 33,520 thousand of EUR 0.8 par value and EUR 15,070 thounsand of EUR 1 par value at 31 December 2017).
- Average selling price of treasury shares sold in 2018: EUR 3,587 of EUR 1 par value (EUR 1,044 thousand of EUR 0.8 par value and EUR 4,139 thousand of EUR 1 par value).
- Amount charged to equity for sales in 2018: EUR 105,432 thousand (EUR 97,480 thousand at 31 December 2017).

Treasury shares held at 31 December 2018 and 2017:

- Number of treasury shares held: 29,543,837 (20,023,158 shares at 31 December 2017).
- Par value of treasury shares held: EUR 29,544 thousand of EUR 1 par value (EUR 20,023 thousand of EUR 1 par value at 31 December 2017).
- Average acquisition price of treasury shares held: EUR 3,271 (EUR 3,987 at 31 December 2017).
- Amount charged to equity for acquisition of treasury shares: EUR 96,646 thousand (EUR 79,837 thousand at 31 December 2017).

(22.3) Other reserves

The Group's consolidated statement of changes in total equity for the six months ended 31 December 2018 and 2017 includes shows the changes to consolidated equity for this item in the period.

(22.3.1) Restricted reserves

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.This reserve is recognised under "Equity - Other reserves" under equity in the consolidated balance sheet and totalled EUR 616,993 thousand at 31 December 2018 (EUR 575,866 thousand at 31 December 2017).

(22.3.2)Breakdown of reserves by entity

The detail, by fully and proportionately consolidated companies and those accounted for using the equity method, of "Reserves" in the consolidated balance sheets at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Bankia Inversiones Financieras, S.A.U.	538,865	571,468
Bankia Mapfre Vida, S.A., de Seguros y Reaseguros	(38,223)	60,741
Bankia Habitat, S.L.U.	(2,114,501)	(2,126,926)
Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A.	(3,663)	1,909
Cajamurcia Vida Y Pensiones de Seguros Y Reaseguros, S.A.	(11,512)	(5,914)
Corporación Industrial Bankia, S.A.U.	(1,017,903)	(926,937)
Corporación Mare Nostrum, S.L.U.	-	(27,180)
Geoportugal - Imobiliaria, S.A.	(32,710)	(28,245)
Innostrum División Inmobiliaria, S.L.	-	(22,297)
Inversiones y Desarrollos 2069 Madrid, S.L.	(18,798)	(18,646)
Promociones y Proyectos Murcilor, S.L.	(20,012)	(20,012)
Proyectos y Desarrollos Hispanoamericanos, S.A. de C.V.	12,968	12,968
Share Capital, S.L.	(23,341)	(23,341)

(22.4) Other information

(22.4.1) Investments in listed companies

Other than Bankia, S.A., no other Group subsidiary was listed on an active market at 31 December 2018.

(22.4.2) Other resolutions adopted at the Annual General Meeting regarding the issuance of shares and other securities

At the General Meeting of Shareholders held on 10 April 2018, 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.

(23) Accumulated other comprenhensive income

Items that may be reclassified to profit or loss. Financial assets available for sale

This item in the accompanying consolidated balance sheet includes the net amount of the changes in Financial assets at fair value through other comprehensive income which must be recognised in the Group's equity. These changes are recognised in the consolidated 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 2018 and 2017:

31 December 2018

(Thousands of euros)					
Total Gross	Gains	Losses	Amounts Net Of Tax Effect	Gains	Losses
Quoted debt securities	161,283	(72,056)	Quoted debt securities	112,898	(50,439)
Unquoted debt securities	-	-	Unquoted debt securities	-	-
Total	**161,283**	**(72,056)**	**Total**	**112,898**	**(50,439)**
Total Gains (Gross)	**89,227**		**Total Gains (Net)**	**62,459**	

31 December 2017

(Thousands of euros)					
Total Gross	Gains	Losses	Amounts Net Of Tax Effect	Gains	Losses
Quoted debt securities	401,883	(24,226)	Quoted debt securities	281,318	(16,958)
Unquoted debt securities	457	(405)	Unquoted debt securities	320	(282)
Total	**402,340**	**(24,631)**	**Total**	**281,638**	**(17,240)**
Total Gains (Gross)	**377,700**		**Total Gains (Net)**	**264,398**	

Items that may be reclassified to profit or loss. Hedging derivatives. Cash flow hedges. [hedged item]

This item in the accompanying consolidated balance sheet includes the effective portion of the net gain or loss on financial derivatives designated as hedging instruments in cash flow hedges, in the part of such changes considered as "effective hedge" (see Note 2.3).

Items that may be reclassified to profit or loss.

This item in the accompanying consolidated balance sheet includes the effective portion of gain or loss on hedging instruments in hedges of net investments in foreign operations (see Note 2.3).

Foreign currency translation.

This item in the accompanying consolidated balance sheet includes the amount of the exchange differences arising on monetary items whose fair value is adjusted against equity and of the differences arising on the translation to euros of the balances in the functional currencies of the consolidated entities accounted for using the equity method whose functional currency is not the euro.

The detail of this heading in the consolidated balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)		
ITEM	31/12/2018	31/12/2017
Bankia, S.A.	(292)	(713)
Beimad Investment Services Co, Ltd	(1)	(7)
Total	**(293)**	**(720)**

Items that may be reclassified to profit or loss. Share of other recognized income and expense of investments in joint ventures and associates

This caption in the accompanying consolidated balance sheet includes the carrying amount of valuation adjustments, of any type, recognised under equity in the consolidated financial statements of associates and joint ventures accounted for using the equity method.

The detail of this heading in the consolidated balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)		
ITEM	31/12/2018	31/12/2017
Bankia Mapfre Vida, S.A. de Seguros y Reaseguros	35,504	40,198
CajaGranada Vida Cia. Seguros y Reaseguros, S.A.	-	(69)
CajaMurcia Vida y Pensiones de Seguros y Reaseguros, S.A.	-	(13)
Grupo Asegurador CASER,S.A.	(6,731)	-
Total	**28,773**	**40,116**

Items that will not be reclassified to profit or loss. Actuarial gains or (-) losses on defined benefit pension plans

This item on the consolidated balance sheet shows the defined benefit post-employment payments profit/(loss) which not recognised in the consolidated income and expense (see Notes 2.13.1 and 38.3).

Changes in balances in those years are recognised in the consolidated income statements for 2018 and 2017 under “Accumulated other comprehensive income”

(24) Minority interests [Non-controlling interests]

The detail, by consolidated company, of “Non-controlling interests” in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

COMPANY	31/12/2018	31/12/2017
Arrendadora Aeronáutica, A.I.E.	134	11,616
Corporación Financiera Habana, S.A.	10,620	11,709
Other Companies	1,720	1,566
Balances at the end of the year	**12,474**	**24,891**

The detail, by company, of "Profit / (loss) attributable to non-controlling interests" in the accompanying consolidated income statement of the Group for 2018 and 2017 is as follows:

(Thousands of euros)

COMPANY	31/12/2018	31/12/2017
Arrendadora Aeronáutica, A.I.E.	134	(12,104)
Arrendadora Equipamientos Ferroviarios, S.A.	156	135
Corporación Financiera Habana, S.A.	1	1,569
Garanair, S.L.	(2)	(110)
Inversión General de Granada 2, S.L in liquidation	(1)	-
Balances at the end of the year	**288**	**(10,510)**

The detail, by company, of the changes in the balance of "Non-controlling interests" in the consolidated balance sheet for the years ended 31 December 2018 and 2017 is as follows:

31 December 2018

(Thousands of euros)

COMPANY	31/12/2017	Dividends paid to non-controlling shareholders	Profit or loss, capital increase and other	31/12/2018
Arrendadora Aeronáutica, AIE	11,616	-	(11,482)	134
Arrendadora Equipamientos Ferroviarios, S.A.	1,977	-	157	2,134
Corporación Financiera Habana, S.A.	11,709	(2,626)	1,537	10,620
Other Companies	(411)	(75)	72	(414)
Balances at the end of the year	**24,891**	**(2,701)**	**(9,716)**	**12,474**

31 December 2017

(Thousands of euros)

COMPANY	31/12/2016	Dividends paid to non-controlling shareholders	Profit or loss, capital increase and other	31/12/2017
Agrupación de la Mediación Aseguradora de las Entidades Financieras AIE	(20)	-	20	-
Arrendadora Aeronáutica, AIE	23,721	-	(12,105)	11,616
Arrendadora Equipamientos Ferroviarios, S.A.	1,842	-	135	1,977
Corporación Financiera Habana, S.A.	11,551	-	158	11,709
Pagumar, A.I.E.	8,560	-	(8,560)	-
Other Companies	(323)	-	(88)	(411)
Balances at the end of the year	**45,331**	**-**	**(20,440)**	**24,891**

Following is a detail of the non-Group or related companies with ownership interests of 10% or more in Group companies at 31 December 2018 and 2017:

		Ownership interest	
Group company	Investment holder	31/12/2018	31/12/2017
Arrendadora Aeronáutica, A.I.E.	Instituto de Crédito Oficial	-	17.21
Arrendadora de Equipamientos Ferroviarios, S.A.	Inversiones en Concesiones Ferroviarias, S.A.	15.00	15.00
Corporación Financiera Habana, S.A.	Banco Popular de Ahorro de Cuba, S.A	40.00	40.00
Garanair, S.L.	El Corte Inglés, S.A.	-	13.00
Inversión General de Granada 2 , S.L. on liquidation	Caja Rural de Granada, Soc. Coop. de Crédito	25.00	25.00

(25) Fair value

(25.1) 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 Group 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 issued is the bid price and that for an asset to be purchased or an issued liability is the asking price. 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 scantly 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 scantly 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 Group 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 consolidated balance sheet at 31 December 2018 was EUR 103 million for CVA (EUR 119 million at 31 December 2017), and EUR 5 million for DVA (EUR 7 million at 31 December 2017). The impact registered in the caption "Gains or (-) losses on financial assets and liabilities held for trading, net" of the consolidated income statement at the year-end 2018 corresponding to the adjustment is EUR 8 million profits (EUR 54 million losses at 31 December 2017).

Determination of fair value of financial instruments

The following table compares the amounts at which the Group's financial assets and financial liabilities are recognised in the accompanying consolidated balance sheet and their related fair value:

(Thousands of euros)

	31/12/2018		31/12/2017	
ITEM	Total balance sheet	Fair value	Total balance sheet	Fair value
ASSETS				
Cash, cash balances at central banks and other demand deposits	4,753,800	4,753,800	4,503,911	4,503,911
Financial assets held for trading	6,307,967	6,307,967	6,773,491	6,773,491
Non-trading financial assets mandatorily at fair value through profit or loss	9,348	9,348		
Financial assets at fair value through other comprenhensive income	15,635,715	15,635,715	22,744,890	22,744,890
Financial assets at amortised cost	156,461,440	167,886,708	158,710,730	170,718,409
Non-current assets and disposal groups classified as held for sale – Other equity instruments	132,227	132,227	239,847	239,847
Derivatives – Hedge accounting	2,626,997	2,626,997	3,067,035	3,067,035
LIABILITIES				
Financial liabilities held for trading	6,046,596	6,046,596	7,420,991	7,420,991
Financial liabilities at amortised cost	181,868,586	182,189,468	188,897,560	190,431,559
Derivatives – Hedge accounting	183,189	183,189	378,454	378,454

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" approximates their carrying amount as they are short-term balances.
- The fair value of debt instruments classified as "Financial assets at amortised cost" and "Financial liabilities at amortised cost" was estimated using the discounted cash flow method taking market interest rates at the each of period without considering the issuer's credit risk. This valuation is considered to use Level 3 inputs in the approaches described below for financial instruments whose carrying amount is equal to their fair value.

  The fair value of the debt securities classified as "Financial assets at amortised cost" is considered equivalent to their quoted price in active markets except for the SAREB bonds (see Note 12), whose fair value was estimated using Level

2 inputs and did not differ significantly from their carrying amount (fair value was determined using quoted prices of Spanish government bonds of similar characteristics).

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 Group 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 consolidated balance sheet, by measurement method used to estimate fair value:

(Thousands of euros)

	31/12/2018			31/12/2017		
ITEM	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Financial assets held for trading	**285,998**	**5,933,432**	**88,537**	**79,411**	**6,606,913**	**87,167**
Debt securities	281,570	-	-	2,001	-	-
Equity instruments	3,901	-	-	73,953	-	-
Trading derivatives	527	5,933,432	88,537	3,457	6,606,913	87,167
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**187**	**9,161**	**-**	**-**	**-**
Debt securities	-	187	-	-	-	-
Equity instruments	-	-	-	-	-	-
Loans and advances	-	-	9,161	-	-	-
Financial assets at fair value through other comprehensive income	**15,452,686**	**140,784**	**42,245**	**22,562,614**	**140,829**	**41,447**
Debt securities	15,452,686	106,729	-	22,552,583	121,378	-
Equity instruments	-	34,055	42,245	10,031	19,451	41,447
Non-current assets and disposal groups classified as held for sale – Other equity instruments	**42**	**-**	**132,185**	**31,773**	**-**	**208,074**
Derivatives- Hedging accounting	**-**	**2,626,993**	**4**	**-**	**3,067,035**	**-**
LIABILITIES						
Financial liabilities held for trading	**122,121**	**5,920,496**	**3,979**	**343,435**	**7,072,574**	**4,982**
Derivatives	40	5,920,496	3,979	6	7,072,574	4,982
Short positions	122,081	-	-	343,429	-	-
Derivatives- Hedge accounting	**-**	**183,189**	**-**	**-**	**378,454**	**-**

Below are the amounts recognised in the consolidated income statement for 2018 and 2017 due to changes in the fair value of the Group'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 2018 and 2017:

At 31 December 2018

(Thousands of euros)

	Unrealized gains or losses booked in the consolidated income statement			Accumulated fair value changes booked in the consolidated balance sheet		
ASSETS	Level 2	Level 3	Total	Level 2	Level 3	Total
ASSETS						
Financial assets held for trading	**(1,855,225)**	**15,435**	**(1,839,790)**	**5,256,051**	**83,257**	**5,339,308**
Debt securities	-	-	-	-	-	-
Trading derivatives	(1,855,225)	15,435	(1,839,790)	5,256,051	83,257	5,339,308
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**-**	**-**	**(221)**	**-**	**(221)**
Equity instruments	-	-	-	-	-	-
Debts securities	-	-	-	(221)	-	(221)
Loans and advances	-	-	-	-	-	-
Financial assets held for trading	**1**	**-**	**1**	**17,154**	**20,134**	**37,288**
Equity securities	-	-	**-**	10,930	20,134	31,064
Debt securities	1	-	**1**	6,224	-	6,224
Derivatives – Hedge accounting	**(406,184)**	**(2)**	**(406,186)**	**2,261,489**	**2**	**2,261,491**
TOTAL ASSETS	**(2,261,408)**	**15,433**	**(2,245,975)**	**7,534,473**	**103,393**	**7,637,866**
LIABILITIES						
Financial liabilities held for trading	**3,185,917**	**206**	**3,186,123**	**5,932,998**	**(2,686)**	**5,930,312**
Trading derivatives	3,185,917	206	3,186,123	5,932,998	(2,686)	5,930,312
Derivatives – Hedge accounting	**101,669**	**-**	**101,669**	**106,827**	**-**	**106,827**
TOTAL LIABILITIES	**3,287,586**	**206**	**3,287,792**	**6,039,825**	**(2,686)**	**6,037,139**

At 31 December 2017

(Thousands of euros)

	Unrealized gains or losses registered in the consolidated income statement			Accumulated fair value variation registered in the consolidated balance sheet		
ASSETS	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	**4,002,294**	**810**	**4,003,104**	**7,256,188**	**(5,975)**	**7,250,213**
Derivatives	4,002,294	810	4,003,104	7,256,188	(5,975)	7,250,213
Derivatives – Hedge accounting	**245,626**	**-**	**245,626**	**207,127**	**-**	**207,127**
TOTAL LIABILITIES	**4,247,920**	**810**	**4,248,730**	**7,463,315**	**(5,975)**	**7,457,340**

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 2018:

<table>
<tr><td colspan="5" align="right">(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), considering: 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: 107</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: 34</td></tr>
<tr><td rowspan="5">Derivatives</td><td>Interest rate derivatives: Black and Libor Market Model</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: 5,933

Liabilities: 5,920

Hedging Derivatives:
Assets: 2,627
Liabilities: 183</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.	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. Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.	• Prepayment rates • Credit spread • Default correlation • Interest rate correlation	Debt securities: (*) Loans and advances: 9
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: 42
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: 89 Liabilities: 4
	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 2018.

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 Group 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 Group 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 during 2018 and 2017 were as follows:

At 31 December 2018

(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		-	-	-	4,488	-	66
Financial assets at fair value through other comprehensive income		35,323	-	-	-	-	-
Liabilities							
Financial liabilities held for trading - Derivatives		-	-	-	9	-	6

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
Financial assets at fair value through other comprehensive income		-	-	-	-		-
Liabilities						-	
Financial liabilities held for trading - Derivatives		-	-	-	21	-	3

The amount of financial instruments transferred between measurement levels in 2018 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 4 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 0.1 million: As relevant observable inputs that represent key assumptions (credit risk) used in the valuation technique to measure certain derivatives have been found.
- Transfer from Level 1 to Level 2 for EUR 35 million: As certain Level 1 debt instruments were delisted.

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 consolidated balance sheets at 31 December 2018 and 2017 follow:

(Thousands of euros)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Opening balance	**128,614**	**4,982**	**105,717**	**7,069**
Gains (losses)	1,156	(1,324)	28,116	(4,917)
To profit and loss	(3,786)	(1,324)	12,904	(4,917)
To reserves for sale	21	-	-	-
Valuation adjustments of equity	4,921	-	15,212	-
Purchases, sales and settlements	(4,757)	(3)	(33,304)	2,824
Net inflows/(outflows) in Level 3	14,934	324	11,846	6
Addition due to business combination	-	-	16,239	-
Closing balance	**139,947**	**3,979**	**128,614**	**4,982**

Gains and losses in 2018 and 2017 on disposals of financial instruments categorised within Level 3 recognised in the accompanying consolidated income statement were not significant.

The table below shows, for measurements of the fair value of Level 3 instruments in the fair value hierarchy, recognised on the balance sheet as "Non-current assets and disposal groups classified as held for sale", a reconciliation of balances recognised at 31 December 2018 and 2017:

(Thousands of euros)

	2018	2017
Opening balance	**208,074**	**4,591**
Gains (losses)	8,208	7,982
To profit and loss	8,208	7,982
Other net variations	(84,097)	(12,307)
Addition due to business combination	-	207,808
Closing balance	**132,185**	**208,074**

(25.2) Fair value of assets and liabilities included in disposal groups and discontinued operations

(25.2.1) Disposal groups –Loans and real estate portfolio

Note 18.5.1 includes information on the sale of a portfolio of real estate loans and assets that make up a disposal group. These assets are stated at the sale price less the related costs to sell, so their fair value coincides with their carrying amount.

(25.2.2) Disposal groups – Bancassurance reorganisation

The carrying amounts of the assets and liabilities of CajaGranada Vida Cia. Seguros y Reaseguros, S.A. and CajaMurcia Vida y Pensiones de Seguros y Reaseguros, S.A. are disclosed in Note 18.5.2, and do not differ significantly from their fair value, estimated based on the contractual terms of the agreement less costs to sell, and considering the dividends provided for in the agreement.

(25.2.3) Disposal groups – Group entities

The table below provides a comparison between the carrying amount of financial assets and financial liabilities by line item in the accompanying consolidated balance sheet under which they were recognised before classification under "Non-current assets and disposal groups classified as held for sale" and their corresponding fair value:

(Thousands of euros)

	31/12/2018		31/12/2017	
ASSETS	Total balance sheet	Fair Value	Total balance sheet	Fair Value
Cash and balances with central banks and other demand deposits	14	14	168	168
Loans and receivables	13,468	13,468	23,897	23,897
	31/12/2018		31/12/2017	
LIABILITIES	Total balance sheet	Fair Value	Total balance sheet	Fair Value
Financial liabilities at amortised cost	3,099	3,099	4,496	4,496

At 31 December 2018 and 2017, there were no import financial assets and liabilities measured at fair value were recognised before its classification under financial assets held for trading - disposal groups in the accompanying consolidated balance sheet.

(25.3) Fair value of other assets, not considered as disposal group nor discontinued group

(25.3.1) 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 2018 and 2017:

(Thousands of euros)

ITEM	31/12/2018		31/12/2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets	1,888,046	2,180,456	2,119,803	2,514,955
Property, plant and equipment for own use-Buildings and other structures	1,367,672	1,463,195	1,453,679	1,605,760
Investment property	520,374	717,261	666,124	909,195
Inventories	-	-	-	-

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. Inventories are stated at the lower of cost and net realisable value, understood as the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale.

The inventory amount of the years 2018 and 2017 were EUR 43 thousand and EUR 4,203 thousand, recognized in the "Impairment or (-) reversal of impairment on non-financial assets – tangible assets". (see Note 43).

The amounts recognised in the 2018 and 2017 income statements relating to tangible assets were EUR 113,048 thousand and EUR 90,603 thousand, respectively, under "Depreciation and amortisation", along with a reversal of EUR 22,724 thousand and a charge of EUR 88 thousand recognised under "(Impairment or (–) reversal of impairment on financial assets - (Tangible assets"), respectively.

Better and greater use of non-financial assets does not mean a different use, except for the real estate assets owned by the Group, where the building and facilities are considered as assets for the purpose of measuring land.

(25.3.2) Real estate assets classified as non-current assets held for sale

The fair values at 31 December 2018 and 2017 of the Bankia Group's property, plant and equipment for own use classified under "Non-current assets held for sale" at those dates were EUR 303,083 thousand and EUR 265,765 thousand, respectively.

The carrying amount of the Group'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 described in Note 2.20, non-current assets foreclosed or received in payment of debts are recognised initially at the lower of the carrying amount of the financial assets applied and the fair value at the date of foreclosure or receipt of the assets less estimated costs to sell. After initial recognition, the Group updates the reference value used to estimate fair value less estimated costs to sell in accordance with the internal method used to estimate the discounts applicable to the reference value and the costs to sell of the real estate assets foreclosed or received in payment of debts taking into account its prior experience of sales of similar assets, in terms of time scales, prices and volumes, and the time taken to sell them. Real estate assets foreclosed or received in payment of debts for which the Group has not attained sufficient sales volume, meaning therefore that its management unit does not possess the sales experience needed to sell or otherwise realise those assets at their fair value, are measured by taking the reference value and applying the percentage discount rates estimated by the Bank of Spain as alternative solutions, based on its experience and the information it holds on the banking sector, as set out in Bank of Spain Circular 4/2017.

During 2018 and 2017, the companies or agencies that preformed the appraisals are as follows:

(% appraised)

Appraiser companies or agencies	2018	2017
Gesvalt	4.96%	8.65%
Tecnitasa	14.17%	12.07%
Tinsa	55.52%	56.42%
Live	-	8.27%
Arco Valoraciones	25.18%	13.95%
Others	0.17%	0.64%
Total	**100.00%**	**100.00%**

These valuations are considered Level 3 inputs according to the approaches described in the consolidated 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 18.

(25.3.3) Investments classified as Non-current assets and disposal groups classified as held for sale

The following table details the fair value hierarchy for investments in joint ventures and associates classified as Non-current assets and disposal groups classified as held for sale at 31 December 2018 and 2017:

(Thousands of euros)

	2018			2017		
ITEM	Level 2	Level 3	Total	Level 2	Level 3	Total
Accounting balance at the end of the year	-	21,881	21,881	-	34,669	34,669

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)

ITEM	31/12/2018	31/12/2017
Balances at the beginning of the year	**34,669**	**9,545**
Gains (losses)	(158)	(4)
To impairment losses or gains (see Note 45)	(158)	(4)
Purchases	27,485	75
Settlements/Sales	(40,115)	(2,833)
Additions due to business combination	-	27,886
Balances at the ending of the year	**21,881**	**34,669**

(26) Tax matters

(26.1) Consolidated tax group

The entities within the tax consolidation group headed by Bankia, S.A. are, in addition to the parent itself:

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
BMN MEDIACIÓN OPERADOR BANCA SEGUROS VINCULADOS, S.L.U.
CENTRO DE SERVICIOS OPERATIVOS E INGENIERIA DE PROCESOS, S.L.U.
CORPORACIÓN EMPRESARIAL MARE NOSTRUM S.L.U
CORPORACIÓN INDUSTRIAL BANKIA, S.A.U.
GESMARE SOCIEDAD GESTORA S.L.U.
GESNOSTRUM SOCIEDAD GESTORA S.L.U.
GESTION Y RECAUDACIÓN LOCAL S.L.
INMOGESTIÓN Y PATRIMONIOS, S.A.
INNOSTRUM DIVISION INMOBILIARIA S.L.U
INVERSIÓN GENERAL DE GRANADA 2, S.L.
INVERSIONES PROGRANADA, S.A.U.
MEDIACIÓN Y DIAGNÓSTICOS, S.A.
NAVIERA CATA, S.A.
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.
PUERTAS DE LORCA DESARROLLOS EMPRESARIALES S.L.U
SECTOR DE PARTICIPACIONES INTEGRALES, S.L.
SEGURBANKIA, S.A. CORREDURÍA DE SEGUROS DEL GRUPO BANKIA
SUMMA SEGURIDAD S.L.U.
VALENCIANA DE INVERSIONES MOBILIARIAS, S.L.U.
VECTOR CAPITAL S.L.U
VALORACIÓN Y CONTROL, S.L.

All other subsidiaries and other entities included in the scope of consolidation of the Bankia Group at 31 December 2018 file individual income tax returns.

(26.2) Years open for review by the tax authorities and provisions recognised

At 31 December 2018, 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 2013
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	11/2013to 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).

On 26 September 2018, the scope of the income tax inspections for 2013 was expanded.

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
Value added 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.

On 11 April 2018, the assessment of income tax for 2008, 2009 and 2010 was signed in agreement. This did not result in an additional amount payable. In light of the outcome of the tax inspections disciplinary proceedings were initiated in respect of the revised amounts. Following issuance of the corresponding penalty agreement, EUR 6.2 million was paid 23 May 2018.

In addition, on the same date, 11 April 2018, the assessment of income tax for 2008, 2009 and 2010 was signed in protest for differing opinions on the criteria used in the inspection in the item of business combinations, certain items of earned income, and the deduction for R&D applied by the Bank.

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.

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 14,998 thousand euros, 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 6,546 thousand euros; 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.

Inspection actions in investee companies

- Meanwhile, on 16 November 2015, inspections began at Bankia Habitat S.L.U. in order to ascertain compliance with tax obligations and duties in respect of the following items and periods:

ITEM	PERIOD
Income tax	2011 to 2012
Value added tax	2011 to 2012
Withholdings / Payments on account for leases	09/2011 to 12/2012
Withholdings on account on non-resident income	09/2011 to 12/2012
Withholdings / Payments on account of earned income	09/2011 to 12/2012

Verification and inspection activities are still ongoing to date.

On 3 April 2018, the assessment for value added tax for 2012 of EUR 2,436 thousand of tax payable, EUR 470 thousand of late-payment interest and a penalty of EUR 119 thousand was signed in agreement, with payment made on 18 May 2018

- On 21 June 2018, the tax authorities began an inspection of Bankia Inversiones Financieras 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	2011 to 2012

- On 25 July 2018, the tax authorities began an inspection of Sociedad Promoción y Participación Empresarial 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	2011 to 2012

- On 10 September 2018, the tax authorities began an inspection of Corporación Industrial Bankia SAU 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	2011 to 2012

(26.3) Reconciliation of accounting and tax profit

As detailed in Note 1.15, 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 2018 and 2017 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	31/12/2018	31/12/2017
Accounting profit/(loss) before tax	**920,113**	**624,943**
Adjustment to profit	**(25,594)**	**(109,892)**
Return on equity instruments	(10,796)	(9,409)
Share of profit/loss of entities accounted for using the equity method	(56,290)	(39,778)
Other permanent differences or adjustments	41,492	(60,705)
Profit before adjusted tax	**894,519**	**515,051**
Tax expense (Taxed income * 30%)	**(268,356)**	**(154,515)**
Deductions	**57,086**	**40,469**
Income tax expense	**(211,270)**	**(114,046)**
Income tax adjustments	**(65,065)**	**(76,221)**
Profit or (-) loss of the tax rates of gains or (-) losses on the continuing operations	**(222,662)**	**(130,940)**
Income tax for the year (income/(expense)	(276,335)	(190,267)
Effective rate	30.03%	30.45%
Income tax for previous years (income/(expense)	11,180	(453)
Other movements of deferred tax	42,493	59,780

(26.4)Tax recognised directly in consolidated equity

In addition to the income tax recognised in the consolidated income statement for 2018 and 2017, the Bank recognises in consolidated 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 consolidated balance sheet.

The amount of income tax related to each component of "Other comprehensive income" in 2018 and 2017 is as follows:

ITEM	31/12/2018	31/12/2017
Income tax relating to items that will not be reclassified to	**5,619**	**(2,632)**
Actuarial gains or (-) losses on defined benefit pension plans	8,068	(2,632)
Financial assets – Equity instruments	(2,449)	-
Income tax relating to items that may be reclassified to profit or (-) loss	**154,800**	**56,344**
Currency translation	(180)	525
Hedging derivatives. Cash flow hedges	(3,370)	3,948
Financial assets at fair value through other comprehensive income	160,413	50,473
Non-current assets and disposal groups held for sale	(2,063)	1,398
Total	**160,419**	**53,712**

In addition, income tax recognised by the Group directly in "Equity - Other reserves" in the accompanying consolidated balance sheet is detailed in the movement of deferred tax assets and liabilities (see Note 26.5).

(26.5) Deferred tax assets and liabilities

Royal Decree Law14/2013, 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 will report 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 next years.

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 2018 was EUR 96,583 thousand (EUR 76,221 thousand in 2017 without BMN) and recognized in the epigraph “Tax expense or income related to profit or loss from continuing operations” of the consolidated 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 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.

Royal Decree Law 27/2018, of 28 December

On 28 December, Royal Decree Law 27/2018 (the “RDL”) was approved, adapting the Law on Corporate Income tax to the new Bank of Spain Circular 4/2017 regarding the application for the first time of IFRS 9, with effect from 1 January 2018.

The RDL includes, among others, the following measures:

<u>Impacts of first-time application (Transitional provision thirty-nine)</u>

The memorandum of the RDL states that “to reduce the tax effects of this accounting requirement, transitional rules have been put into place, whereby the aforementioned credits and debits are included in the gross income tax base as soon as they have tax effects in accordance with regulations of income tax in equal parts in each of the first three periods beginning on or after 1 January 2018”.

Credits and debits to reserve accounts arising from adjustments for the first-time application of IFRS 9 (when arising from the application of tax regulations) will have tax effects, i.e. they must be taken into consideration for determining the gross corporate income tax base in the 2018 tax period. The law affects credits and debits that do have tax effects, so they are deductible/taxable, and due to the integration by thirds, the provisions of article 130 on monetisation of DTAs will not apply and the deferral by thirds will not give rise to monetisable DTAs.

This inclusion in equal parts will remain applicable even if the element concerned is retired from the balance sheet. Only if the taxpayer is dissolved over the three tax periods concerned will the remaining amount be included in the gross tax base of the last tax period, unless it is dissolved as a result of a restructuring operation eligible for the tax neutrality regime.

In accordance with this legislation, the Bank included an amount of EUR 7,526 thousand this year. It still has EUR 15,053 thousand left to include.

Accounting for equity instruments under IFRS 9 (Article 17.1 of the TRLIS)

With the new Circular, investments in equity instruments must be measured at fair value through profit and loss unless the Entity elects irrevocably at inception to present these changes in fair value in other comprehensive income. If this option is elected, a major change in IFRS 9 is that the accumulated gains and losses recognised in other comprehensive income on the disposal are not reclassified to profit or loss (as previously with available-for-sale financial assets), but rather to reserves.

Accordingly, the RDL, to guarantee the inclusion in the tax base on the disposal, amends article 17.1 of the Spanish Corporate Income Tax Law, so that not only changes in value arising from the application of the fair value criterion are included when they should be taken to profit or loss, but also when they should be recognised in a “reserve account if established by a legal or regulatory standard”.

Adaptation of regulations on corporate income tax to Circular 4/2017

Regarding Circular 4/2017 and the terminology and credit risk loss model adopted, it should be remembered that the deductibility is set out in the regulations on corporate income tax and so far there have been no amendments thereto.

However, in its introduction, the RDL states: “Lastly, until approval is given for adaptation of the regulatory provisions for credit risk allowances and provisions of financial institutions, prevailing provisions are considered to be applicable, but with the terms used in the new Circular.”

Deferred tax assets and liabilities

Pursuant to the tax legislation in force in the countries in which the consolidated companies are located, 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 2018 and 2017, bearing in mind the impact of the retroactive application of article 19.3 of the TRLIS, today the article 11.12 of the TRLIS, are as follows:

(Thousands of euros)

ITEMS	31/12/2018	31/12/2017
Monetisable:	**7,473,350**	**7,530,546**
Allowances for credit impairment	5,364,945	5,406,140
Impairment losses on foreclosed assets	1,221,078	1,237,079
Provisions for pension funds	280,811	280,811
Other, originating from Group companies	606,516	606,516
Non-monetisable:	**3,130,056**	**2,999,429**
Allowances for credit impairment	402,615	71,464
Impairment losses of foreclosed assets	11,690	-
Impairment losses recognised against equity instruments	63,247	75,741
Provisions for pension funds	7,875	9,751
Other charges	175,021	387,423
Unused tax credits	88,367	88,369
Losses on financial assets	27,347	43,579
Tax assets recognised in respect of unused tax losses	2,353,894	2,323,102
Total deferred tax assets	**10,603,406**	**10,529,975**

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Deferred tax liabilities arising at the Bank	**536,195**	**684,771**
Unrealised gains on financial assets	378,830	463,806
Unrealised gains on real estate	148,923	151,878
Other items	8,442	69,087
Deferred tax liabilities arising at other Group entities	**19,604**	**20,677**
Total	**555,799**	**705,448**

The movements in 2018 and 2017 were as follows:

31 December 2018

(Thousands of euros)

ITEM	Balances at 31/12/2017	(Charged)/credited to the income statement (**)	(Charged)/credited to equity (*)	Other movements	Balances at 31/12/2018
Deferred tax assets	10,529,975	(169,841)	238,228	5,044	10,603,406
Deferred tax liabilities	(705,448)	78,143	73,786	(2,280)	(555,799)
Total	**9,824,527**	**(91,698)**	**312,014**	**2,764**	**10,047,607**

(*) Does not include taxes related to non-current assets held for sale.

(**) Include expenses for tax related to non-current assets held for sale.

31 December 2017

(Thousands of euros)

ITEM	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	7,962,900	(107,259)	13,647	1,494	2,659,193	10,529,975
Deferred tax liabilities	(664,643)	37,987	46,187	1,839	(126,818)	(705,448)
Total	**7,298,257**	**(69,272)**	**59,834**	**3,333**	**2,532,375**	**9,824,527**

(*) Does not include taxes related to non-current assets held for sale.

(**) Include expenses for tax related to non-current assets held for sale.

The detail of both recognised tax loss carryforwards of the Bank at 31 December 2018 of the Bank's tax loss carryforwards, including the year in which they arose:

(Thousands of euros)

Year giving rise to the tax loss	Amount of the tax loss available for offset	Amount of the deferred tax asset recognised (tax credit)
2010	571,490	120,747
2011 (*)	1,229,403	362,423
2012 (*)	8,702,554	1,771,091
Subtotal	**10,503,447**	**2,254,261**
Other tax losses originating from the merger of BMN		
2010	143,201	42,960
2011 (*)	8,892	2,668
2016	33,686	25,640
2017	94,550	28,365
Subtotal	**280,329**	**99,633**
TOTAL	**10,783,776**	**2,353,894**

(*) 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 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:

(Thousands of euros)

Year giving rise to the tax loss	Amount of the tax loss available for offset	Amount of the deferred tax asset recognised (tax credit)
2010	736,333	120,747
2011 (*)	1,229,403	362,423
2012 (*)	8,702,554	1,738,941
Subtotal	**10,668,290**	**2,222,111**
Other tax losses originating from the merger of BMN		
2001	64	-
2004	10	-
2005	385	6
2006	2,083	5
2007	2,535	105
2008	2,796	128
2009	4,214	151
2010	144,988	43,702
2011 (*)	9,333	2,727
2012	217	65
2013	161	48
2014	152	45
2015	69	21
2016	80,698	24,318
2017	98,900	29,670
Subtotal	**346,605**	**100,991**
TOTAL	**11,014,895**	**2,323,102**

(*) 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 2018, 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	23,192	-
2008- Deduction for R&D&I	246	-
2009- Deduction for R&D&I	2,560	-
2009- Other deductions	387	-
2009-Deductions for donations (Law 49/2002)	419	-
2010- Deduction for reinvestment	28,503	-
2010- Deduction for R&D&I	1,595	-
2010- Other deductions	303	-
2010- Deductions for donations (Law 49/2002)	459	-
2011- Deduction for R&D&I	1,202	-
2011- Other deductions	450	-
2011- Deductions for donations (Law 49/2002)	140	-
2012- Deduction for R&D&I	1,502	-
2013- Deduction for R&D&I	3,536	-
2013- Deductions for donations (Law 49/2002)	212	-
2014- Deduction for internal double taxation	59,194	-

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	1,647	-
2015- Deduction for R&D&I	3,783	-
2015- Other deductions	801	-
2016- Deduction for international double taxation	1,371	-
2016 – Deduction for R&D&I	4,144	-
2016 – Deductions for donations (Law 49/2002)	1,651	-
2017 - Deduction for R&D&I	3,536	-
2017 - Deductions for international double taxation	2,318	-
2011 - Deductions for donations (Law 49/2002)	1,729	-
Subtotal	**151,264**	**-**
Other tax credits originating from the merger of 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 international 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 international 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 international 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**

(26.6) 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.

(26.7) Information regarding the assessment of the recoverability of tax assets

To assess the recoverability of the net deferred tax assets recognised by the Group at 31 December 2018, amounting to EUR 10,047 million (EUR 9,824 million at 31 December 2017), 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 Group, 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 26.5), at 31 December 2018, the Group had deferred tax assets amounting to EUR 7,473 million 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.

(27) Other significant disclosures

(27.1) Asset transfers

(27.1.1) Securitization

Group entities performed various securitization transactions whereby it transferred loans and credits in its 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 consolidated balance sheet when all the associated risks were not substantially transferred.

The consolidation of special-purpose vehicles entails the elimination of the related transactions between Group entities, including most notably: loans to special-purpose vehicles, liabilities associated with assets not derecognised, credit enhancements granted to special-purpose vehicles and bonds acquired by Group entities.

"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 2.2.2) are shown in the table below.

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Derecognised out balance sheet (Note 12)	**197,625**	**341,778**
Of which mortgage assets securitised through:	197,352	341,728
Mortgage participations	61,639	150,735
Mortgage transfer certificates	135,713	190,993
Other securitised assets	-	50
Foreclosed assets from securitised mortgage-backed assets	273	
On balance sheet (Note 12)	**10,496,141**	**11,946,922**
Of which mortgage assets securitised through	10,147,246	11,603,686
Mortgage participations	439,357	447,582
Mortgage transfer certificates	9,707,889	11,156,104
Other securitised assets	3,910	727
Foreclosed assets from securitised mortgage assets	344,985	342,509

Appendix V to these consolidated financial statements shows detail of securitization transactions at 31 December 2018 and 2017.

(27.1.2) Repurchase and resale agreements

At 31 December 2018, the Group had sold financial assets under outstanding repurchase agreements amounting to EUR 14,801,225 thousand (EUR 13,654,501 thousand at 31 December 2017), and had purchased financial assets under outstanding resale agreements amounting to EUR 2,143,478 thousand (EUR 738,062 thousand at 31 December 2017), as follows:

(Thousands of euros)

ITEM	31/12/2018		31/12/2017	
	Repurchase agreement	Resale agreement	Repurchase agreement	Resale agreement
Government debt securities	8,624,769	75,043	5,408,230	238,062
Other debt securities	6,176,456	2,068,435	8,246,271	500,000
Total	**14,801,225**	**2,143,478**	**13,654,501**	**738,062**

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 2018, the average term of these repurchases and, accordingly, of the assets provided as collateral was 9 months (4 months at 31 December 2017).

(27.1.3) Assets assigned to other own and third-party obligations

At 31 December 2018 and 2017, the Group had significant assets guaranteeing their own obligations amounting to EUR 82,977 million and EUR 87,780 million, respectively. These amounts corresponded mainly to loans linked to the issue of long-term mortgage covered bonds (see Note 12 and Appendix VIII) which, pursuant to the Mortgage Market Law are considered eligible to guarantee the issue of long-term mortgage covered bonds.

(27.2) Off-balance exposures

Off-balance sheet exposures include loan commitments, financial guarantees and other commitments given, including both revocable and irrevocable commitments.

Loan commitments are irrevocable commitments, or revocable only in the event of a significant adverse change, to provide financing under certain previously stipulated terms and conditions, such as balances drawable by third parties within the limits defined previously by the Group.

Financial guarantees are contracts that require the Group, when it acts as issuer in the ordinary course of its business, to make specified payments to reimburse a creditor for a loss it incurs, because a specified debtor fails to make payment where due in accordance with the original or modified terms of a debt instrument, irrespective of its legal form, which may include, among others, a guarantee, a financial surety, an insurance contract or a credit derivative.

Contingent obligations are the off-balance sheet exposures included in Annex 1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June 2013, that do not meet the definition of loan commitment or financial guarantee. They include, among others, non-financial guarantees.

The detail of these guarantees provided and drawable by third parties at 31 December 2018 and 2017 is as follows:

(thousands of euros)

CONCEPTOS	31/12/2018	31/12/2017
Loan commitments given	**20,888,323**	**18,518,902**
Immediately drawable	15,543,376	14,455,766
Conditionally drawable	5,344,947	4,063,136
Financial guarantees given	**427,621**	**415,095**
Contingent commitments given	**12,504,994**	**12,749,981**
Other guarantees, indemnities and other contingent risks	7,390,264	8,010,654
Irrevocable documentary credits issued	426,209	373,733
Irrevocable documentary credits confirmed	67,872	74,289
Other contingent risk	416	5,521
Other commitments given(1)	4,620,233	4,285,784
Total	**33,820,938**	**31,683,978**

(1) Includes mainly commitments to purchase financial assets and documents presented for collection in the various clearing systems.

Note 3.1 shows the maximum credit risk assumed by the Group in relation to these instruments at 31 December 2018 and 2017, and contains other information relating to the credit risk assumed by the Group in this connection.

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities. Therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

The income generated on guarantee instruments is recognised in the consolidated 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 consolidated balance sheet as “Provisions - Commitments and guarantees given” (see Note 20).

In adition, 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	31/12/2018	31/12/2017
Commitments and given loan	20,888,323	18,518,902
Of which, classified as normal in special surveillance	673,937	427,614
Of which, classified as doubtful	447,095	429,073
Recognised as liabilities in the balance sheet (1)	76,423	24,863
Total commitments and given loans	**20,888,323**	**18,518,902**
Commitments and given guarantees	427,621	415,095
Of which, classified as normal in special surveillance	31,850	-
Of which, classified as doubtful	81,526	101,079
Recognised as liabilities in the balance sheet (1)	17,624	28,533
Total commitments and given guarantees	**427,621**	**415,095**
Other given commitments	12,504,994	12,749,981
Of which, classified as normal in special surveillance	963,637	909,123
Of which, classified as doubtful	602,424	694,332
Recognised as liabilities in the balance sheet (1)	279,035	326,088
Other given commitments	**12,504,994**	**12,749,981**
Total guarantees issued provided by the third party	**33,820,938**	**31,683,978**

(1) Amount related to "Provision - Commitments and guarantees given" (Note 20).

(27.3) 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 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Investment companies and funds	17,210,417	15,726,404
Pension funds	7,363,721	6,737,809
Discretionally managed customer portfolios	2,118,813	58,745
Total	**26,692,951**	**22,522,958**

In addition, the Group markets off-balance-sheet customer funds managed by third parties outside the Group. These amounted to EUR 11,023,117 thousand at 31 December 2018 (EUR 13,473,188 thousand at 31 December 2017).

(27.4) Leases

(27.4.1) Finance leases

In the normal course of its business the Group 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 Group amounted to EUR 1,162,034 thousand at 31 December 2018 (EUR 1,122,888 thousand at 31 December 2017), recognised under "Finnacial assets at amortised cost - Loans and advances - Customers" in the consolidated balance sheet at that date, Impairment losses recognised on these transactions amounted to EUR 78,358 thousand at 31 December 2018 (EUR 82,466 thousand at 31 December 2017).

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	31/12/2018	31/12/2017
Present value of minimum lease payments receivable (1)	1,022,513	972,699
Residual values not guaranteed	139,521	150,189
Total gross investment in finance leases	**1,162,034**	**1,122,888**

(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 68,757 thousand at 31 December 2018 (EUR 65,503 thousand at 31 December 2017).

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 2018

(Thousands of euros)

MATURITY	Gross investment	Present value of minimum payments receivable
Up to 1 year	317,627	311,629
1 to 5 years	615,047	536,724
More than 5 years	229,360	174,160
Total	**1,162,034**	**1,022,513**

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**

The Group does not act as lessee in finance lease transactions.

(27.4.2) 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 Group acts as the lessee, the amount of leases and subleases recognised as an expense in the consolidated income statement amounted to EUR 73,362 thousand for the year ended 31 December 2018 (EUR 53,132 thousand at 31 December 2017).

(27.5) Exchanges of assets

In the years ended 31 December 2018 and 2017, the Group 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 Group's debtors is not considered an exchange of assets. Information concerning this type of transaction is shown in Note 2.8 above.

(28) Contribution to consolidated profit or loss by company

The contribution by entity within the scope of consolidation of the Bankia Group to consolidated profit/(loss) for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

COMPANY	31/12/2018 Fully consolidated entities of the Group	31/12/2018 Share of profit/(loss) of entities accounted for using the equity method	31/12/2017 Fully consolidated entities of the Group	31/12/2017 Share of profit/(loss) of entities accounted for using the equity method
Arrendadora Aeronáutica, A.I.E.	422	-	(25,921)	-
Bankia Fondos, S,G,I,I,C, S,A,	28,943	-	16,984	-
Bankia Inversiones Financieras, S,A,U,	172	-	7,248	-
Bankia Mediación, Operador de Banca Seguros Vinculado, S,A,	40,079	-	3,969	-
Bankia Pensiones, S,A, E,G,F,P	14,006	-	17,402	-
Bankia, S,A,	604,745	-	330,622	-
BMN Mediación Operador de Banca-Seguros Vinculado, S,L,U,	(65,015)	-	-	
Corporación Industrial Bankia, S,A,U,	5,805	-	122,816	-
Bankia Mapfre Vida, S,A, Sdad, de Seguros y Reaseguros	-	40,476	-	38,803
Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S,A, "CASER"	-	10,017	-	-
Othter entities	17,763	5,797	(8,385)	975
TOTAL	**646,920**	**56,290**	**464,735**	**39,778**

(29) Interest income

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	Income / (Expenses) 31/12/2018	Income / (Expenses) 31/12/2017
By counterparty		
Debt securities	424,303	602,668
Public sector	380,438	466,283
Credit institutions	10,555	86,242
Other financial corporations	21,821	29,097
Non-financial corporations	11,489	21,046
Loans and advances (1)	2,052,857	1,762,602
Public sector	61,624	75,402
Credit institutions	48,350	47,741
Other financial corporations	10,559	36,321
Non-financial corporations	749,660	637,382
Households	1,182,664	965,756
Other assets (2)	84,271	84,834
Derivatives – Hedge accounting, interest rate risk	(107,225)	(140,868)
Total	**2,454,206**	**2,309,236**

(1) Of which interest income from, the doubtful assets profit at 31 December 2018 was EUR 173,969 thousand (EUR 133,334 thousand at 31 December 2017).

(2) At 31 December 2018, includes EUR 55,905 thousand of interest accrued on deposits taken under the framework of the TLTRO II programme (46,931 at 31 December 2017) (See Note 19)

(30) Interest expense

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	(Expenses) / Income 31/12/2018	31/12/2017
By counterparty		
Deposit	(395,779)	(356,583)
Central Banks	(29)	(405)
Public sector	(2,463)	(3,263)
Credit institutions	(47,694)	(51,045)
Other financial corporations	(297,156)	(224,639)
Non-financial corporations	(15,122)	(16,077)
Households	(33,315)	(61,154)
Debt securities issued	(550,477)	(596,316)
Other financial liabilities	(103)	(14)
Derivatives – Hedge accounting, interest rate risk	553,387	618,628
Other liabilites	(12,177)	(6,872)
Total	**(405,149)**	**(341,157)**

(31) Dividend income

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Financial assets held for trading	104	231
Non-current assets held for sale – equity instruments	10,692	9,178
Total	**10,796**	**9,409**

(32) Share of profit/loss of entities accounted for using the equity method

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	(Expenses) / Income 31/12/2018	31/12/2017
Associates	52,536	38,919
Joint ventures	3,754	859
Total	**56,290**	**39,778**

This caption includes the share of attributable profit after tax of each associate and joint venture entity of the Bankia Group (see Appendices III and IV). Thus, the Group's income tax expense shown in the consolidated income statement does not reflect any tax effect in respect of profits or losses from entities accounted for using the equity method.

The detail of the contribution to profit or loss of entities accounted for using the equity method for the main companies is disclosed in Note 28 above.

Impairment tests of goodwill in Bankia Pensiones, S.A. Entidad Gestora de Fondos de Pensiones (Note 16.1), excluding the portion related to the business received, are carried out using projections of estimated cash flows based on a business plan for the next five years assuming 1% annual growth and growth to perpetuity after the fifth years of 2%. The rate used to discount the future cash flows was 10%.

The Group also performs a sensitivity analysis on the main variables as a supplement to the baseline scenario. Potential variations in the model's key assumptions, discount rate (-1% and +1%) and growth rate (-1% and +1%) are calculated.

As a result of the above and based on the information available on the performances of the various cash-generating units that could give indications of impairment, the directors concluded that in 2018, an impairment loss of EUR 2.4 million (EUR 2.4 million in 2017) (see Note 43) was recognised based on the trend of the business received by the company at the date of the business combination.

In addition, the consolidated balance sheet includes goodwill under "Investments in joint ventures and associates - Associates" at 31 December 2018 and 2017 (see Note 14).

The tests carried out at 31 December 2018 did not uncover a need to make additional allowances for investments in associates, and gave rise to a reversal of impairment of EUR 40,623 thousand, recognised in the accompanying consolidated income statement, for the investment held in Caser.

The cash flow estimates for this investment are obtained from the company's strategic plan for 2018-2022, excluding the potential positive impact of structural changes in future periods. Growth to perpetuity of 1.5% is forecast for the remaining years. The discount rate applied for these flows was 10.5%.

Given the uncertainty of these estimates, the Group also performed a sensitivity analysis for the most significant variables to obtain more stressed scenarios compared to the baseline, factoring in potential variations in the main variables, specifically the discount rate (-0.5%, +0.5%), and the growth rate (-0.5%, +0.5%). The results of the sensitivity analysis did not uncover the need to recognise any additional impairment losses.

(33) Fee and commission income

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	Income	
ITEM	31/12/2018	31/12/2017
Contingent liabilities	69,223	62,089
Contingent commitments	32,476	27,152
Collection and payment services	409,725	295,219
Securities services	57,076	56,543
Non-banking financial product sales	336,234	299,047
Other fees	244,803	203,923
Total	**1,149,537**	**943,973**

(34) Fee and commission expense

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEM	31/12/2018	31/12/2017
Fees and commissions assigned to other entities and correspondents	(44,400)	(38,460)
Brokerage fees on asset and liability transactions	(12,223)	(19,527)
Other commissions	(27,925)	(21,950)
Total	**(84,548)**	**(79,937)**

(35) Gains and losses on financial assets and liabilities

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 by financial instrument portfolio, is as follows:

(Thousands of euros)

	Income / (Expenses)	
ITEM	31/12/2018	31/12/2017
Origin of operations		
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	399,555	309,649
Financial assets meassuref at fair value with changes in other comprenhensive income	398,034	176,464
Financial assets at amortised cost- Loans and advances	1,539	41,236
Financial assets at amortised cost- debt securities	(18)	16,322
Financial liabilities measured at amortised cost	-	75,627
Gains or (-) losses on financial assets and liabilities held for trading, net	40,060	87,350
Gains o (-) on non-trading financial assets mandatorily at fair value through profit or loss, net	(429)	-
Gains or (-) losses from hedge accounting, net	(28,534)	(29,627)
Total	**410,652**	**367,372**

The most significant gains and losses were the sale of financial assets at fair value through other comprehensive income related to public and private debt securities, for EUR 398 million in 2018 (EUR 174 million in 2017).

(36) Other operating income

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	Income	
ITEM	31/12/2018	31/12/2017
Income from investment property (Note 15.2)	22,677	12,952
Financial fees and commissions offsetting direct costs	25,710	21,602
Other items	17,264	17,796
Total	**65,651**	**52,350**

(37) Other operating expenses

The breakdown of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEM	31/12/2018	31/12/2017
Contribution to Deposit Guarantee Fund and Resolution Fund (Note 1.10)	(221,215)	(179,070)
Other operating expenses	(83,166)	(67,566)
Total	**(304,381)**	**(246,636)**

(38) Administrative expenses – Staff costs

The detail of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017, by type of cost, is as follows:

(Thousands of euros)

	Income / (Expenses)	
ITEM	31/12/2018	31/12/2017
Wages and salaries	(881,829)	(688,275)
Social security costs	(219,453)	(182,263)
Contributions to defined contribution pension plans (Note 38.3)	(31,714)	(44,460)
Contributions to defined benefit pension plans	(643)	(2,191)
Termination benefits	(17,870)	(6,605)
Training costs	(8,119)	(7,342)
Other staff costs (1)	(1,214)	(458,761)
Total	**(1,160,842)**	**(1,389,897)**

(1) Includes EUR 445,000 thousand euros as of December 2017 corresponding to the estimated cost to attend the restructuring due to the merger through absorption of BMN (see Notes 2.13.2.6 and 20).

(38.1) Composition and distribution by gender of employees

The numbers of Group employees, by gender and professional category (including executive directors and senior executives at the Bank), at 31 December 2018 and 2017, and the average headcount for the years ended 31 December 2018 and 2017 are as follows:

	Headcount at 31 December 2018				
REMUNERATION LEVELS	Men	Women	Year-end headcount	Average headcount for 2018	Average headcount with disabilities >= 33% 2018 (1)
Directors	**4**	**-**	**4**	**4**	**-**
Senior executives	**4**	**1**	**5**	**5**	**-**
Other employees by remuneration level	**6,763**	**8,714**	**15,477**	**16,170**	**194**
Level I	80	9	89	127	1
Level II	437	134	571	656	6
Level III	703	286	989	1,096	10
Level IV	1,025	765	1,790	1,898	20
Level V	1,085	1,154	2,239	2,359	25
Level VI	946	1,323	2,269	2,401	34
Level VII	554	932	1,486	1,537	19
Level VIII	463	1,015	1,478	1,528	22
Level IX	295	685	980	983	12
Level X	760	1,667	2,427	2,402	16
Level XI	391	712	1,103	1,122	28
Level XII	9	23	32	35	-
Level XIII	8	8	16	16	-
Level XIV	-	-	-	-	-
Group 2 and others	7	1	8	10	1
Total Bankia, S.A.	**6,771**	**8,715**	**15,486**	**16,179**	**194**
Other Group companies	199	239	438	508	4
Total	**6,970**	**8,954**	**15,924**	**16,687**	**198**

(1) The Bankia Group has adopted alternative measures for complying with the reserve quota for employees with disabilities.

REMUNERATION LEVELS	Headcount at 31 December 2017 Men (1)	Women (1)	Year-end headcount (1)	Average headcount for 2017	Average headcount with disabilities >= 33% 2017 (2)
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**
Other Group companies	255	285	540	356	3
Total	**8,156**	**9,601**	**17,757**	**13,758**	162

(1) Includes the final headcount data for BMN (see Note 1.1.5).

(2) The Bankia Group has adopted alternative measures for complying with the reserve quota for employees with disabilities.

(38.2) Provisions for pensions and similar obligations (obligations to employees) and insurance contracts linked to pensions

As described in Note 2.13, the Group 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 Group's consolidated balance sheet:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Post-employment benefits	**939,337**	**819,736**
Other long-term employee benefits	**313,469**	**43,798**
Obligations assumed from the labour agreement entered into as a result of the incorporation of the BFA Group	9,088	32,422
Other long-term benefits	304,381	11,376
(Less) – Plan assets to commitments	**(195,615)**	**(475,688)**
Total obligations net of associated assets	**1,057,191**	**387,846**
Other obligations	**-**	**-**
Total obligations for pensions funds and similar obligations	**1,057,191**	**387,846**
of which:		
Debit balances - Assets (1)	(23,631)	(54,561)
Credit balances - Liabilities (2)	1,080,822	442,407
Insurance contracts linked to pensions (defined-benefit)	772,825	423,937
Insurance contracts linked to other long-term obligations	261,205	9,044
Total insurance contracts (3)	**1,034,030**	**432,981**

(1) Included in "Other assets" in the accompanying consolidated balance sheet.

(2) Recognised under "Provisions - Provisions for pensions and similar obligations" in the accompanying consolidated balance sheet (Note 20).

(3) The Group 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 consolidated 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 17).

The tables below provide a breakdown at 31 December 2018 and 2017 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 consolidated balance sheet, and those for which the obligations covered by plan assets with unrelated companies exceeds the present value of obligation which, under current regulations, are recognised at their net amount in "Other assets - Other" in the consolidated balance sheet:

31 December 2018

(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"	785,746	11,061	774,685	313,469	7,331	306,138	1,080,823
Commitments for which the value of the obligations is less than the value of the plan assets recognised under "Other assets – Other"	153,591	177,222	(23,631)	-	-	-	(23,631)
Total at 31 December 2018	**939,337**	**188,283**	**751,054**	**313,469**	**7,331**	**306,138**	**1,057,192**

31 December 2017

(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"	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**

(38.3) Post-employment benefits

Details of the various post-employment benefit obligations, under both defined benefit and defined contribution plans, assumed by the Group are as follows:

Defined-contribution plans

As indicated in Note 2.13 above, the consolidated entities have assumed the obligation of making certain contributions to their employees' external pension schemes that qualify as "defined-contribution" plans under applicable law.

The Group made contributions to external pension funds in the amount of EUR 46,607 thousand in 2018 of which EUR 15,418 thousand were covered by the employee pension plan and EUR 31,714 thousand were recognised under "Administrative expenses - Staff expenses" in the consolidated income statement., The Bank made contributions to external pension funds in the amount of EUR 44,460 thousand in 2017, recognised in full under "Administrative expenses - Staff expenses" (see Note 38).

Defined-benefit plans

The table below shows the reconciliation between the present value of defined-benefit pension obligations assumed by the Group with its employees at 31 December 2018 and 2017, 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 consolidated balance sheet at those dates:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Present value of the obligations	**939,337**	**819,736**
Obligations covered by plan assets	178,100	364,878
Obligations covered by non-qualifying assets	761,237	454,858
Less - Fair value of plan assets	**(188,283)**	**(443,729)**
Recognised under "Provisions – Provisions for pensions and similar obligations" on the consolidated balance sheet	**774,685**	**424,541**
Recognised under "Other Assets – Other " on the consolidated balance sheet	**(23,631)**	**(48,534)**
Fair value of Insurance contracts assets linked to other long-term obligations “non-qualifying assets”	**772,825**	**423,937**

“Fair value of Insurance contracts assets linked to other long-term obligations non-qualifying assets” in the above table includes the fair value of insurance policies arranged with Bankia Mapfre Vida (EUR 570,876 thousand) and Caser (EUR 201,949 thousand). The fair value of these insurance policies was calculated in accordance with the provisions applicable in section 16 of Rule Thirty-Five of Bank of Spain Circular 4/2017 and paragraph 115 of IAS 19; therefore, the present value of the insured pensions was considered fair value. The expected return on these policies was calculated using an interest rate of 1.65%, established in accordance with IAS 19 and the actuarial assumptions specified in prevailing legislation in Spain as they are obligations with employees subject to Spanish labour law covered with funds set up in accordance with Royal Decree 1588/1999, of 15 October, as required by Rule Thirty-five, indent 14 c), of Bank of Spain Circular 4/2017.

The fair value of plan assets stated in the above table is presented on the consolidated balance sheet as a reduction of the present value of the Group'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	Year 2018	Year 2017
Technical interest rate (1)	1.65%	1.50%
Mortality tables	PERMF-2000	PERMF-2000
Estimated return on reimbursement rights recognised as assets	1.65%	1.50%
Expected return on plan assets	1.65%	1.50%
Social security pensions costs growth rate	1.00%	1.00%
Rate of pension increase according to the Savings Bank collective wage agreement	1.00%	1.00%
Rate of pension increase according to the CPI	2.00%	2.00%
CPI Cumulative inflation	2.00%	2.00%
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 11.36 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, 31.12.2018, no active employee had a defined-benefit scheme.

The reconciliation of the balances recognised at 31 December 2018 and 2017 for the present value of the Group's defined-benefit obligations is as follows:

(Thousands of euros)

ITEM	Year 2018	Year 2017
Balance at 1 January	**819,736**	**673,849**
Expected interest on obligation	11,919	5,441
Gains and losses recognised immediately in equity (*):	4,133	(79,839)
(a) (Gain)/loss arising from changes in financial assumptions	*(11,115)*	*(56,702)*
(b) Others (Gain)/loss arising from changes	*15,248*	*(23,137)*
Benefits paid	(50,290)	(33,802)
Additions to obligation due to new commitments	174,663	404
Adittions to obligation - business combination	-	257,090
Curtailments	(20,824)	(3,407)
Balance at 31 December	**939,337**	**819,736**

(*) These amounts are recognised directly in "Accumulated Other Comprehensive Income" in equity in the consolidated balance sheets (see Note 2.13).

The reconciliation of the fair value at 31 December 2018 and 2017 of plan assets in defined-benefit obligations is as follows:

(Thousands of euros)

ITEM	Year 2018	Year 2017
Fair value at 1 January	**443,729**	**305,028**
Expected interest on Fund	6,453	2,581
Gains and losses recognised immediately in equity (*):	(32,742)	(29,210)
a) Expected return on plan assets, excluding interest on the plan	*(32,742)*	*(29,210)*
Net contributions/ (reimbursements) (1)	(34)	(967)
Benefits paid	(27,174)	(18,132)
Adittions to obligation - business combination	-	184,429
Reduction in plan assets – Reclassification of the value of the assets (transfer to linked insurance)	(201,949)	-
Fair value at 31 December	**188,283**	**443,729**

(*) These amounts are recognised directly in "Accumulated Other Comprehensive Income" in equity in the consolidated balance sheets (see Note 2.13).
(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 2018 and 2017 of reimbursement rights recognised on the consolidated balance sheet as assets under "Other assets - Insurance contracts linked to pensions is as follows:

(Thousands of euros)

ITEM	Year 2018	Year 2017
Fair value at 1 January	**423,937**	**381,029**
Expected interest on insurance contracts linked to pensions	6,188	2,985
Gains and losses recognised immediately in equity (*):	4,052	(35,606)
a) Expected return on insurance contracts, excluding interest on insurance contracts linked to pensions	*4,052*	*(35,606)*
Net contributions/(reimbursements) (1)	(178)	(3,943)
Benefits paid	(23,090)	(15,485)
Adittions to obligation - business combination	-	94,957
Increase in reimbursement rights – Reclassification of the value of the assets (transfer to linked insurance)	376,592	-
Settlements	(14,676)	-
Fair value at 31 December	**772,825**	**423,937**

(*) These amounts are recognised directly in "Accumulated Other Comprehensive Income" in equity in the consolidated balance sheet (see Note 2.13).
(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 detail of the fair values of the main plan assets at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Insurance policies	13,480	124,624
Other assets(*)	174,803	319,105

(*) The fair value of plan assets classified as "Other assets", quantified at EUR 175 million, included assets covered by employee pension plans or insured by insurance policies that do not fit into the categories set out in paragraph 142 of IAS 19.

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 11.36 years (11.6 years for 2017), and in line with the yield on AA and AAA rated corporate bonds in the euro area.

(38.4) 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 Group with its employees at 31 December 2018 and 2017, 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 consolidated balance sheet at those dates:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Present value of the obligations	**313,469**	**43,798**
Obligations covered by plan assets	7,355	25,993
Obligations covered by non-qualifying assets	260,967	9,014
Internal fund	45,147	8,791
Less - Fair value of plan assets	**(7,331)**	**(31,959)**
Recognised under “Provisions – Pensions and other post employment defined benefit obligations” of the consolidated balance sheet	**306,138**	**17,866**
Recognised under “Other assets – Other” of the consolidated balance sheet	**-**	**(6,027)**
Fair value of hedge assets for pre-retirement commitments and other long-term commitments	**261,205**	**9,044**

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 compitible. Specifically, the most significant actuarial assumptions used in the calculation were as follows:

Actuarial assumptions	Year 2018	Year 2017
Technical interest rate (1)	0.35%	0.10%
Mortality tables	PERMF-2000	PERMF-2000
Estimated return on reimbursement rights recognised as assets	0.35%	0.10%
Expected return on plan assets	0.35%	0.10%
Social security costs growth rate	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	-	-

(1) Assumptions based on the duration of other long-term commitments, which for this group is approximately 2.13 years (2.1 years in 2017), 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 2018 and 2017 for the present value of obligations relating to pre-retirements and other long-term obligations assumed by the Group is as follows:

(Thousands of euros)

ITEM	Year 2018	Year 2017
Balance at 1 January	**43,798**	**58,857**
Expected interest on the obligation	34	1
Gains and losses recognised immediately	(18,806)	(10,568)
a) (Gains)/losses arising on changes in financial assumptions	*(1,771)*	*(210)*
b) (Gains)/losses arising from other changes (data, experience, etc,)	*(17,035)*	*(10,358)*
Benefits paid	(35,641)	(14,025)
Increase in the obligation for new commitments	324,108	32
Adittion due to bussines combination	-	9,501
Settlements	(22)	-
Fair value at 31 December	**313,471**	**43,798**

The table below shows the reconciliation of the fair value at 31 December 2018 and 2017 of plan assets in pre-retirement commitments and similar defined-benefit obligations (all for Spanish companies):

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Fair value at 1 January	**31,959**	**47,150**
Expected interest on the plan	29	-
Gains and loss recognised immediately	485	3,809
a) Expected return on plan assets, excluding interest on the plan	*485*	*3,809*
Net contributions/(reimbursements) (1)	(18,842)	(10,545)
Benefits paid	(6,300)	(8,455)
Fair value at 31 December	**7,331**	**31,959**

(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 2018 and 2017 of the fair value of reimbursement rights recognised as assets under "Other assets - Insurance contracts linked to pensions" on the consolidated balance sheet for pre-retirement and other long-term obligations (all corresponding to the Group's Spanish entities):

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Fair value at 1 January	**9,044**	**17,375**
Expected interest on insurance contracts linked to pensions	3	-
Gains and losses recognised immediately	(16)	(288)
a) Expected return on insurance contracts, excluding interest on insurance contracts linked to pensions	*(16)*	*(288)*
Net contributions/(reimbursements) (1)	278,914	(2,046)
Benefits paid	(26,740)	(5,997)
Fair value at 31 December	**261,205**	**9,044**

(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 table below shows the fair values of the main plan assets at 31 December 2018 and 2017 for early-retirement and similar obligations:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Insurance policies	7,331	31,959

(38.5) 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	2019	2020	2021	2022	2023	2024-2028
Pension commitments	56,167	55,219	54,068	52,986	51,898	238,754
Other long-term commitments	74,931	69,645	69,282	56,857	29,657	2,879

The best actuarial estimate used by the Group indicates that the amount of contributions to be made in respect of the pension and similar obligations assumed by the Group in 2018 will not be material with respect to the profit and equity estimated for the Group at the end of the year.

(38.6) Sensitivity analysis

The table below shows an analysis of the sensitivity of defined-benefit obligations at 31 December 2018 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	885,169	310,232
50bp decrease (*)	999,470	315,758
Annual salary increase (**)		
50bp increase	Not applicable	Not applicable
50bp decrease	Not applicable	Not applicable
Annual pension increase (***)		
50bp increase	985,718	316,547
50bp decrease	896,893	313,439
Cumulative inflation		
50bp increase	961,653	313,469
50bp decrease	918,860	313,469

(*) As the interest rate for pre-retired employees was 0.135%, the measurement with the 0.5% decrease was not made, as a negative rate would then be used

(**) Annual salary increases only affect assets. As there were no defined-benefit assets at 31 December 2018, this change is not applicable.

These changes in actuarial assumptions would not have a significant impact, as 96.40% of the obligations are guaranteed.

(38.7) Remuneration in kind

The Group'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.

(38.8) 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:

<u>Management Committee:</u>

- At least 50% of variable remuneration must be paid in Bankia shares.
- 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.

(39) Administrative expenses - Other general administrative expenses

The detail, by nature, of this item in the accompanying consolidated income statement for the financial years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEM	31/12/2018	31/12/2017
From property, fixtures and supplies	(119,573)	(102,954)
IT and communications	(191,649)	(160,458)
Advertising and publicity	(51,591)	(46,701)
Technical reports	(27,452)	(25,477)
Surveillance and security courier services	(18,154)	(14,474)
Levies and taxes	(29,508)	(23,792)
Insurance and self-insurance premiums	(3,630)	(3,712)
Other expenses	(93,924)	(84,508)
Total	**(535,481)**	**(462,076)**

The detail of the fees paid by the various Bankia Group companies to firms belonging to the worldwide organisation of Ernst & Young (the auditor of Bankia, S.A. and the Bankia Group) in 2018 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 2018: EUR 1,803 thousand (2017 : EUR 1,764 thousand)
- For the audit and review of the financial statements of foreign subsidiaries and companies comprising the Bankia Group, all for 2018: EUR 230 thousand (2017: EUR 176 thousand)
- For other assurance and services similar to auditing required by regulations or supervisory authorities 2018: EUR 207 thousand. (2017: EUR 145 thousand)
- For other professional services rendered: EUR 892 thousand, none related tax advice. (EUR 1,208 thousand 2017, none related tax advice).

Meanwhile, in 2018, the various Bankia Group companies paid audit fees to firms other than the Parent's auditor amounting to EUR 12 thousand (EUR 76 thousand in 2017) and fees for other audit-related assurance or similar services amounting to EUR 3 thousand (none in 2017).

The services engaged by the Bankia Group meet the requirements of independence stipulated in Law 22/2015 of 20 July and do not include any work that is incompatible with the auditing function.

(40) Depreciation

The detail of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEM	31/12/2018	31/12/2017
Depreciation of tangible assets (Note 15)	(113,048)	(90,603)
Depreciation of intangible assets (Note 16.2)	(60,863)	(83,687)
Total	**(173,911)**	**(174,290)**

(41) Provisions or reversal of provisions

The detail of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows (see note 20):

(Thousands of euros)

	(Expenses) / Income	
ITEM	31/12/2018	31/12/2017
Pensions and other post employment defined benefit obligations	10,418	1,222
Pending legal issues and tax litigation	(2,104)	(125,223)
Commitments and guarantees given	51,008	19,412
Other provisions	(69,296)	139,052
Total	**(9,974)**	**34,463**

(42) 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 consolidated income statement for the years ended 31 December 2018 and 2017 relates to the following financial instruments, by category:

(Thousands of euros)

	(Expenses) / Income	
ITEM	31/12/2018	31/12/2017
Financial assets at amortised cost (Note 12)	(425,535)	(330,409)
Financial assets at fair value through other comprehensive income (Note 11)	(971)	1,838
Total	**(426,506)**	**(328,571)**

(43) Impairment or reversal of impairment on non-financial assets and investments in joint ventures and associates

The detail by nature of the amount recognised for this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses) / Income	
ITEM	31/12/2018	31/12/2017
Impairment losses (net) on goodwill (Notes 14.2 y 32)	(5,700)	(6,000)
Impairment losses (net) on investment property (Note 15)	(22,736)	309
Impairment losses (net) on property, plant and equipment for own use (Note 15)	12	(221)
Impairment losses (net) on inventories (Note 17)	(43)	(4,203)
Impairment losses (net) on investments in joint ventures and associates and other assets (Note 32)	38,458	(3,389)
Total	**9,991**	**(13,504)**

(44) Gains/ (losses) on disposal of no-financial and investments, net

The detail of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	Income / (Expenses)	
ITEM	31/12/2018	31/12/2017
Gain/(loss) on disposal of tangible assets	560	(262)
Gain/(loss) on disposal of investment properties	3,158	8,719
Gain/(loss) on disposal of investments	801	425
Other items	(11)	19
Total	**4,508**	**8,901**

(45) Profit or (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The detail of this item in the accompanying consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses) / Income	
ITEM	31/12/2018	31/12/2017
Impairment losses	(104,138)	(143,634)
Plant and equipment foreclosed in payment of debts (Note 18)	(97,571)	(138,605)
Non-current assets - Tangible assets for own use	(6,409)	(5,025)
Non-current assets - Investments in joint ventures and associates (Note 18)	(158)	(4)
Other gains (losses)	(51,296)	29,121
Total	**(155,434)**	**(114,513)**

"Other gains/(losses)" includes gains or losses on the disposal of non-current assets, net of transaction costs

(46) Related parties

In addition to the disclosures made in Note 6 regarding the remuneration earned by members of the Board of Directors and senior executives of the Group, following is a detail of the balances recognised in the consolidated balance sheet at 31 December 2018 and the gains and losses recognised in the consolidated income statement for the year ended 31 December 2018 arising from transactions with related parties:

(Thousands of euros)

ITEM	Associates	Joint ventures	Significant shareholders (1)	Board of Directors and senior executives	Other related parties
ASSETS					
Loans and advances – Customers	321,351	18,311	100,795	922	1,702
Impairment of financial assets	(113,869)	(16,272)	-	-	-
Other assets	-	-	1,658	-	-
Total	**207,482**	**2,039**	**102,453**	**922**	**1,702**
LIABILITIES					
Credit Institutions	-	-	-	-	-
Deposits – Customers	433,298	25,647	35,701	3,168	85,292
Debt securities issued	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total	**433,298**	**25,647**	**35,701**	**3,168**	**85,292**
OTHER					
Guarantees given	10,729	3	2,196	9	2,543
Contingent commitments granted	2,285	36	-	158	273
Total	**13,014**	**39**	**2,196**	**167**	**2,816**
PROFIT OR LOSS					
Interest income (2)	2,711	3,343	52	1	27
Interest expense (2)	(4,699)	-	(102)	-	(144)
Profit/(loss) of companies accounted for using the equity method	52,536	3,754	-	-	-
Commission income/expense	917	1	21,650	109	614
Other gains and losses	(215)	(16)	-	-	5

(1) Transactions between Bankia and shareholder BFA only.

(2) Interest income and expense are presented gross.

The detail of balances recognised in the Group's consolidated balance sheet at 31 December 2017 and the gains and losses recognised in the consolidated income statement arising from transactions with related parties is as follows:

(Thousands of euros)

ITEM	Associates	Joint ventures	Significant shareholders (1)	Board of Directors and senior executives	Other related parties
ASSETS					
Loans and advances – Customers	262,640	323,614	48,340	984	472
Impairment of financial assets	(116,873)	(229,894)	-	-	-
Other assets	7	-	739	-	-
Total	**145,774**	**93,720**	**49,079**	**984**	**472**
LIABILITIES					
Credit Institutions	-	12,740	-	-	-
Deposits – Customers	91,803	31,282	8,123	1,398	44,858
Debt securities issued	-	-	-	-	-
Other liabilities	275	1,220	-	-	-
Total	**92,078**	**45,242**	**8,123**	**1,398**	**44,858**
OTHER					
Guarantees given	11,882	-	2,401	9	3
Contingent commitments granted	773	-	-	128	120
Total	**12,655**	**-**	**2,401**	**137**	**123**
PROFIT OR LOSS					
Interest income (2)	2,646	-	1,995	2	1
Interest expense (2)	(1,451)	(57)	(504)	(4)	(52)
Profit/(loss) of companies accounted for using the equity method	38,919	859	-	-	-
Commission income/expense	306	(3)	6,153	89	44
Other gains and losses	(481)	-	-	-	-

(1) Transactions between Bankia and shareholder BFA only.

(2) Interest income and expense are presented gross.

Appendices III and IV to these consolidated financial statements show the details of associates and joint ventures 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 Group and its related parties were performed on an arm's-length basis.

At 31 December 2018, the FROB, through BFA, held a 61.38% (61.98 % 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 2018 are disclosed in the following notes to the consolidated financial statements:

- Note 9 Financial Assets and Liabilities held for trading.
- Note 10 Financial Assets non-trading financial assets mandatorily at fair value through profit or loss
- Note 11 Financial assets at fair value with changes in other comprenhensive income.
- Note 12 Financial assets at amortised cost - Loans and advances – Customers.
- Note 19 Financial liabilities at amortised cost – Customers deposits

The income and expense recognised in the consolidated income statements for 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Spanish government agencies interest incomes (*)	56,339	60,328
(Spanish government agencies interest expenses) (*)	(2,375)	(3,199)

(*) 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 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 2018 include:

- "Loans and advances -customers" the balance relates to reverse repurchase agreements entered into with BFA for EUR 101 million;
- "Deposits-customers" on the liability side of the balance sheet includes a demand deneposit (interest-bearing) made by BFA for EUR 36 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.
- An agreement for managing the FROB's indirect stake in Bankia, through BFA, signed following approval by Bankia's Board on 24 January 2019.

All transactions between the two entities are carried out on normal market terms.

(47) Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (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 - Separate financial statements

BANKIA, S.A.

Balance sheet at 31 December 2018 and 2017

(Thousands of euros)

ASSETS	31/12/2018	31/12/2017 (*)
Cash, cash balances at central banks and other demand deposits	**4,354,390**	**3,755,070**
Financial assets held for trading	**6,320,607**	**6,719,052**
Derivatives	6,035,137	6,712,727
Equity instruments	3,901	4,324
Debt securities	281,569	2,001
Loans and advances	-	-
Central Banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*224,986*	-
Non-trading financial assets mandatorily at fair value through profit or loss	**9,348**	**-**
Equity instruments	-	-
Debt securities	187	-
Loans and advances	9,161	-
Central Banks	-	-
Credit institutions	-	-
Customers	9,161	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets designated at fair value through profit or loss	**-**	**-**
Debt securities	-	-
Loans and advances	-	-
Central Banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Financial assets at fair value through other comprehensive income	**15,622,815**	**22,725,897**
Equity instruments	66,484	57,190
Debt securities	15,556,331	22,668,707
Loans and advances	-	-
Central Banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*6,794,067*	9,892,613
Financial assets at amortised cost	**156,747,204**	**159,027,488**
Debt securities	33,860,266	32,797,525
Loans and advances	122,886,938	126,229,963
Central Banks	-	-
Credit institutions	4,432,818	3,029,283
Customers	118,454,120	123,200,680
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*22,257,594*	23,443,829
Derivatives – Hedge accounting	**2,619,883**	**3,058,341**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	**-**
Investments in subsidiaries, joint ventures and associates	**2,713,637**	**2,840,144**
Subsidiaries	2,549,079	2,678,645
Joint Ventures	3,818	31,589
Associates	160,740	129,910
Tangible assets	**2,171,142**	**2,402,415**
Property, plant and equipment	1,657,402	1,745,382
For own use	1,657,402	1,745,382
Leased out under an operating lease	-	-
Assigned to welfare projects (saving banks and credit cooperatives)	-	-
Investment property	513,740	657,033
Of which: assigned under operating leases	513,740	657,033
Memorandum item: acquired under a leasing	-	-
Intangible assets	**205,523**	**142,669**
Goodwill	-	-
Other intangible assets	205,523	142,669
Tax assets	**10,449,957**	**10,345,204**
Current tax assets	460,768	426,958
Deferred tax assets	9,989,189	9,918,246
Other assets	**1,672,042**	**909,821**
Insurance contracts linked to pensions	1,034,030	432,981
Inventories	-	-
Other	638,012	476,840
Non-current assets and disposal groups classified as held for sale	**3,459,184**	**3,117,805**
TOTAL ASSETS	**206,345,732**	**215,043,906**

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

BANKIA, S.A.

Balance sheet at 31 December 2018 and 2017

(Thousands of euros)

LIABILITIES AND EQUITY	31/12/2018	31/12/2017 (*)
Financial liabilities held for trading	**6,078,800**	**7,449,989**
Derivatives	5,956,719	7,106,560
Short positions	122,081	343,429
Deposits	-	-
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	**184,060,914**	**190,916,511**
Deposits	165,712,473	170,537,855
Central Banks	13,856,000	15,355,970
Credit institutions	21,771,822	22,212,284
Customers	130,084,651	132,969,601
Debt securities issued	16,749,890	19,288,228
Other financial liabilities	1,598,551	1,090,428
Memorandum item: subordinated liabilities	*2,989,889*	*2,510,922*
Derivatives – Hedge accounting	**182,331**	**377,469**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	-
Provisions	**1,846,702**	**1,953,867**
Pensions and other post employment defined benefit obligations	1,080,822	442,407
Other long term employee benefits	-	-
Pending legal issues and tax litigation	183,294	352,324
Commitments and guarantees given	373,119	380,422
Other provisions	209,467	778,714
Tax liabilities	**536,194**	**686,139**
Current tax liabilities	-	1,368
Deferred tax liabilities	536,194	684,771
Share capital repayable on demand	**-**	-
Other liabilities	**1,106,381**	**867,586**
Of which: welfare fund (only saving banks and credit cooperatives)	-	-
Liabilities included in disposal groups classified as held for sale	**-**	-
TOTAL LIABILITIES	**193,811,322**	**202,251,561**
Own Funds	**12,421,199**	**12,477,275**
Capital	3,084,963	3,084,963
Paid up capital	3,084,963	3,084,963
Unpaid capital which has been called up	-	-
Memorandum item: Uncalled capital	-	-
Share premium	619,154	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	7,980,060	8,384,243
(-) Treasury shares	(96,646)	(79,837)
Profit or loss	833,668	468,752
(-) Interim dividends	-	-
Accumulated other comprehensive income	**113,211**	**315,070**
Items that will not be reclassified to profit or loss	51,684	64,554
Actuarial gains or (-) losses on defined benefit pension plans	29,939	48,764
Non-current assets and disposal groups classified as held for sale	-	-
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income	21,745	15,790
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging	-	-
Amount of changes in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability	-	-
Items that may be reclassified to profit or loss	61,527	250,516
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	(292)	(714)
Hedging derivatives. Cash flow hedges [effective portion]	(2,299)	(10,163)
Fair value changes of debt instruments measured at fair value through other comprehensive income	62,554	264,648
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	1,564	(3,255)
TOTAL EQUITY	**12,534,410**	**12,792,345**
TOTAL EQUITY AND TOTAL LIABILITIES	**206,345,732**	**215,043,906**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS	**34,048,575**	**31,915,570**
Loan commitments given	21,070,128	18,699,632
Financial guarantees given	427,621	414,912
Contingent commitments given	12,550,826	12,801,026

(*)The Balnce Sheet in 2017 is presented solely for comparison and differs from the one included in the 2017 financial statements. See Note 1.5

BANKIA, S.A.

Income statement for the years ended 31 December 2018 and 2017

(Thousands of euros)

	31/12/2018	31/12/2017 (*)
Interest income	2,471,354	2,315,829
Financial assets at fair value through other comprehensive income	233,106	388,051
Financial assets at amortised cost	2,249,915	1,961,320
Other interest income	(11,667)	(33,542)
(Interest expenses)	(442,758)	(391,893)
(Expenses on share capital repayable on demand)	-	-
A) NET INTEREST INCOME	**2,028,596**	**1,923,936**
Dividend income	411,016	61,632
Fee and commission income	1,042,062	866,067
(Fee and commission expenses)	(78,090)	(75,291)
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	399,874	309,811
Financial assets at amortised cost	1,539	57,558
Other financial assets and liabilities	398,335	252,253
Gains or (-) losses on financial assets and liabilities held for trading, net	48,036	95,613
Reclassification of financial assets out of measured at fair value through other comprehensive income category	-	-
Reclassification of financial assets out of measured at amortised cost	-	-
Other gains or (-) losses	48,036	95,613
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss	(429)	-
Reclassification of financial assets out of measured at fair value through other comprehensive income category	-	
Reclassification of financial assets out of measured at amortised cost	-	
Other gains or (-) losses	(429)	
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	(28,534)	(29,627)
Exchange differences [gain or (-) loss], net	14,735	9,740
Other operating income	57,101	52,578
(Other operating expenses)	(297,562)	(240,904)
Of which: Mandatory provisions to welfare fund (only savings banks and credit cooperatives)	-	-
B) GROSS INCOME	**3,596,805**	**2,973,555**
(Administrative expenses)	(1,659,474)	(1,833,114)
(Staff expenses)	(1,124,440)	(1,373,949)
(Other administrative expenses)	(535,034)	(459,165)
(Amortisation)	(172,485)	(172,555)
(Provisions or (-) reversal of provisions)	16,755	(93,931)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(429,581)	(267,664)
(Financial assets at fair value through other comprehensive income)	(971)	2,188
(Financial assets measured at amortised cost)	(428,610)	(269,852)
C) TOTAL OPERATING INCOME, NET	**1,352,020**	**606,291**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	(160,522)	68,129
(Impairment or (-) reversal of impairment on non-financial assets)	(22,970)	(38)
(Tangible assets)	(22,970)	(38)
(Intangible assets)	-	-
(Other)	-	-
Gains or (-) losses on the derecognition in nonfinancial assets accounts and investments, net	1,271	9,325
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	(133,583)	(134,306)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**1,036,216**	**549,401**
(Tax expense or (-) income related to profit or loss from continuing operations)	(202,548)	(80,649)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	**833,668**	**468,752**
Profit or (-) loss after tax from discontinued operations	-	-
F) PROFIT OR (-) LOSS FOR THE PERIOD	**833,668**	**468,752**

(*)The Income statement at in 2017 is presented solely for comparison and differs from the one included in the 2017 financial statements. See Note 1.5.

BANKIA, S.A.

Statement of recognised income and expense for the years ended 31 December 2018 and 2017

(Thousands of euros)

	2018	2017 (*)
Profit or (-) loss for the period	**833,668**	**468,752**
Other comprehensive income	**(374,217)**	**(126,984)**
Items that will not be reclassified to profit or loss	**(12,870)**	**27,349**
Actuarial gains or (-) losses on defined benefit pension plans	(26,893)	8,774
Non-current assets and disposal groups held for sale	-	-
Fair value changes value of equity instruments measured at fair value through other comprehensive income	8,507	21,207
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in the credit risk	-	-
Income tax relating to items that will not be reclassified	5,516	(2,632)
Items that may be reclassified to profit or loss	**(361,347)**	**(154,333)**
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	603	(1,750)
Translation gains or (-) losses taken to equity	603	(1,750)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	11,234	(13,161)
Valuation gains or (-) losses taken to equity	11,234	(13,161)
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	(534,931)	(191,830)
Valuation gains or (-) losses taken to equity	(136,578)	(17,987)
Transferred to profit or loss	(398,353)	(173,843)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	6,884	(4,646)
Valuation gains or (-) losses taken to equity	6,884	(4,646)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	154,863	57,054
Total comprehensive income for the period	**459,451**	**341,768**
Profit or (-) loss for the period	**833,668**	**468,752**

(*)The Statement of recognised income and expense in 2017 is presented solely for comparison and differs from the one included in the 2017 financial statements. See Note 1.5.

(Thousands of euros)

BANKIA, S.A.

Statement of changes in equity for the year ended 31 December 2018

Sources of equity changes	Own Funds										Accumulated Other 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 31/12/2017 [before restatement]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,384,243**	**(79,837)**	**468,752**	**-**	**315,070**	**12,792,345**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	(487,047)	-	-	-	172,358	(314,689)
Opening balance [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**7,897,196**	**(79,837)**	**468,752**	**-**	**487,428**	**12,477,656**
Total comprehensive income for the period									833,668		(374,217)	**459,451**
Other changes in equity	-	-	**-**	**-**	-	-	**82,864**	**(16,809)**	**(468,752)**	-	-	**(402,697)**
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	-	-	-	-	-	-	(338,015)	-		-		**(338,015)**
Purchase of treasury shares					-	-	-	(122,241)				**(122,241)**
Sale or cancellation of treasury shares					-	-	(6,429)	105,432				**99,003**
Reclassification of financial instruments from equity to liability	-	-	-	-								-
Reclassification of financial instruments from liability to equity	-	-	-	-								-
Transfers among components of equity			-	-	-	-	468,752		(468,752)	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-			-	-
Share based payments	-	-		-				-				-
Other increase or (-) decrease in equity			-	-	-	-	(41,444)	-	-	-	-	**(41,444)**
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)					-		-					-
Closing balance 31/12/2018 [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**7,980,060**	**(96,646)**	**833,668**	**-**	**113,211**	**12,534,410**

(Thousands of euros)

BANKIA, S.A.

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

Sources of equity changes	Own Funds										Accumulated Other 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**

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

BANKIA, S.A.

Statement of cash flows for the years ended 31 December 2018 and 2017

(Thousands of euros)

	2018	2017 (*)
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**2,635,201**	**812,453**
Profit/(loss) for the period	**833,668**	**468,752**
Adjustments made to obtain the cash flows from operating activities	**689,483**	**797,140**
Depreciation and amortisation	172,485	172,555
Other	516,998	624,585
Net increase/(decrease) in operating assets	**5,096,622**	**8,960,200**
Financial assets held for trading	(751,396)	(197)
Non-trading financial assets mandatorily at fair value through profit or loss	(1,281)	-
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	8,242,065	6,974,873
Financial assets at amortised cost	(369,873)	2,639,061
Other operating assets	(2,022,893)	(653,537)
Net increase/(decrease) in operating liabilities	**(4,215,201)**	**(9,579,099)**
Financial liabilities held for trading	(221,348)	2,876
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(4,338,308)	(9,105,077)
Other operating liabilities	344,455	(476,898)
Income tax proceeds/(payments)	**230,629**	**165,460**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**842,678**	**898,368**
Payments	**(485,480)**	**(213,002)**
Tangible assets	(16,528)	(106,065)
Intangible assets	(122,959)	(103,837)
Investments in subsidiaries, joint ventures and associates	(102,260)	(3,000)
Other business units	-	-
Non-current assets held for sale and associated liabilities	(243,733)	(100)
Other payments related to investing activities	-	-
Proceeds	**1,328,158**	**1,111,370**
Tangible assets	27,877	19,444
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	486,491	47,103
Other business units	-	577,959
Non-current assets held for sale and associated liabilities	813,790	466,864
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(2,878,559)**	**(37,522)**
Payments	**(3,977,562)**	**(2,734,387)**
Dividends	(338,015)	(315,957)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	(122,241)	(132,919)
Other payments related to financing activities	(3,517,306)	(2,285,511)
Proceeds	**1,099,003**	**2,696,865**
Subordinated liabilities	500,000	1,250,000
Issuance of own equity instruments	-	-
Disposal of own equity instruments	99,003	106,125
Other proceeds related to financing activities	500,000	1,340,740
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**599,320**	**1,673,299**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**3,755,070**	**2,081,771**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**4,354,390**	**3,755,070**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	929,835	878,204
Cash equivalents at central banks	3,309,614	2,614,513
Other financial assets	114,941	262,353
Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**4,354,390**	**3,755,070**

(*)The Statement of cash flows in 2017 is presented solely for comparison and differs from the one included in the 2017 financial statements. See Note 1.5.

Appendix II - Subsidiaries

The key details on subsidiaries, including those classified under "Non-current assets held for sale" at 31 December 2018 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
			Direct	Indirect	
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	Chaoyang (Beijing) - People's Republic of China	100.00	-	100.00
BMN MEDIACIÓN OPERADOR DE BANCA-SEGUROS VINCULADO, S.L.U.	Insurance intermediary-Bancassurance operator	Madrid – Spain	100.00	-	100.00
CAJAGRANADA VIDA, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A. (1)	Life insurance	Granada – Spain	100.00	-	100.00
CAJAMURCIA VIDA Y PENSIONES DE SEGUROS Y REASEGUROS, S.A. (1)	Life insurance	Murcia – 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 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. in settlement (2)	Real Estate	Valencia – Spain	-	100.00	100.00
ENCINA LOS MONTEROS, S.L.U. in settlement (2)	Real Estate	Valencia – Spain	-	100.00	100.00
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	-	99.75	99.75
INMOGESTIÓN Y PATRIMONIOS, S.A.	Corporate management	Madrid – Spain	0.10	99.90	100.00
INVERSION GENERAL DE GRANADA 2 , S.L. in settlement (1) (2)	Real Estate development	Granada - Spain	75.00	-	75.00
INVERSIONES Y DESARROLLOS 2069 MADRID, S.L.U., in settlement (2)	Real Estate	Madrid – Spain	100.00	-	100.00
NAVICOAS ASTURIAS, S.L. (2)	Real Estate	Madrid – Spain	-	95.00	95.00

Company	Business activity	Location	% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
			Direct	Indirect	
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 , in settlement (2).	Real Estate development	Madrid - Spain	100.00	-	100.00
SEGURBANKIA, S.A. CORREDURÍA DE SEGUROS DEL GRUPO BANKIA	Insurance intermediary	Madrid – 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. in settlement (2)	Consultinng and managment services	Madrid – 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 III – Associates and Joint ventures

The key details on associates entities and joint ventures at 31 December 2018 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group			Thousands of euros Investee information (*) 2018		
			% Current interest		Total ownership interest			
			Direct	Indirect		Asset	Liabilities	Profit/(loss)
Associates								
AVALMADRID, S.G.R.	SEMs funding	Madrid – SPAIN	25.36	-	25.36	118,881	67,873	-
BANKIA MAPFRE VIDA, S.A., DE SEGUROS Y REASEGUROS	Life insurance	Majadahonda (Madrid) - SPAIN	19.39	29.61	49.00	8,001,175	7,687,863	77,781
CAJA DE SEGUROS REUNIDOS, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A., "CASER"	Insurance	Madrid – SPAIN	15.00	-	15.00	7,966,377	6,764,286	89,250
NETTIT COLABORATIVE PAYMENT, S.L.	Other services	Madrid – SPAIN	30.00	-	30.00	8,769	678	(1,078)
REDSYS SERVICIOS DE PROCESAMIENTO, S.L.	Payment methods	Madrid – SPAIN	15.94	-	15.94	122,035	59,993	11,308
Joint ventures								
CA CF- Bankia, S.A.	Consumer finance	Madrid - SPAIN	49.00	-	49.00	10,123	2,330	(2,207)

(*) Latest available data unaudited.

Appendix IV – Joint ventures and associates classified under Non-current assets held for sale

The key details on joint ventures and associates classified under "Non-current assets held for sale" at 31 December 2018 are as follows:

			% Ownership interest owned by the Group			Thousands of euros Investee information(*) 2018		
			% Current interest					
Company	Business activity	Location	Direct	Indirect	Total ownership interest	Asset	Liabilities	Profit/(loss)
Joint Ventures								
CARTERA PERSEIDAS, S.L.	Corporate management	Madrid – Spain	11.82	-	11.82	212	12	(54)
INMACOR DESARROLLOS, S.A. DE CV	Real estate	Playa del Carmen, Quintana Roo, Mexico	-	72.57	72.57	8,834	8	(542)
INMOBILIARIA PIEDRA BOLAS, S.A. DE CV	Real estate	Playa del Carmen, Quintana Roo, Mexico	55.93	.16.64	72.57	128,597	218,066	4,905
METRO HOUSE INVEST, S.L.	Real estate development	Palma de Mallorca (Baleares) – Spain	-	50.00	50.00	-	6,902	-
PLAYA PARAISO MAYA, S.A. DE CV	Real estate	Playa del Carmen, Quintana Roo, Mexico	58.03	.14.54	72.57	181,450	87,569	6,319
PROMOCIONES Y PROYECTOS MURCILOR, S.L., in settlement	Real estate	Lorca (Murcia) – Spain	50.00	-	50.00	9,650	29,272	(16,259)
PROYECTOS Y DESARROLLOS HISPANOMEXICANOS. S.A., DE CV	I Real estate	Playa del Carmen, Quintana Roo, Mexico	-	72.57	72.57	58,337	59,871	(1,075)
QUIMANNA HORTAL, S.L. in settlement	Real estate development	Barcelona – Spain	50.00	-	50.00	4,678	11,571	(280)
SOL EDIFICAT PONENT, S.L.	Real estate development	Villafranca del Penedés (Barcelona) – Spain	50.00	-	50.00	11,330	36,526	(4,093)
Associates								
ALAZOR INVERSIONES, S.A., in settlement	Other activities related to road transport	Villaviciosa de Odón (Madrid)- Spain	-	20.00	20.00	1,086,675	1,324,938	(5,639)
ARRENDADORA FERROVIARIA, S.A.	Purchase and lease of trains	Barcelona – Spain	29.07	-	29.07	275,800	276,380	2
CARTAGENA JOVEN, S.L., in settlement	Real estate development	Cartagena (Murcia) – Spain	30.00	-	30.00	11,771	11,619	(935)
CIUTAT SAVALL, S.L. in settlement	Real estate development	Palma de Mallorca (Baleares) – Spain	-	45.00	45.00	4,377	10,502	(0)
FALSTACEN, S.L.	Hotel development	Motril (Granada) – Spain	24.10	-	24.10	18,670	15,011	1,766
FERROMOVIL 3000, S.L.	Purchase and lease of trains	Madrid – Spain	30.00	-	30.00	416,034	392,857	(919)
FERROMOVIL 9000, S.L.	Purchase and lease of trains	Madrid – Spain	30.00	-	30.00	270,681	252,995	(696)
GESTIO DE MITJANS DE PAGAMENT, S.L. in settlement	Payments methods	Palma de Mallorca (Baleares Island) – Spain	20.00	-	20.00	-	2	-
MONTEBLANCO DESARROLLO INMOBILIARIO, S.L.	Real estate development	Sevilla – Spain	35.00	-	35.00	5,823	13,896	(8,884)
MURCIA EMPRENDE, SOCIEDAD DE CAPITAL RIESGO DE REGIMEN SIMPLIFICADO, S.A.	Private equity	Murcia – Spain	28.68	-	28.68	4,079	31	(61)
NEWCOVAL, S.L.	Real estate	Valencia – Spain	-	50.00	50.00	-	(87)	(7)
NUEVA VIVIENDA JOVEN DE MURCIA, S.L. in settlement	Real estate development	Murcia – Spain	49.89	-	49.89	59	1	60
PLAN AZUL 07, S.L.	Purchase and lease of train equipment	Madrid – Spain	31.60	-	31.60	278,798	247,804	5,811
ROYACTURA, S.L.	Real estate	Las Rozas de Madrid (Madrid) – Spain	-	45.00	45.00	-	7,850	-
SERALICAN, S.L., in settlement	Foods	(Las Palmas Canary island – Spain	40.00	-	40.00	-	-	-
SHARE CAPITAL, S.L. in settlement	Real estate	Paterna (Valencia) – Spain	-	43.02	43.02	15,127	90,383	(3,538)
URBANO DIVERTIA, S.L.	Real estate development	Cabezo de Torres (Murcia) – Spain	25.00	-	25.00	11,477	10,157	(111)
VEHÍCULO DE TENENCIA Y GESTIÓN 9, S.L. in settlement	Real estate development	Madrid – Spain	22.87	19.79	42.66	-	-	11,328

(*) Latest available data unaudited.

Appendix V – Securitization funds

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
BANCAJA 5 loan securitization	-	98,014
BANCAJA 6 loan securitization	197,625	232,591
AyT.11 F.T.H	-	11,173
Total derecognised	**197,625**	**341,778**

(Thousands of euros)

ITEM	31/12/2018		31/12/2017	
	Total	Maturity	Total	Maturity
RMBS I loan securitization	716,345	2049	767,551	2049
RMBS II loan securitization	626,121	2049	676,669	2049
RMBS III loan securitization	1,261,612	2050	1,338,979	2050
RMBS IV loan securitization	944,875	2050	1,017,216	2050
MADRID RESIDENCIAL I loan securitization	419,692	2051	446,662	2051
MADRID RESIDENCIAL II loan securitization	381,321	2049	402,838	2049
BANCAJA 7 loan securitization	264,158	2034	304,094	2034
BANCAJA 8 loan securitization	316,239	2034	354,149	2034
MBS BANCAJA 2 loan securitization	103,866	2035	121,549	2035
BANCAJA 9 loan securitization	486,530	2040	538,871	2040
MBS BANCAJA 3 loan securitization	163,133	2040	185,580	2040
BANCAJA 10 loan securitization	963,616	2046	1,042,921	2046
MBS BANCAJA 4 loan securitization	463,010	2050	523,296	2050
BANCAJA 11 loan securitization	837,811	2047	897,592	2047
BANCAJA 13 loan securitization	1,565,662	2048	1,660,790	2048
MBS BANCAJA 6 loan securitization	388,935	2048	429,623	2048
BANCAJA-BVA VPO 1 loan securitization	115,897	2047	138,022	2047
MBS BANCAJA 8 loan securitization	-	-	279,969	2060
AYT Mortgage MIX II	22,753	2036	26,921	2036
AYT C,MURCIA Mortgage I	51,385	2035	61,334	2035
AYT C,MURCIA Mortgage II	54,301	2036	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	62,759	2041	71,034	2041
AYT Mortgage Mix I, ASF	12,082	2033	13,903	2033
AYT Mortgage Mix III, ASF	-	-	37,411	2035
AYT C,GRANADA Collateral entities	107,707	2037	107,987	2037
TDA 22 - MIX, ASF	12,273	2044	14,965	2044
TDA 27, FTA	60,542	2047	68,164	2047
CEP 1 TDA	2,507	2043	2,940	2043
CEP 2 TDA	1,567	2045	1,748	2045
CEP FTGENCAT 1 TDA	3,857	2049	4,089	2049
CEP SEMs 1 TDA	5,697	2045	6,163	2045
TDA 20 - MIX, ASF	23,238	2036	144,548	2036
TDA SA NOSTRA Entities 1, ASF	10,870	2040	15,373	2040
TDA SA NOSTRA Entities 2, ASF	45,780	2051	54,269	2051
Total balance	**10,496,141**		**11,946,922**	

Appendix VI - Financial liabilities at amortised cost - Debt securities issued

The breakdown of this item, as of 31 December 2018 and 2017 on the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

			2018		2017		
TYPE OF DEBT SECURITY	Currency	Latest maturity	Nominal amount	Annual nominal interest rate	Nominal amount	Credit rating Issuer/Issue	Type of guarantee extended
Marketable debt securities							
CM EMTN 2008-2 14/05/18 bonds	euro	2018	-	EUR 3M+0.98%	25,000	BBB (high)	Bankia Personal Guarantee
Bancaja 22/05/18 bonds	euro	2018	-	1.50%	50,000	BBB (high)	Bankia Personal Guarantee
Bankia 2014-2 ICO facility bonds	euro	2018	-	EUR 6M+3.50%	434	-	Bankia Personal Guarantee
Bankia 2014-4 ICO facility bonds	euro	2018	-	EUR 6M+ 2.75%	435	-	Bankia Personal Guarantee
Bankia 2014-5 ICO facility bonds	euro	2018	-	EUR 6M+3.00%	337	-	Bankia Personal Guarantee
Bankia 2014-7 ICO facility bonds	euro	2018	-	EUR 6M+ 2.75%	1,857	-	Bankia Personal Guarantee
Bankia 2014-8 ICO facility bonds	euro	2018	1,050	EUR 6M+ 2.75%	1,576	-	Bankia Personal Guarantee
Bankia 2014-14 ICO facility bonds	euro	2018	-	EUR 6M+ 2.35%	764	-	Bankia Personal Guarantee
Bankia 2014-17 ICO facility bonds	euro	2018	-	EUR 6M+ 2.35%	1,937	-	Bankia Personal Guarantee
Bankia 2014-19 ICO facility bonds	euro	2018	-	EUR 6M+ 2.35%	1,007	-	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	-	EUR 6M+ 2.75%	863	-	Bankia Personal Guarantee
Bankia 2014-15 ICO facility bonds	euro	2020	2,522	EUR 6M+ 2.35%	3,782	-	Bankia Personal Guarantee
Bankia 2014-20 ICO facility bonds	euro	2020	1,091	EUR 6M+ 2.35%	1,635	-	Bankia Personal Guarantee
Granada Senior Bonds	euro	2022	30,000	Cupón ligado a la inflación	30,000	BBB (high)	Bankia Personal Guarantee
CM 16/06/23 bonds	euro	2023	-	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	5,352	Irregulares y cupón cero	5,740	BBB (high)	Bankia Personal Guarantee
Securitization bonds	euro	-	1,601,774	-	1,841,010	-	-
CM 25/05/18 mortgage bond	euro	2018	-	4.25%	2,060,000	AAA	Mortgage Portfolio-Mortgage Law
CM 28/06/19 mortgage bond	euro	2019	1,600,000	5.00%	1,600,000	AAA	Mortgage Portfolio-Mortgage Law
BMN 4ª mortgage bond	euro	2019	1,300,000	EUR 12M + 5.00%	1,300,000	AAA	Mortgage Portfolio-Mortgage Law
BMN 5ª mortgage bond	euro	2019	500,000	3.13%	500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2016-1 mortgage bond	euro	2021	1,000,000	0.88%	1,000,000	AAA	Mortgage Portfolio-Mortgage Law
CM 26/04/22 mortgage bond	euro	2022	1,500,000	4.50%	1,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2015-2 mortgage bond d	euro	2022	1,250,000	1.13%	1,250,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-1 mortgage bond	euro	2023	2,500,000	EUR 1M+1.40%	2,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia2016-2 mortgage bond	euro	2023	1,000,000	1.00%	1,000,000	AAA	Mortgage Portfolio-Mortgage Law
CM 03/02/25 mortgage bond	euro	2025	2,000,000	4.00%	2,000,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2015-1 mortgage bond d	euro	2025	1,285,500	1%	1,285,500	AAA	Mortgage Portfolio-Mortgage Law
BANKIA 2018-1 mortgage bond	euro	2026	100,000	EUR 6M+0.18%	-	AAA	Mortgage Portfolio-Mortgage Law

(Thousands of euros)

			2018		2017		
TYPE OF DEBT SECURITY	Currency	Latest maturity	Nominal amount	Annual nominal interest rate	Nominal amount	Credit rating Issuer/Issue	Type of guarantee extended
BANKIA 2018-2 mortgage bond	euro	2026	400,000	EUR 6M+0.28%	-	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-2 mortgage bond	euro	2027	2,500,000	EUR 1M+1.40%	2,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-3 mortgage bond	euro	2028	2,500,000	EUR 1M+1.40%	2,500,000	AAA	Mortgage Portfolio-Mortgage Law
CM 24/03/36 mortgage bond	euro	2036	2,000,000	4.13%	2,000,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014 -1 Subordinated bonds-1	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%	500,000	BB+	Bankia Personal Guarantee
Bankia AT1 Bonds	euro	PERP	750,000	6.00%	750,000	BB-	Bankia Personal Guarantee
BANKIA AT1 2018 Bonds	euro	PERP	500,000	6.38%	-	BB-	Bankia Personal Guarantee
BMN Subordinated bonds	euro	2026	175,000	9.00%	175,000	BB+	Bankia Personal Guarantee
Sum			**27,067,289**		**28,623,877**		
Own shares			(9,589,126)		(9,921,844)		
Valuation adjustments and other			881,932		1,082,777		
Balances at the end of the year (amortised cost)			**18,360,095**		**19,784,810**		

1. The ratings on the Bankia AT1 and Bankia AT1 Bonds are those assigned by S&P Global Ratings on 6 April2018.
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 6 February 2018.
The ratings for all of the covered bonds were assigned by DBRS on 21 September 2018.
The rest of the ratings were assigned by DBRS on 4 July 2018

Appendix VII – Movement in issues

Details of issues, repurchases and repayments of debt securities in 2018 and 2017 by the Bank or Group companies:

31/12/2018

(Millions of euros)

Issuer information	Data concerning issuances, repurchases and repayments in 2018											
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	AAA	ES0413307135	CED BANKIA 2018-1	01/06/18	01/06/26	AIAF	euro	100	100	EUR 6M+0.18%	Mortgage Portfolio-Mortgage Law
Spain	Issue	BB-	XS1880365975	BN BANKIA AT1	19/09/18	PERP	Dublín	euro	500	500	0.064	Bankia Personal Guarantee
Spain	Issue	AAA	ES0413307143	CED BANKIA 2018-2	09/10/18	09/10/26	AIAF	euro	400	400	EUR 6M+0.28%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	BBB (high)	ES0214950190	BN CM 16/06/23	16/06/18	16/06/23	AIAF	euro	172	-	0.058	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	ES0214977110	BN BANCAJA 22/05/18	22/05/06	22/05/18	AIAF	euro	50	-	0.015	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	XS0362375544	BN CM EMTN 2008-2 14/05/18	14/05/08	14/05/18	B.Londres	euro	25	-	EUR 3M+0.98%	Bankia Personal Guarantee
Spain	Repayment	AAA	ES0414950651	CH CM 25/05/18	25/05/06	25/05/18	AIAF	euro	2,060	-	0.043	Mortgage Portfolio-Mortgage Law
Spain	Repayment	BBB (high)	XS0147547177	Caymadrid Bond	06/05/02	01/04/32	B.Luxemburgo	euro	0.4	5	Irregular coupon until 2013. after zero	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307029	Bankia 2014-2 ICO facility Bonds	10/05/14	10/05/18	AIAF	euro	0.4	-	EUR 6M+3.50%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307045	Bankia 2014-4 ICO facility Bonds	10/06/14	10/06/18	AIAF	euro	0.4	-	EUR 6M+2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307052	Bankia 2014-5 ICO facility Bonds	10/06/14	10/06/18	AIAF	euro	0.3	-	EUR 6M+3.00%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307078	Bankia 2014-7 ICO facility Bonds	10/07/14	10/07/18	AIAF	euro	1.9	-	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307012	Bankia 2014-8 ICO facility Bonds	10/07/14	10/07/20	AIAF	euro	0.5	1.1	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307102	Bankia 2014-11 ICO facility Bonds	11/08/14	10/08/18	AIAF	euro	0.9	-	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307136	Bankia 2014-14 ICO facility Bonds	10/10/14	10/10/18	AIAF	euro	0.8	-	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307020	Bankia 2014-15 ICO facility Bonds	10/10/14	10/10/20	AIAF	euro	1.3	2.5	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307151	Bankia 2014-17 ICO facility Bonds	10/11/14	10/11/18	AIAF	euro	1.9	-	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307177	Bankia 2014-19 ICO facility Bonds	10/12/14	10/12/18	AIAF	euro	1.0	-	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307038	de Bankia 2014-20 ICO facility Bonds	10/12/14	10/12/20	AIAF	euro	0.5	1.1	EUR 6M+ 2.35%	Bankia Personal Guarantee
Miscellaneous	Repayment	-	Miscellaneous	Securitisation bonds	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	239	-	-	-

(1) The ratings on the Bankia AT1 Bonds are those assigned by S&P Global Ratings on 6 April 2018.
The ratings on the covered bonds (CH) were assigned by DBRS on 21 September 2018.
The rest of the ratings were assigned by DBRS on 4 July 2018.

31/12/2017

(Millions of euros)

Issuer information	Data concerning issuances, repurchases and repayments in 2017											
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	Repayment	BBB (high)	XS0289213497	Bond 9ª Bancaja Emisiones issues	08/03/07	08/03/17	AIAF	euro	20	0	97% x 10yCMS	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	XS0329522832	Bancaja Emisiones 11 Bond	14/11/17	14/11/17	AIAF	euro	300	0	EUR3M + 0.25% + DIF VARIABLE	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	ES0214977144	12ª facility 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 Issue	19/12/17	19/12/17	AIAF	euro	400	-	EUR 12M + 4,50%	Mortgage Portfolio-Mortgage Law
Spain	Issue	R-1 (low)	Miscellaneous	Promissory notes and ECPs	Miscellaneous	Miscellaneous	Miscellaneous	euro	-	-	Miscellaneous	Bankia Personal Guarantee
Spain	Repayment	R-1 (low)	Miscellaneous	Promissory notes and ECPs	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	-	-	Miscellaneous	Bankia Personal Guarantee
Miscellaneous	Repayment	-	Miscellaneous	Securitization bonds	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	850	-	-	-

(1)The ratings on the Bankia AT1 Bonds are those assigned by S&P Global Ratings on 30 June 2017.
The ratings on the 2017-1 Subordinated bond are those assigned by Fitch Ratings on 7 March 2017.
The ratings on the CH BMN 3ª Emisión covered bonds were assigned by Fitch Ratings on 18 October 2017.
The rest of the ratings were assigned by DBRS on 5 July 2017.

Appendix VIII – Information on the mortgage market

Mortgage-backed securities bonds, marketable and non-marketable, issued by the Group and outstanding at 31 December 2018 are recognised in the consolidated balance sheet under "Financial liabilities at amortised cost" (Note 19). The Group 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 Group by means of a system of authorities and delegated powers.

The Group's "Credit Risk Document Structure" was approved by the Board of Directors in May 2018. It comprises the Credit Risk Policies, Methods and Procedures Framework, the Credit Risk Policies, the Specific Criteria Manuals and the Operating Manuals.

- The **Credit Risk Policies, Methods and Procedures Framework**. The purpose is to govern the "Credit Risk Document Structure", specificially
    - Define, regulate and disseminate common standards of action that act as a benchmark for credit risk management in the Bankia Group
    - Determine the roles and responsibilities of the bodies, committees and directorates involved in the related procedures, indicating the functions attributed to them.
- The **Credit Risk Policies** contain a set of rules and main instructions governing the management of credit risk. They are effective and consistent with the general principles set out in the Policies Framework and in the Risk Appetite Framework and are applied across the entire Group. They are used internally to create and develop rules and regulations on risks when it comes to competencies related to risk strategy, implementation and control.
- Meanwhile, the **Specific Criteria Manuals** provide a detailed description of the criteria set out in the policies regulating the activities carried out by the Bank. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously put in place by minimising operational risk. The Specific Criteria Manuals combine with the Credit Risk Policies to provide transversal risk management across the Group.
- The **Operating Manuals** are methodological documents that develop and expand upon the criteria set out in the Specific Criteria Policies and Manuals. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously established. These manuals remain permanently in sync with the Credit Risk Policies and Criteria Manuals.

To ensure proper governance of the Credit Risk Policies Framework, the Board of Directors delegates authority to the Risks Committee to approve the Specific Criteria Manual for Credit Risk Policies, Methods and Procedures and authority to the Provisions Committee to approve the Specific Criteria Manual for Policies, Methods and Procedures for Classifying and Hedging Credit Risk.

The Risk Committee and the Provisions Committee exercise these powers by periodically reviewing and updating, over the course of the year, the Specific Criteria Manual for Credit Risk Policies, Methods and Procedures and the Specific Criteria Manual for Policies, Methods and Procedures for Classifying and Hedging Credit Risk. They adjust and tailor the specific criteria contained in both documents to the Bank's prevailing risk strategy and appetite and to regulatory requirements.

The criteria stipulated are binding upon the committee under whose remit the transaction falls, such that the committee in question shall be ultimately responsible for compliance with the transaction approval policies.

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 Group.

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 Group'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 of 9 July, 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 19 disclose the outstanding balances of non-marketable (one-off) mortgage-backed securities issued by the Bankia. In addition, Appendix VI 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 2018 and 2017 issued by the Bankia , regardless of whether or not they are recognised as consolidated 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 2018 and 2017.

(Thousands of euros)

MORTGAGE SECURITIES	Nominal value 31/12/2018	Average residual maturity period (months) 31/12/2018	Nominal value 31/12/2017	Average residual maturity period (months) 31/12/2017
Mortgage bonds issued (b)	-		-	
Of which: recognised on the liability side of the balance sheet	-		-	
Mortgage-backed securities issued (b)	**27,683,354**		**30,496,742**	
Of which: recognised on the liability side of the balance sheet	18,087,604		20,585,292	
Debt securities. Issued through a public offering (c)	**12,035,500**		**14,095,500**	
Residual maturity up to one year	2,000,000		2,060,000	
Residual maturity over one year but not more than two years	-		2,000,000	
Residual maturity over two years but not more than three years	1,000,000		-	
Residual maturity over three years but not more than five years	3,750,000		3,750,000	
Residual maturity over five years but not more than ten years	3,285,500		4,285,500	
Residual maturity over ten years	2,000,000		2,000,000	
Debt securities. Other issues	**9,400,000**		**8,900,000**	
Residual maturity up to one year	1,400,000		-	
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	-		-	
Residual maturity over three years but not more than five years	2,500,000		-	
Residual maturity over five years but not more than ten years	5,500,000		5,000,000	
Residual maturity over ten years	-		2,500,000	
Deposits (d)	**6,247,854**		**7,501,242**	
Residual maturity up to one year	1,012,829		1,138,387	
Residual maturity over one year but not more than two years	417,917		1,012,830	
Residual maturity over two years but not more than three years	1,025,000		417,917	
Residual maturity over three years but not more than five years	910,185		1,610,186	
Residual maturity over five years but not more than ten years	2,006,923		2,331,922	
Residual maturity over ten years	875,000		990,000	
Mortgage participation certificates issued (e)	**439,357**	**150**	**447,582**	**226**
Issued in a public offering	430,005	150	442,891	111
Other issues	9,352	136	4,691	115
Mortgage transfer certificates issued (e)	**9,707,889**	**228**	**11,156,104**	**380**
Issued in a public offering	33,578	129	371,061	132
Other issues	9,674,311	229	10,785,043	248

(a) Weighted average residual maturity by amounts, expressed in months rounded up
(b) Mortgage bonds and mortgage-backed securities includes instruments issued and outstanding irrespective of whether they are recognised under liabilities (since they have not been placed with third parties or repurchased).
(c) 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 19).
(d) 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 2018 and 2017 (see Note 19).
(e) Amount of mortgage participations and mortgage transfer certificates issued related exclusively to mortgage loans still recognised in assets (maintained on the balance sheet

The nominal value at 31 December 2018 and 2017 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 Principals (2) 31/12/2018	Undrawn Principals (2) 31/12/2017
Mortgage loans that back the issuance of mortgage-backed securities (1)	**801,290**	**463,187**
Of which:		
Potentially eligible (3)	75,085	251,209
Not eligible	726,205	211,978

(1) At 31 December 2018 and 2017, the Group 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 2018 and 2017 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 Group 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 consolidated balance sheet is also indicated for mortgage loans and credits transferred):

(Thousands of euros)

ITEMS	Nominal value 31/12/2018	Nominal value 31/12/2017
Total loans (a)	**81,620,240**	**86,829,591**
Mortgage certificates issued (b)	**500,996**	**598,318**
Of which: loans maintained on the assets of the balance sheet (c)	439,357	*447,582*
Mortgage transfer certificates issued	**9,843,602**	**11,347,071**
Of which: loans maintained on the assets of the balance sheet (c)	9,707,889	*11,156,104*
Mortgage loans pledged as security for financing received	-	**-**
Loans that back the issue of mortgage bonds and mortgage-backed securities (d)	**71,275,642**	**74,884,202**
Loans not eligible (e)	15,878,578	17,201,071
Loans that meet the requirements to be eligible except for the limit established in Article 5.1 of Royal Decree 716/2009	7,978,562	8,958,092
Other	7,900,016	8,242,979
Eligible loans (f)	55,397,064	57,683,131
Loans to cover mortgage bonds issues	-	-
Loans eligible to cover mortgage-backed securities issues	55,397,064	57,683,131
Ineligible amounts (g)	134,575	137,686
Eligible amounts	55,262,489	57,545,445

(a) Amount of principal drawn under mortgage loans in favour of the entity (including those acquired through mortgage participations or mortgage transfer certificates, even if such loans have been derecognised, regardless of the loan-to-value readings.

(b) Amount of principal drawn under loans that have been transferred through mortgage participations or mortgage transfer certificates, even if such loans have been derecognised.

(c) Amount of principal drawn under loans that have been transferred, but not derecognised.

(d) Total loans less the sum of mortgage participations issued, mortgage transfer certificates issued and mortgage loans pledged to secure financing received

(e) Loans secured by mortgage guarantee not transferred to third parties and not pledged to secure financing received that do not meet the eligibility requirements of article 3 of Royal Decree 716/2009 for mortgage bonds and mortgage-backed securities issues.

(f) Loans eligible for mortgage bonds and mortgage-backed securities issues according to article 3 of Royal Decree 716/2009, without deducting the computation limits established by article 12 therein.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.

(g) Amount of the loans, elegible according to the criteria established in article 3 of Royal Decree 716/2009, not computable to hedge the issuance of mprtgage bonds and mortgage backed securities.

The reconciliation of eligible loans to mortgage-backed securities issued, along with issuance capacity and percentage of overcollateralization, is as follows:

(Thousands of euros)

ITEMS	Nominal value 31/12/2018	Nominal value 31/12/2017
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	55,262,489	57,545,445
Issue limit = 80% of eligible mortgage loans and credits	44,209,991	46,036,356
Mortgage-backed securities issued	27,683,354	30,496,742
Mortgage-backed securities issuance capacity (1) (Note 3.2)	16,526,637	15,539,614
Memorandum item:		
Percentage of overcollateralization of the portfolio	257%	246%
Percentage of overcollateralization of the eligible portfolio	200%	189%

(1) At 31 December 2018, EUR 9,595,750 thousand of mortgage-backed securities remained on the balance sheet. Therefore, the issuance capacity would be EUR 26,122,387 thousand (EUR 9,911,450 thousand at 31 December 2017, with a EUR 25,451,064 thousand issuance capacity).

The table below shows the detail at 31 December 2018 and 2017 of the nominal value of the loans and credits that back mortgage-backed securities issued by the Group 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 Group 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)

	Loans that back mortgage bonds and covered bonds (a)		Of which: eligible loans (b)	
ITEM	31/12/2018	31/12/2017	31/12/2018	31/12/2017
TOTAL	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
ORIGIN OF OPERATIONS	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Originated by Entity	70,610,703	74,402,981	54,766,906	57,209,670
Subrogated to other entities	664,939	481,221	630,158	473,461
Other	-	-	-	-
CURRENCY	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Euro	71,131,611	74,722,365	55,320,114	57,683,131
Other currencies	144,031	161,837	76,950	-
PAYMENT SITUATION	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Normal payment situation	64,974,214	68,449,406	54,528,909	57,092,516
Other situations	6,301,428	6,434,796	868,155	590,615
AVERAGE RESIDUAL MATURITY	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Up to ten years	11,774,482	11,471,291	9,475,651	8,105,231
More than ten years and up to 20 years	27,931,806	27,554,158	24,171,928	23,850,714
More than 20 years and up to 30 years	20,685,575	21,284,509	17,167,260	18,004,785
More than 30 years	10,883,779	14,574,244	4,582,225	7,722,401
INTEREST RATES	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Fixed	4,548,921	3,555,730	3,835,250	2,502,093
Floating	60,459,333	64,411,079	46,799,826	50,026,518
Mixed	6,267,388	6,917,393	4,761,988	5,154,520
OWNERS	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Legal entities and natural person entrepreneurs	9,361,442	11,037,176	5,186,908	6,095,942
Of which: construction and property developments (land included)	*680,928*	*822,421*	*258,661*	*280,387*
Other	61,914,200	63,847,026	50,210,156	51,587,189
TYPE OF COLLATERAL	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Assets/completed buildings	69,752,202	73,569,774	54,891,326	57,306,077
Residential	63,005,419	64,227,196	50,762,529	51,999,393
Of which: government-subsidised housing	*2,364,210*	*2,344,421*	*1,952,266*	*1,986,143*
Commercial	2,786,781	4,900,714	1,850,632	3,179,507
Other buildings and constructions	3,960,002	4,441,864	2,278,165	2,127,177
Assets/buildings under construction	256,311	211,153	66,152	34,819
Residential	139,853	113,957	36,932	4,392
Of which: government-subsidised housing	*5,966*	*2,121*	*593*	*123*
Commercial	25,604	29,479	11,724	12,241
Other buildings and constructions	90,854	67,717	17,496	18,186
Land	1,267,129	1,103,275	439,586	342,235
Developed	446,864	410,832	66,135	127,945
Other	820,265	692,443	373,451	214,290

(a) Amount of principal drawn under mortgage loans in favour of the entity (including those acquired through mortgage participations or mortgage transfer certificates, even if such loans have been derecognised, regardless of the loan-to-value readings.

(b) Loans eligible for mortgage bonds and mortgage-backed securities issues according to article 3 of Royal Decree 716/2009, without deducting the computation limits established by article 12 therein.

The nominal value of eligible mortgage loans and credits at 31 December 2018 and 2017, 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 2018

(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 (a)					**55,397,064**
Housing	15,839,206	20,890,927	14,069,327	-	50,799,460
Other assets	2,742,579	1,855,025			4,597,604

(a) Loans eligible for mortgage bonds and mortgage-backed securities issues according to article 3 of Royal Decree 716/2009, without deducting the computation limits established by article 12 therein.

31 December 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 (a)					**57,683,131**
Housing	14,736,178	20,837,728	16,429,879	0	52,003,785
Other assets	3,012,057	2,667,289			5,679,346

(a) Loans eligible for mortgage bonds and mortgage-backed securities issues according to article 3 of Royal Decree 716/2009, without deducting the computation limits established by article 12 therein.

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 (a) 31/12/2018	Non eligible loans (b) 31/12/2018	Eligible loans 31/12/2017	Non eligible loans 31/12/2017
Opening balance	**57,683,131**	**17,201,071**	**46,775,730**	**14,297,406**
Disposals at the period	**(8,050,053)**	**(4,272,389)**	**(4,983,519)**	**(2,438,343)**
Principal due cashed	(61,157)	(57,529)	(129,053)	(418,089)
Prepayments	(678,478)	(549,151)	(1,250,337)	(836,309)
Subrogation by other entities	-	-	-	-
Others	(7,310,418)	(3,665,709)	(3,604,129)	(1,183,945)
Additions at the period	**5,763,986**	**2,949,896**	**3,444,271**	**1,811,290**
Originated by the entity	5,712,464	2,931,118	1,990,789	1,387,254
Subrogation of other entities	28,484	2,401	2,298	-
Others	23,038	16,377	1,451,184	424,036
Additions due to business combination	-	-	12,446,649	3,530,718
Closing balance	**55,397,064**	**15,878,578**	**57,683,131**	**17,201,071**

(a) Loans eligible for mortgage bonds and mortgage-backed securities issues according to article 3 of Royal Decree 716/2009, without deducting the computation limits established by article 12 therein.

(b) Loans secured by mortgage guarantee not transferred to third parties and not pledged to secure financing received that do not meet the eligibility requirements of article 3 of Royal Decree 716/2009 for mortgage bonds and mortgage-backed securities issues.

Finally, at 31 December 2018 and 2017 there were no replacement assets backing the Group's mortgaged-backed issues.

Appendix IX - 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 Group at 31 December 2018 and 2017 for the purposes of construction and property development and the respective credit risk coverage in place at that date (a):

31 December 2018

(Thousands of euros)

ITEM	Gross carrying amount (b)	Surplus of gross exposure over the maximum recoverable amount of effective collateral (c)	Accumulated impairment charges (d)
Loans recognised by credit institutions comprising the Group (transactions in Spain) (e)	748,964	243,138	(158,326)
Of which: Doubtful	300,970	164,632	(145,404)
Memorandum item:			
Assets written off (f)	333,794		

Memorandum item (Consolidated Group figures):

(Thousands of euros)

Item	Amount
Loans to customers, excluding the public sector (transactions in Spain) (carrying amount) (g)	112,322,538
Total consolidated assets (all transactions) (carrying amount)	205,222,870
Impairment and provisions for performing exposures (all transactions) (h)	(931,654)

(a) Classification of financing in the table according to the purpose of the loans and not the borrower's industry classification (CNAE). Accordingly, if the borrower is a real estate company, but uses the financing granted for a purpose other than the construction or development of real estate, it is not included in this table. And if the borrower is a company whose core business is not real estate construction or development, but the financing granted is used for properties for real estate development, it is included in this table.

(b) Amount prior to the deduction of any impairment losses.

(c) Amount calculated as provided for in rule 64.16.k) of Circular 4/2017.

(d) Amount of allowances made by the company for these transactions.

(e) Includes all types of financing in the form of loans, with and without mortgage collateral, debt securities for real estate construction and development related to the activity in Spain (businesses in Spain).

(f) Gross loans to fund real estate construction and development recognised by the Group (businesses in Spain) derecognised from asset due to classification as "written-off assets".

(g) Amount at which the asset is recognised in the balance sheet after deduction of any amount of provisions and allowances.

(h) Total amount of impairment provisions and allowances for credit risk for exposures classified as standard in accordance with Annex of Circular 4/2017, for total activity (all businesses).

31 December 2017

(Thousands of euros)

ITEM	Gross carrying amount (b)	Surplus of gross exposure over the maximum recoverable amount of effective collateral (c)	Accumulated impairment charges (d)
Loans recognised by credit institutions comprising the Group (transactions in Spain) (e)	1,042,727	327,379	(340,255)
Of which: Doubtful	619,782	258,778	(321,909)
Memorandum item:			
Assets written off (f)	544,936		

Memorandum item (Consolidated Group figures):

(Thousands of euros)

Item	Amount
Loans to customers, excluding the public sector (transactions in Spain) (carrying amount) (g)	116,378,579
Total consolidated assets (all transactions) (carrying amount)	213,931,937
Impairment and provisions for performing exposures (all transactions) (h)	(796,297)

(a) Classification of financing in the table according to the purpose of the loans and not the borrower's industry classification (CNAE). Accordingly, if the borrower is a real estate company, but uses the financing granted for a purpose other than the construction or development of real estate, it is not included in this table. And if the borrower is a company whose core business is not real estate construction or development, but the financing granted is used for properties for real estate development, it is included in this table.

(b) Amount prior to the deduction of any impairment losses.

(c) Amount calculated as provided for in rule 64.16.k) of Circular 4/2017.

(d) Amount of allowances made by the company for these transactions.

(e) Includes all types of financing in the form of loans, with and without mortgage collateral, debt securities for real estate construction and development related to the activity in Spain (businesses in Spain).

(f) Gross loans to fund real estate construction and development recognised by the Group (businesses in Spain) derecognised from asset due to classification as "written-off assets".

(g) Amount at which the asset is recognised in the balance sheet after deduction of any amount of provisions and allowances.

(h) Total amount of impairment provisions and allowances for credit risk for exposures classified as standard in accordance with Annex of Circular 4/2017, for total activity (all businesses).

The table below breaks down construction and property development financing granted by Group credit entities at 31 December 2018 and 2017:

(Thousands of euros)

	Finance intended for construction and property development (gross) (a)	
ITEM	31/12/2018	31/12/2017
1. Not mortgage-secured	59,106	100,079
2. Mortgage-secured (b)	689,858	942,648
2.1. Finished buildings (c)	441,861	706,151
2.1.1. Housing	231,948	411,189
2.1.2. Other	209,913	294,962
2.2. Buildings under construction (c)	101,285	39,993
2.2.1. Housing	71,607	29,754
2.2.2. Other	29,678	10,239
2.3. Land	146,712	196,504
2.3.1. Urban land	107,045	111,742
2.3.2. Other land	39,667	84,762
Total	**748,964**	**1,042,727**

(a) Amount prior to the deduction of accumulated impairment losses, if any.

(b) Includes all transaction secured by mortgages, regardless of the legal form of the guarantee or loan-to-value readings.(c) If a building serves more than one purpose (e.g. residential) and other uses, the related financing is included in the category representing the main use given to it.

2. Loans to households for home purchases. Transactions recognised by credit institutions (transactions in Spain)

The table below presents the detail at 31 December 2018 and 2017 of financing granted by the credit institutions comprising the Group for the purpose of home purchase (business in Spain) (a):

(Thousands of euros)

	Gross carrying amount (b)	Of which: Doubtful	Gross carrying amount (b)	Of which: Doubtful
ITEM	31/12/2018		31/12/2017	
Loans for home purchases	z66,472,123	3,517,740	68,943,183	3,980,561
Non-mortgage-secured	556,937	7,293	619,923	23,739
Mortgage-secured (c)	65,915,186	3,510,447	68,323,260	3,956,822

(a) Loans with or without mortgage collateral to finance home acquisitions for businesses in Spain.
(b) Amounts prior to the deduction of accumulated impairment losses, if any.
(c) Includes all transaction secured by mortgages, regardless of the loan-to-value readings.

The table below presents the detail of mortgage-secured loans to households for home purchases mortgage-secured at 31 December 2018 and 2017, 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 2018

(Thousands of euros)

	LTV ranges (a)					
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 (B)	15,392,491	22,604,292	19,158,863	4,170,774	4,588,766	65,915,186
Of which: doubtful (B)	144,244	212,812	370,268	478,372	2,304,751	3,510,447

(a) The loan-to-value ratio is obtained by dividing the gross carrying amount of the exposure at the reporting date by the amount of the latest available appraisal.
(b) Amount prior to the deduction of accumulated impairment losses, if any.

31 December 2017

(Thousands of euros)

	LTV ranges (a)					
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 (b)	14,356,158	21,357,353	20,087,604	6,316,183	6,205,962	68,323,260
Of which: doubtful (b)	127,768	220,178	455,416	720,586	2,432,874	3,956,822

(a) The loan-to-value ratio is obtained by dividing the gross carrying amount of the exposure at the reporting date by the amount of the latest available appraisal.
(b) Amount prior to the deduction of accumulated impairment losses, if any.

3. Information concerning foreclosed property assets or received in payment of debts (transactions in Spain)

In order to dispose of its assets foreclosed or received in payment of debts ("foreclosed assets") with the smallest impact possible on the income statement, the Group engaged Haya Real Estate to manage, administer and sell its foreclosed assets under the supervision of the Corporate Investees Division, including the BMN´s portfolio.

In this respect, on 27 April 2018, the Group filed a material disclosure (hecho relevante) announcing the signing of non-performing debt and real estate assets servicing and management agreements. On 26 April 2018, an agreement was reached to cancel the agreements BMN had with other entities, and on 27 April 2018, a novation of the foreclosed assets management purchase agreement contract and the management service and real estate asset management contract signed on 3 September 2013 with Haya Real Estate, S.L. was subscribed. These arrangements are part of the process for restructuring the non-performing asset management business following the merger with BMN in a bid to become more efficient and speed up the reduction of NPLs in the Group's balance sheet.

In 2018, the Group devised an internal methodology for estimating discounts on the reference value and costs to sell of foreclosed real estate assets classified as non-current assets held for sale (see Note 2.20). In addition, more projects were successfully completed, while various new projects were designed to enhance the real estate portfolio by acquiring further knowledge of the assets and improving the information available, boosting sales in a bid to continue reducing the stock of foreclosed assets.

Among key milestones, in the first quarter of the year the Group completed the integration of all the information on the assets acquired from BMN into Bankia's systems, providing it with a comprehensive view of the activity and unified management of administrative and sales activities. Moreover, an agreement was reached with a third party to administer, develop and have available a portfolio of foreclosed assets and transfer a portfolio of non-performing mortgage loans (see Note 18.5.1).

As for recurring management and control of the assets, to maintain them in the best possible conditions for sale and ensure efficient control over the expenditure incurred in the process, technical monitoring is performed along with control and management of turnover and maintenance costs arising from their remaining on the balance sheet. Consideration is also given to maintaining lease contracts on assets in the portfolio and management of occupancy situations concerning the assets.

Moreover, the activities arising from the marketing process are carried out: customer care, review of the assets published and management of offers through various sales channels: branch network, brokers, web, events and trade fairs, etc. The Group's general policies for managing its foreclosed assets are summarised as follows:

- The volume of foreclosed assets, irrespective of how they are managed (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 objective of disposing of the greatest amount of foreclosed 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, to obtain returns and address 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.
- 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 Group through (transactions in Spain) at 31 December 2018 and 2017, classified by type (a):

(Thousands of euros)

ITEMS	Gross carrying amount (b) 31/12/2018	Impairment allowance 31/12/2018	Gross carrying amount (b) 31/12/2017	Impairment allowance 31/12/2017
1. Property assets from financing intended for construction and property development (c)	718,651	(310,534)	828,044	(333,760)
1.1. Finished buildings	318,642	(106,112)	360,606	(97,473)
1.1.1. Housing	247,859	(85,440)	300,530	(82,112)
1.1.2. Other	70,783	(20,672)	60,076	(15,361)
1.2. Buildings under construction	53,000	(24,360)	69,553	(35,571)
1.2.1. Housing	50,359	(23,631)	67,968	(35,430)
1.2.2. Other	2,641	(729)	1,585	(141)
1.3. Land	347,009	(180,062)	397,885	(200,716)
1.3.1. Urban land	125,920	(59,563)	179,932	(82,096)
1.3.2. Other land	221,089	(120,499)	217,953	(118,620)
2. Property assets from mortgage-secured financing granted to households for home purchases	2,586,365	(986,956)	3,188,402	(1,229,970)
3. Other property assets received in settlement of debt (d)	1,025,520	(232,657)	1,098,757	(271,928)
4. Equity instruments, investments and financing to companies holding such assets	-	-	15,053	(11,088)
5. Equity investments to entities holding the foreclosed property assets or assets received in payment of debts (e)	-	-	-	-
6. Financing to entities holding the foreclosed property assets or assets receive in payment of debts (e)		-	-	-

(a) Includes foreclosed assets or assets received in payment of debts from financing granted in relation to 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 assets arising in connection with loans for construction and property development, regardless of 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 Group on the basis of ultimate purpose, mainly under "Non-current assets held for sale" and "Property, plant and equipment – Investment property" and, to a lesser extent, under "Other assets - Inventory" in the accompanying consolidated balance sheet consolidated 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 2018 and 2017, 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)

ITEM	31/12/2018	31/12/2017
Collaterals	832,321	720,618
Other collateral	-	-
Total	**832,321**	**720,618**

The detail of the guarantees extended at 31 December 2018 and 2017 related to construction and property development loans; i.e. the amount the Group would have to pay if the guarantee or collateral was called, which could exceed the amount recognised under liabilities in the consolidated balance sheet, is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Financial guarantees extended	6,921	42,539
Recognised in the liability of the consolidated balance sheet	32	3,059

Appendix X – Refinancing and restructuring operations and other requirements of Bank of Spain Circular 4/2017

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 4/2017, 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.

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:

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

(1) Forgiveness above % of the allowances and provisions established in article 140 of Annex IX of Bank of Spain Circular 4/2017.
(2) It will be classified as doubtful if the refinance operation was doubtful at the moment of the refinancing or if the financed transaction was classified as doubtful on initial classification. Otherwise, the classification is based on the result of the general analysis applicable to all refinancing transactions.

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

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

- 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.
    - Other singular dates.
  - The borrower is not in litigation or bankruptcy.
  - The borrower is current on its payments.
  - The customer has no other transactions classified as 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.
    - Other particular dates.
  - The borrower is current on its payments.
  - The customer has no other transactions under special monitoring or classified as doubtful or writen-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 purposes.

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 2018 and 2017:

At 31 December 2018

(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	28	32,902	2,313	63,501	62,360	-	(23,326)	19	4,752	2,308	54,214	53,406	-	(23,326)
Other financial institutions and natural person	44	30,453	15	2,142	2,130	12	(13,767)	27	13,439	9	798	786	12	(13,465)
Non-financial institutions and natural person entrepreneurs (financial business)	7,890	2,504,869	6,876	1,935,955	1,589,344	110,473	(1,533,144)	5,748	1,469,407	3,742	1,123,882	880,217	84,035	(1,418,701)
Of which: Construction and property developement	1,620	57,778	1,422	266,233	203,822	263	(114,493)	1,560	47,831	533	156,382	101,919	54	(108,449)
Other households	17,605	231,210	32,462	4,058,799	3,321,633	186	(562,113)	9,594	129,696	15,877	1,930,615	1,548,984	102	(472,457)
Total	**25,567**	**2,799,434**	**41,666**	**6,060,397**	**4,975,467**	**110,671**	**(2,132,320)**	**15,388**	**1,617,294**	**21,936**	**3,109,509**	**2,483,393**	**84,149**	**1,927,949**
Corrections of the collective impariment							874,997							
Corrections of the specific impairment							(1,257,323)							
ADITIONAL INFORMATION														
Financing classified as non-current assets and disposal groups that are classified as held for sale	11	135	5,818	811,753	570,892	7	(375,767)	11	135	5,813	811,034	570,352	7	(375,713)

At 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Movements at the year end of 2018 and 2017 were as follows:

(Thousands of euros)

Items	31/12/2018	31/12/2017
Opening balance	**9,241,383**	**6,956,722**
(+) Refinancing and restructuring	402,715	1,261,322
(-) Depreciations, ttransfers,and other changes (1)	(2,772,672)	1,299,692
(-) Foreclosure	(95,874)	(145,369)
(-) Disposals (reclassified as written off)	(48,041)	(60,984)
Closing balance (*)	**6,727,511**	**9,241,383**

(*) The acumulated impairment at the year end 2018 was EUR 1,205,229 thousand (EUR 260,293 thousand at the year end 2017).

(1) In 2018 transfers to Disposal Groups.- Loans and real estate assets portfolio are included. In 2017 additions due to business combinatios are included (See Note 1.15)

Other requirements of Bank of Spain Circular 4/2017

The table below shows information concerning sector and geographical concentration risk Total activity (a):

At 31 December 2018

(Thousands of euros)

ITEM	TOTAL	Spain	Other European Union country	America	Rest of the world
Central banks and credit institutions	13,350,707	6,247,450	6,748,969	153,616	200,672
Government agencies	35,011,494	28,520,466	6,377,666	883	112,479
Central Administration	29,601,929	23,143,933	6,377,666	883	79,447
Other	5,409,565	5,376,533	-	-	33,032
Other government agencies and individual companies (financial business activities)	24,918,593	23,316,453	1,565,352	24,239	12,549
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	43,149,769	40,305,361	2,049,170	572,321	222,917
Constructions and property developments (land included) (b)	1,816,778	1,812,591	2,395	1,789	3
Civil engineering construction	1,560,874	1,379,558	109,639	37,832	33,845
Other	39,772,117	37,113,212	1,937,136	532,700	189,069
Large enterprises (c)	21,603,038	19,478,140	1,551,476	432,025	141,397
SMEs and sole proprietors (c)	18,202,621	17,635,072	385,660	100,675	47,672
Other households (d) (by the purposes) (e)	77,019,379	75,644,473	1,004,200	97,452	307,011
Housing	67,213,599	65,847,503	974,288	93,310	298,498
Consumer	4,821,710	4,805,839	13,019	1,300	1,552
Other	5,017,827	4,991,131	16,893	2,842	6,961
TOTAL	**193,483,699**	**174,034,203**	**17,745,357**	**848,511**	**855,628**

(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, excluding "Non-current assets and disposal groups classified as held for sale".
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 69.ª2.e) of Circular 4/2017.

At 31 December 2017

(Thousands of euros)

ITEM	TOTAL	Spain	Other European Union country	America	Rest of the world
Central banks and credit institutions	14,602,846	8,627,695	5,807,936	107,609	59,606
Government agencies	37,674,563	32,016,263	5,543,774	6,836	107,690
Central Administration	31,857,665	26,223,184	5,543,774	6,836	83,871
Other	5,816,898	5,793,079	-	-	23,819
Other government agencies and individual companies (financial business activities)	27,461,866	25,620,492	1,806,845	22,101	12,428
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	44,227,616	40,486,361	2,857,316	739,982	143,957
Constructions and property developments (land included) (b)	1,911,707	1,903,767	4,056	233	3,651
Civil engineering construction	1,530,957	1,251,255	162,531	83,695	33,476
Other	40,784,952	37,331,339	2,690,729	656,054	106,830
Large enterprises (c)	21,127,613	18,327,249	2,274,124	480,218	46,022
SMEs and sole proprietors (c)	19,657,339	19,004,090	416,605	175,836	60,808
Other households (d) (by the purposes) (e)	80,154,845	78,663,277	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	5,807,285	5,774,623	22,272	2,095	8,295
TOTAL	**204,121,736**	**185,414,088**	**17,094,400**	**962,701**	**650,547**

(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 69.ª2.e) of Circular 4/2017.

(Thousands of euros)	31/12/2018										
ITEM		Autonomous communities									
	TOTAL (*)	Andalucía	Canarias	Castilla y León	Cataluña	Madrid	Comunidad Valenciana	La Rioja	Murcia	Baleares	Others
Central banks and credit institutions	6,247,450	353,370	252	155	21,794	1,678,001	3,313,395	26	255	26	880,176
Government agencies	28,520,466	278,926	34,055	582,708	408,566	1,875,269	598,830	121,410	71,009	319,017	1,086,743
Central Administration	23,143,933	-	-	-	-	-	-	-	-	-	-
Other	5,376,533	278,926	34,055	582,708	408,566	1,875,269	598,830	121,410	71,009	319,017	1,086,743
Other government agencies and individual companies (financial business activities)	23,316,453	19,332	1,470	2,963	42,888	22,909,207	269,660	354	3,389	3,659	63,531
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	40,305,361	3,027,830	1,266,567	1,197,113	4,927,212	15,350,170	4,675,082	360,609	1,680,389	1,400,550	6,419,839
Constructions and property developments (land included) (b)	1,812,591	203,840	51,086	49,208	186,866	731,972	260,547	14,025	69,931	70,273	174,843
Civil engineering construction	1,379,558	75,968	11,460	5,319	253,154	650,691	49,223	1,612	10,938	9,547	311,646
Other	37,113,212	2,748,022	1,204,021	1,142,586	4,487,192	13,967,507	4,365,312	344,972	1,599,520	1,320,730	5,933,350
Large enterprises	19,478,140	824,534	523,679	295,043	2,194,557	10,025,470	1,182,873	85,000	544,313	450,334	3,352,337
SMEs and sole proprietors	17,635,072	1,923,488	680,342	847,543	2,292,635	3,949,037	3,182,439	259,972	1,055,207	870,396	2,581,013
Other households (by the purposes)	75,644,473	9,597,162	3,136,708	2,322,783	8,578,886	23,705,124	11,857,231	659,977	4,539,063	4,191,203	7,056,336
Housing	65,847,503	8,509,121	2,577,578	2,041,440	7,846,113	20,231,537	10,183,210	557,033	3,966,936	3,552,957	6,381,578
Consumer	4,805,839	415,819	412,538	181,769	257,324	1,632,624	947,767	49,340	233,482	227,914	447,262
Other	4,991,131	672,222	146,592	99,574	475,449	1,840,963	726,254	53,604	338,645	410,332	227,496
TOTAL	**174,034,203**	**13,276,620**	**4,439,052**	**4,105,722**	**13,979,346**	**65,517,771**	**20,714,198**	**1,142,376**	**6,294,105**	**5,914,455**	**15,506,625**

(*) Included the items of the consolidated 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.

(Thousands of euros)	31/12/2017										
ITEM		Autonomous communities									
	TOTAL (*)	Andalucía	Canarias	Castilla y León	Cataluña	Madrid	Comunidad Valenciana	La Rioja	Murcia	Baleares	Others
Central banks and credit institutions	8,627,695	365,349	48	329	12,180	4,073,037	2,859,146	9	151,722	15	1,165,860
Government agencies	32,016,263	361,097	56,633	622,470	459,837	1,924,543	681,340	102,202	97,164	372,241	1,115,552
Central Administration	26,223,184	-	-	-	-	-	-	-	-	-	-
Other	5,793,079	361,097	56,633	622,470	459,837	1,924,543	681,340	102,202	97,164	372,241	1,115,552
Other government agencies and individual companies (financial business activities)	25,620,492	34,165	1,392	3,252	333,279	24,557,540	264,107	538	52,255	23,126	350,838
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	40,486,361	3,303,968	1,463,119	1,178,531	4,936,941	14,873,094	4,749,802	339,169	2,195,068	2,039,097	5,407,572
Constructions and property developments (land included) (b)	1,903,767	191,230	54,157	41,373	199,874	713,484	286,757	12,155	157,834	90,387	156,516
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	37,331,339	3,062,706	1,397,115	1,132,471	4,502,191	13,568,789	4,421,794	326,109	2,018,787	1,916,871	4,984,506
Large enterprises	18,327,249	804,448	491,758	306,602	2,233,211	9,514,943	1,015,786	81,725	692,106	579,753	2,606,917
SMEs and sole proprietors	19,004,090	2,258,258	905,357	825,869	2,268,980	4,053,846	3,406,008	244,384	1,326,681	1,337,118	2,377,589
Other households (by the purposes)	78,663,277	10,124,627	3,233,761	2,406,570	9,107,628	24,321,173	12,503,547	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	5,774,623	932,587	148,402	90,701	616,579	1,736,576	903,035	54,384	717,491	369,223	205,645
TOTAL	**185,414,088**	**14,189,206**	**4,754,953**	**4,211,152**	**14,849,865**	**69,749,387**	**21,057,942**	**1,137,795**	**7,282,164**	**6,589,034**	**15,369,406**

(*) Included the items of the consolidated 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 2018 and 2017.

At 31 December 2018

(Thousands of euros)

ITEM	TOTAL	Of which: Mortgage loans (b)	Of which: Other secured loans (b)	Secured loans. Carrying amount over last available appraisal value (Loan to value) (c)				
				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	5,107,841	213,992	243,759	114,234	173,892	78,892	82,987	7,746
Other government agencies and individual companies (financial business activities)	1,671,783	93,370	35,657	24,952	26,036	6,369	282	71,388
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	33,796,128	8,172,976	5,286,954	4,610,998	2,645,889	1,485,132	596,029	4,121,882
Constructions and property developments (land included)	611,967	443,430	109,756	197,780	135,215	133,585	33,418	53,188
Civil engineering construction	700,510	48,362	605,421	254,549	180,987	116,603	19,366	82,278
Other	32,483,651	7,681,184	4,571,777	4,158,669	2,329,687	1,234,944	543,245	3,986,416
Large enterprises (d)	15,924,653	1,310,648	3,908,444	1,255,651	348,085	163,539	199,450	3,252,367
SMEs and sole proprietors (d)	16,558,998	6,370,536	663,333	2,903,018	1,981,602	1,071,405	343,795	734,049
Other households (e) (by the purposes) (f)	76,854,627	69,499,567	73,841	17,700,167	24,026,793	18,676,710	4,274,254	4,895,484
Housing	67,213,599	66,728,276	5,602	16,680,795	23,217,517	18,262,727	4,120,171	4,452,668
Consumer	4,821,710	131,491	9,648	48,879	34,094	16,640	8,624	32,902
Other	4,819,318	2,639,800	58,591	970,493	775,182	397,343	145,459	409,914
TOTAL	**117,430,379**	**77,979,905**	**5,640,211**	**22,450,351**	**26,872,610**	**20,247,103**	**4,953,552**	**9,096,500**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	**6,727,511**	**5,240,480**	**457,212**	**1,175,206**	**1,286,278**	**1,413,581**	**608,049**	**1,214,578**

(a) The definition of customer loans is that used to prepare the balance sheet. Includes all transactions of this nature, regardless of the heading under which they are present for balance sheet purposes, excluding in "Non-current assets and disposal groups classified as held for sale". The amount shown for the various figures is the carrying amount of the exposures; i.e. after deducting impairment recognised on the exposures.
(b) Includes the carrying amount of all transactions secured by properties or other collateral, regardless of their loan-to-value or legal form (e.g. mortgage, finance lease, reverse repurchase agreement).
(c) The loan-to-value ratio is obtained by dividing the carrying amount of each exposure at the reporting date by the value of the underlying collateral as of the latest appraisal or valuation available.
(d) Non-financial corporations classified as "Large enterprises" and "SMEs" in accordance with Commission Recommendation 2003/361/EC, 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.
(e) Households, including non-profit institutions serving households, but excluding business activity of individual entrepreneurs.
(f) The loans will be classified in accordance with their purpose under the criteria of rule 69.2.e).

At 31 December 2017

(Thousands of euros)

ITEM	TOTAL	Of which: Mortgage loans (b)	Of which: Other secured loans (b)	Secured loans. Carrying amount over last available appraisal value (Loan to value) (c)				
				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	5,506,816	302,161	145,583	97,302	119,274	141,769	53,736	35,663
Other government agencies and individual companies (financial business activities)	2,066,422	89,966	179,655	16,836	33,352	19,357	407	199,669
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	34,360,803	9,775,286	5,602,367	4,856,999	3,165,724	1,954,710	809,205	4,591,015
Constructions and property developments (land included)	830,907	697,716	1,793	190,970	145,284	206,621	54,906	101,728
Civil engineering construction	859,848	75,690	699,013	304,492	219,383	133,560	26,004	91,264
Other	32,670,048	9,001,880	4,901,561	4,361,537	2,801,057	1,614,529	728,295	4,398,023
Large enterprises (d)	14,626,438	1,501,166	4,241,722	1,414,021	431,009	242,190	171,984	3,483,684
SMEs and sole proprietors (d)	18,043,610	7,500,714	659,839	2,947,516	2,370,048	1,372,339	556,311	914,339
Other households (e) (by the purposes) (f)	79,951,354	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	5,603,794	3,524,249	55,884	1,083,477	941,967	694,528	315,950	544,211
TOTAL	**121,885,395**	**83,574,173**	**6,005,239**	**21,396,164**	**26,228,215**	**23,570,207**	**7,305,697**	**11,079,129**
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

(a) The definition of customer loans is that used to prepare the balance sheet. Includes all transactions of this nature, regardless of the heading under which they are present for balance sheet purposes, excluding in “Non-current assets and disposal groups classified as held for sale”. The amount shown for the various figures is the carrying amount of the exposures; i.e. after deducting impairment recognised on the exposures.
(b) Includes the carrying amount of all transactions secured by properties or other collateral, regardless of their loan-to-value or legal form (e.g. mortgage, finance lease, reverse repurchase agreement).
(c) The loan-to-value ratio is obtained by dividing the carrying amount of each exposure at the reporting date by the value of the underlying collateral as of the latest appraisal or valuation available.
(d) Non-financial corporations classified as “Large enterprises” and “SMEs” in accordance with Commission Recommendation 2003/361/EC, 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.
(e) Households, including non-profit institutions serving households, but excluding business activity of individual entrepreneurs.
(f) The loans will be classified in accordance with their purpose under the criteria of rule 69.2.e).

Appendix XI - Detail of agents and disclosures required by Article 21 of Royal Decree 84/2015 of 13 February

Information at 31 December 2018

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)
EL IDEALISTA CREDITO Y FINANCIACION SL	CALLE MARQUES DE CUBAS 25 28014 Madrid (MADRID)
JCG ALLFINANZ MALLORCA SLU	C. TAMONER, 1, 2 7002 Palma (Balears Island)
KARL JOHN QUANE	PLAZA DE LA IGLESIA 3, PISO 2 C, SAN PEDRO 29670 SAN PEDRO ALCANTARA (MALAGA)
NICOLA KATE BUCHANAN	C7 DE SANT FELIU, 4 1º 7012 PALMA (Balears Island)
CLAYTON STEPHEN HOPLEY	CENTRO COMERCIAL L'AUBA, LOCAL 9, CTRA ILL 7181 Calvià (Balears Island)
SEIFERT INVEST SLU	C\ CAMAMIL.LA N 3 ESC. A 2 A 7011 PALMA (Balears Island)
CHRISTINE HEISE	C\ ALFABAGUERA 1 7560 CALA MILLOR (Balears Island)
DANIEL DA CONCEIAO PIRES	C/FONT I MONTEROS, N.6 2 7003 Palma (Balears Island)
FIRST CAPITAL SOLUTIONS SL	AVENIDA RICARDO SORIANO 65 29600 Marbella (MALAGA)
PLATINUM SPAIN SL	C/ PAIS VASCO 1-2 29610 Ojén (MALAGA)
OLENA KOLODYAZHNA	AVDA CONDE SALLENT, 29 PB 7003 PALMA DE MALLORCA (Balears Island)
BETTINA ELISABETH LORENZ	C/ ARPELLA 32 7817 SANT JORDI DE SES SALINES (Balears Island)

RAVENA RHYS-JONES	URB. AZALEA BEACH, CONJ. EL RÍO, CASA 77 29660 MALAGA (MALAGA)
THE RESORTS OF THE WORLD COMPANY SL	C\ ALARCE 26 30700 TORRE PACHECO (MURCIA)
IFACALP, S.L.	C/ ALICANTE, 35 3710 CALPE (ALICANTE)
INVESTMENT EDEN PROPERTIES, S.L.	C/ RAMON GALLUD, 1 3181 Torrevieja (ALICANTE)
ADAM DEAN HATTON	C/ OLIVA 931 3189 ORIHUELA COSTA (ALICANTE)
SOCIETY LAW AND TITLES (DARAN COOPER)	CENTRO COMERCIAL LOS DOLSES, 2º NIVEL, LOC 3189 ORIHUELA COSTA (ALICANTE)
FLUENT FINANCE ABROAD S.L.	C/ MARQUES DEL DUERO N76, 3C 29670 SAN PEDRO DE ALCÁNTARA (MALAGA)
LINDA FRANCINE VAN GINDERACHTER DE RIJCK	MOJIGATO 4620 (ALMERIA)
LS SOLICITORS & MANAGEMENT SOLUTIONS SL	JAIME I N-7, 2 30008 MURCIA (MURCIA)
SPAIN AND UK PB SL	PABLO NERUDA 5 30620 Fortuna (MURCIA)
EASYADS SL	C/ MAESTRO TORRALBA, 4 30007 MURCIA (MURCIA)
ILLESLEX, S.L.	C/ OLMOS 50, ESCALERA A, 1 7003 PALMA DE MALLORCA (Balears Island)
GOLF PROPERTY STORE S.L.	CALLE RASPALLON NUM. 3 30709 ROLDAN (MURCIA)
SKANDIAMAKLARNA S.L.	RAMON GALLUD 39, 2 3181 TORREVIEJA (ALICANTE)
NEIL DAVID COCKINGS	AMATISTA 30 30155 Torre Pacheco (MURCIA)
VILLA NORDIKA S.L.	CALLE BENIDORM NUM. 2 3710 Alicante/Alacant (ALICANTE)
PALM SPRINGS REAL STATE, S.L.	HELGA SOHNEL -STA CRI S/N BAJO 18690 (GRANADA)
CHRISTOPHE WILLY J CREVE	C/ACEBO Nº 2 29631 MALAGA (MALAGA)
FASTIGHETSBYRAN TORREVIEJA SL	TRITON CC TORREMARINA LOCAL 8 A2 BAJO 3183 TORREVIEJA (ALICANTE)
SAMAREALTY, S.L.	PLAZA HOSTALS 21-C 7320 SANTA MARIA DEL CAMI (Balears Island)
TIMOTHY FRENCH	Mar Rojo 3189 Torrevieja (Alicante)
COMPASS INDEPENDENT EUROPA SL	AVDA RICARDO SORIANO N 12 4 A 29600 MALAGA (MALAGA)
HOME FINANCE SPAIN S.L.	C/MAESTRO TORRALBA N 21 3189 Alicante/Alacant (ALICANTE)
SPANISH BEST HOMES 2010 SL	AVD REYES CATOLICOS 39 30820 Mazarrón (MURCIA)
ASPELX LACID SL	AVD ORIHUELA 1 3680 Orihuela (ALICANTE)
MARTORELL Y CANTACORPS SL	AV. CATALUNYA, 64 - 08290 (CERDANYOLA DEL VALLES-BARCELONA)
PROFEMA 2010	C/MALLORCA, 295 - 08037 (BARCELONA)
GRUPO VALIA	C/VELAZQUEZ, 86 - 28006 MADRUD
ESPACIO ASESOR	C/CIUTAT DE QUERETARO, 4 - 07007 (PALMA DE MALLORCA- Balears Island)

JM 2004 EMPRESISTES SL	C/FRANCESC MACIA TORRE MILE, 60 - 08208 (SABADELL-BARCELONA)
GESTORIA CRESPO GONZAGA	AV. M 40, 17 - 28925 ALCORCON (MADRID)
INNOSUNS COACHING & CAPITAL S.L.	C/FELIPE IV. 3 - 28014 MADRID
HI REAL ESTATE S.L.	PZA. EUROPA, 3 - 19002 GUADALAJARA
ASOCIACION GREMIAL DE AUTOTAXI DE MADRID	C/ SANTA ENGRACIA, 84 - 28010 MADRID
ASAJA CIUDAD REAL	AV. REY SANTO, 8 - 13001 CIUDAD REAL
IDF ALL FINANCING SL	C/ JESUS APRENDIZ, 23 - 28007 MARID
CETAFARMA	AV. MARQUES DE SOTELO 5 P 20, 5 - 46002 VALENCIA
MORTGAGE DIRECT SL	C/ CARRER DELS CAVALLERS, 37 - 46001 VALENCIA

Appendix XII – Annual banking report

On 27 June 2014, Law 10/2014 of 26 June 2014 on regulation, supervision and solvency of credit institutions was published in the Spanish Official State Gazette (Boletín Oficial del Estado), thereby transposing into Spanish law article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC (CRD-IV) and repealing Directives 2006/48/EC and 2006/49/EC.

In compliance with article 87 and the Twelfth Transitional Provision of Law 10/2014, as from 1 July 2014 credit institutions will be obliged to disclose for the first time, specifying the countries where they have an establishment, the following information on a consolidated basis for the last financial year closed:

a) Name, nature of activities and geographical location.

b) Turnover and number of full-time employees.

c) Gross profit before tax and income tax

d) Government grants and assistance received

Pursuant to the above, the aforesaid required information is set out below:

a) Name, nature of activities and geographical location.

Bankia, S.A. is a private-law entity subject to the legislation and regulations for banks operating in Spain. Its registered office is at calle Pintor Sorolla, 8, Valencia. The company bylaws may be consulted, together with other relevant legal information, at its registered office and on its website (www.bankia.es).

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 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions.

The company is registered in the Commercial Register of Valencia in volume 9,341, book 6,623, sheet 104, page V-17274, 183rd entry and in the Registry of Banks and Bankers of the Bank of Spain under number 2038.

It holds taxpayer identification number A-14010342.

In addition to the operations it carries out directly, Bankia is a subsidiary of the Grupo BFA Tenedora de Acciones and, in turn, the parent of a business group. At 31 December 2018, the scope of consolidation of the Bankia Group encompassed 63 companies, including subsidiaries, associates and joint ventures. These companies engage in a range of activities, including, among others, insurance, asset management, financing, services and property management.

The consolidated Group fundamentally carries on its activity in Spain. Appendices II, III and IV detail the companies operating in each jurisdiction, along with their name, geographic location and the nature of their business.

b) Turnover and number of full-time employees.

This includes information on turnover and the number of full-time employees at the end of 2018 and 2017, on a consolidated basis. The turnover has been taken to be the gross income as reported in consolidated income statement of the Group for the years ended 31 December 2018 and 2017:

(Thousands of euros)

	Turnover		Number of employees (full-time)	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Spain	3,367,595	3,060,998	15,909	17,742
Portugal	-	(81)	-	-
Rest of countries	167	3,513	15	15
TOTAL	**3,367,762**	**3,064,430**	**15,924**	**17,757**

c) Gross profit before tax and income tax

This item discloses information on profit before tax and income tax as they appear in the Group's consolidated income statement for the years ended 31 December 2018 and 2017:

(Thousands of euros)

	Profit before tax		Income tax	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Spain	920,111	620,409	(222,662)	(131,552)
Portugal	-	-	-	-
Rest of countries	2	4,534	-	612
TOTAL	**920,113**	**624,943**	**(222,662)**	**(130,940)**

d) Government grants or assistance received

See Note 1.2 on the BFA-Bankia Group Restructuring Plan.

The Management Report at the year-end 2018 shows the shows relevant indicators and ratios of the Group. The return on assets ratio of year 2018, calculated as net profit on the total balance sheet, was 0.34% (0.23% in year 2017).

Appendix XIII – Other information

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 BFA 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 BFA 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 Bankia Group 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 main data on customer claims in 2018 and 2017 for Group entities subject to these duties and obligations are as follows:

31/12/2018

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 informing the customer
Bankia, S.A.	54,159	51,622	2,537	23,722	15,196	13,254
Bankia Fondos, S.G.I.I.C., S.A.	71	68	3	21	3	25
Bankia Pensiones, S.A., E.G.F.P.	136	133	3	73	4	37
Segurbankia, S.A.	-	-	-	-	-	-

(1) Claims dismissed in 2018.

31/12/2017

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 informing the customer
Bankia, S.A.	104,434	102,905	1,529	72,090	12,321	18,703
Bankia Fondos, S.G.I.I.C., S.A.	79	77	2	33	8	27
Bankia Pensiones, S.A., E.G.F.P.	134	133	1	81	16	46
Segurbankia, S.A.	-	-	-	-	-	-

(1) Claims dismissed in 2017.

The breakdown by type of all claims resolved and dismissed in 2018 and 2017 is as follows:

	Number of claims	
Type of claim	31/12/2018 (1)	31/12/2017
Asset transactions	19,987	80,116
Liabilities transactions	16,953	11,446
Other banking products	203	4,091
collection and payment services	7,409	1,958
Investment services	643	769
Insurance and pension funds	1,074	926
Miscellaneous	6,066	4,019
Total	**52,335**	**103,325**

(1) Not included claims dismissed.

At last, the claims pending resolution by Group entities subject to these obligations at 31 December 2018 and 2017 are as follows:

	Number of claims pending resolution	
Company	31/12/2018	31/12/2017 (1)
Bankia, S.A. (1)	1,451	1,890
Bankia Fondos, S.G.I.I.C., S.A.	22	14
Bankia Pensiones, S.A., E.G.F.P.	27	14

(1) In addition, at 31 December 2017, there were 710 claims pending resolution deriving from the business combination between the Bank and BMN (Note 1.15).

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 the Group 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 Group’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 2018 and 2017 required by this regulation, to the scope defined in the preceding paragraph:

(days)

ITEM	2018	2017
Average payment period (days)	8.79	9.9
Average late-payment (days)	16.53	11.73
Average period of payment to suppliers	**8.88**	**9.98**

(Thousands of euros)

ITEM	2018	2017
Total payments	1,198,338	656,136
Total outstanding payments	13,967	26,675

Payments for payables and receivables among Spanish entities of the Bankia Group have been excluded from the above data.

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.

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

MANAGEMENT REPORT

DECEMBER 2018

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This report was prepared in accordance with the criteria set out in Circular 3/2018 of 28 June, of the National Securities Market Commission (CNMV), on period reporting by issuers of securities admitted to trading on regulated markets related to half-year financial reports, interim management statements and, where applicable, quarterly financial reports.

1. - KEY EVENTS OF 2018

1.1. - Unveiling of the new strategic plan

On 27 February 2018, the Bankia Group unveiled its new 2018-2020 Strategic Plan, which had been approved by the Bank's Board of Directors on 22 February 2018.

The new Strategic Plan seeks to continue increasing the Group's earnings by driving sales and commercial activity, while continuing to improve the quality of its balance sheet and improving shareholder remuneration. To accomplish these objectives, the 2018-2020 Strategic Plan targets four key areas:

- **Great potential to achieve synergies** following the merger with BMN by reducing overlapping costs (saving up to an estimated EUR 190 million by 2020) and increasing significantly customers in geographical areas where Bankia held a relatively small presence prior to the merger (Murcia, Granada, Balearic Islands).

- **Improvement in the cost-to-income ratio** to below 47% in 2020 after successfully achieving the cost synergies resulting from the merger with BMN.

- **Increased income through greater sales of high-value products**. This objective will be achieved through new lending (mortgages, consumer finance and business loans), fees and commissions from managing and marketing investment funds, payment services and insurance and the new lines of business that the Group has been able to initiate, such as real estate financing, long-term funding to large companies via placements in the capital markets and other fee-bearing products (project finance and acquisition finance).

- **Accelerated reduction of problematic assets** organically and through portfolio sales. The plan contemplates further reductions in non-performing loans and foreclosed assets ("NPAS") of EUR 8,800 million through to the end of 2020.

Accomplishing the objectives of the Strategic Plan will allow the Bankia Group to continue generating strong organic capital, while keeping its capital adequacy ratio above 12% (fully-loaded CET1).

1.2. - The Group completes the integration of Banco Mare Nostrum

In March 2018, the Group successfully completed the integration of the technology platforms of Bankia and Banco Mare Nostrum ("BMN"). Following the technological integration, BMN customers now have access to Bankia products and associated terms and conditions and all branches now operate under Bankia livery. Changes have also been made to over 1,000 ATMs across the country.

The branch closure process is now complete. At the end of 2018, the network comprised a total of 2,298 branches. Moreover, in April the Bank embarked on a headcount restructuring plan, which ended in November, resulting in 2,000 departures. The initial cost synergies from the branch and staff restructuring were realised in 2018, with a 7.7% year-on-year fall in the Group's operating expenses.

As regards the business organisation, the Group entered into a number of agreements in 2018 designed to accelerate the synergies envisaged in the 2018-2020 Strategic Plan:

– As from April, Haya Real Estate began managing all of the Group's real estate-related activities after the contracts between BMN and other companies were cancelled and the agreement for the purchase and sale of the real estate management and service business entered into with Haya Real Estate, S.L., signed on 3 September 2013, was novated.

– In May, an agreement was signed with Crédit Agricole Consumer Finance covering the consumer lending business in Spain through a joint venture (51%-owned by Crédit Agricole Consumer Finance and 49% by Bankia), which will market its products exclusively in Spain through non-banking channels.

– In December, Bankia reached an agreement with Grupo Mapfre and Grupo Caser for the reorganisation of their bancassurance alliances. In the life business, this entailed the sale of 51% stakes in Caja Granada Vida and Cajamurcia Vida y Pensiones to Mapfre Vida, although Bankia maintains its exclusive bancassurance agreement with Caser in the Balearic Islands for the life insurance and pension business. In addition, in the non-life business, Bankia agreed to terminate its alliance with Grupo Caser covering certain general insurance branches, while extending the scope of the current alliance with Grupo Mapfre for general insurance in the network from BMN. The effectiveness of the sale of the 51% stakes in Caja Granada Vida and Cajamurcia is subject to clearance by the pertinent regulators and competition authorities.

– Lastly, also in December, Bankia reached an agreement with two subsidiaries of the Lone Star XI fund, in order to set up a company to administer, develop and have available a portfolio of foreclosed real estate assets and transfer a portfolio of non-performing loans, for a combined gross book value of approximately EUR 3,070 million (EUR 1,650 million of real state assets, mostly foreclosed and EUR 1,420 million of mortgage loans). The transaction is expected to be closed in the second quarter of 2019, when the assets will be derecognised from the balance sheet. The cost savings associated with the transaction are estimated at slightly over EUR 200 million before tax over the first three years following the closing of the transaction. This transaction, together with the organic reduction of non-performing loans and foreclosed assets expected for 2018, will result in a reduction of non-performing assets ("NPAs") with a gross book value of more than EUR 6 billion. This will accelerate by one year the NPA reduction target set in the 2018-2020 Strategic Plan.

1.3. - Earnings performance

Net attributable profit in 2018 totalled EUR 703 million, up 39.4% from 2017. The increase was driven by the full integration of BMN's business, not to mention the initial post-merger cost savings and the absence of the one-off staff costs incurred in 2017 arising from the integration. The new commercial model has continued to create value for the Group, increasing customer loyalty, making important progress in the multichannel distribution strategy and driving business volumes. These advances pushed up net fee and commission income by 23.3% year-on-year (3.4% on a like-for-like basis if we factor the totally of earnings at BMN of 2017).

Also contributing positively was the 7.7% fall in operating costs (administrative expenses and amortisation) in the year thanks to the initial cost synergies arising from the merger with BMN and the efficiency measures implemented by the Group.

1.4. - Positive commercial trends, underscored by rising activity volumes

Digital customers continued to grow at a healthy pace over in 2018. At 31 December 2018, digital sales already accounted for 25.8% of total Goup sales, compared with 15.7% at December 2017.

The advances in commercial strategy were borne out in lending. The Bankia Group maintained a healthy pace of new loans, with increases compared to 2017 in businesses (+13%), as well as individuals through mortgages (+6%) and consumer loans (+13%).

Bankia also continued to step up transactional business with customers, delivering strong growth in the cards market (+12.8% in revenue at establishments from the year before) and in customers with direct-debit income (+103,000 since December 2017).

1.5. - Ongoing improvement in asset quality on the back of further declines in the balance of NPLs and foreclosed assets

The key variables related to the credit quality of assets continued to fare well in 2018. Non-performing loans (NPLs) fell by 30.5%, while the NPL ratio shed 2.4 percentage points to reach 6.5% at the end of December 2018, after discounting the NPLs transferred to the portfolio of non-current assets held for sale pursuant to the agreement reached with institutional investor Lone Star XI (see section 1.2).This solid performance is related to a reduction NPL inflows, an improvement in recoveries and active risk management at the Group, all of which have led to further sales of non-performing assets in the year.

The Group’s strategy for reducing problematic assets has also resulted in a reduction in the volume of foreclosed assets, the net value of which fell by 14.6% from December 2017,

1.6. - Capital strength

Bankia's Phase-in CET 1 ratio at 31 December 2018, including profit for the year less the dividend to be charged to reserves, stood at 13.80%. Once again in 2018, the Bankia Group showed an organic CET1 generation model (+83 bp), allowing it to offset negative one-off impacts arising in regulations and supervision of credit institutions (e.g. IFRS 9, TRIM), while continuing to meet the CET1 target set in the Corporate Risk Appetite and Tolerance Framework.

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 524 bps (EUR 4,313 million) above the minimum capital requirement for CET 1 SREP communicated by the ECB to the Group for 2018 (8.563%).

The Bankia Group's solvency strength is underpinned by the Group's organic capital generation model, in which the capitalisation of profits and selective growth in the business segments that are considered strategic by Bankia for their higher credit quality are the main cornerstones of its sound solvency position. At the same time, Bankia continues with a gradual process of optimization of its risk weighted assets, which have a positive impact on solvency. This underscores the Bankia Group's ability to continue generating capital while still paying dividends to shareholders.

1.7. – Solid Structure Funding and liquidity

The Bankia Group continues to enjoy an extremely sound financial structure, underpinned by the funding of its credit activity mainly through customer resources. In accordance with this retail banking model, customer deposits in 2018 represented 66% of external funding sources (63.6% at December 2017), leaving the Group operating with a stable LTD ratio of 91.2%.

Additionally, Bankia taps capital markets in order to supplement its structural liquidity needs. The year's main highlight was the Group's second AT1 bond issue for EUR 500 million in September, which enjoyed strong take-up in institutional markets and was more than five times oversubscribed.At 31 December 2018, wholesale debts issuances accounted for 10.1% of the Group’s borrowings and consisted primarily of mortgage covered bonds. At 31 December 2018 the Group had sufficient available liquid assets to cover its entire wholesale debt maturities.

1.8. - Upgrades to credit ratings

The main rating agencies continued to upgrade the Bankia Group’s credit ratings.

On 6 April, S&P upgraded Bankia’s long term rating from BBB- Outlook Positive to BBB Outlook Stable. The move was prompted by the perceived improvement in the “economic climate and the state of the banking sector” in Spain, following the upgrade of sovereign rating. The agency expects Bankia’s capital to continue improving on the back of organic capital generation and the issuance of hybrid instruments. It is also confident that non-performing assets will continue to fall over the next two years, while recurring profitability should improve following the integration of BMN.

On 6 February 2018, Fitch upgraded Bankia’s outlook from Stable to Positive, affirming its BBB- rating. After the end of the reporting period, on 30 January 2019, the agency upgraded Bankia’s long-term rating to BBB, citing its strengthened national franchise following its merger with BMN, the reduced exposure to problem assets, sound post-merger capitalisation, adequate funding and liquidity and management's proven record in integrations.

1.9. - Shareholder remuneration

Increasing shareholder returns is one of the Bankia Group's top priorities. In this regard, approval was given at the Board of Directors meeting held on 24 January 2019 to submit a proposal to the General Meeting of Shareholders for the payment of a EUR 11.576 cents gross cash dividend out of 2018 profit, resulting in a total gross amount of EUR 357 million in dividends.

Additionally, on 20 April 2018, Bankia paid a dividend of EUR 338 million (EUR 0.11024 per share) out of 2017 profit. Of this amount, EUR 208 million was paid to BFA, Tenedora de Acciones, S.A.U., which held 61.175% of Bankia’s capital at 20 April 2018.

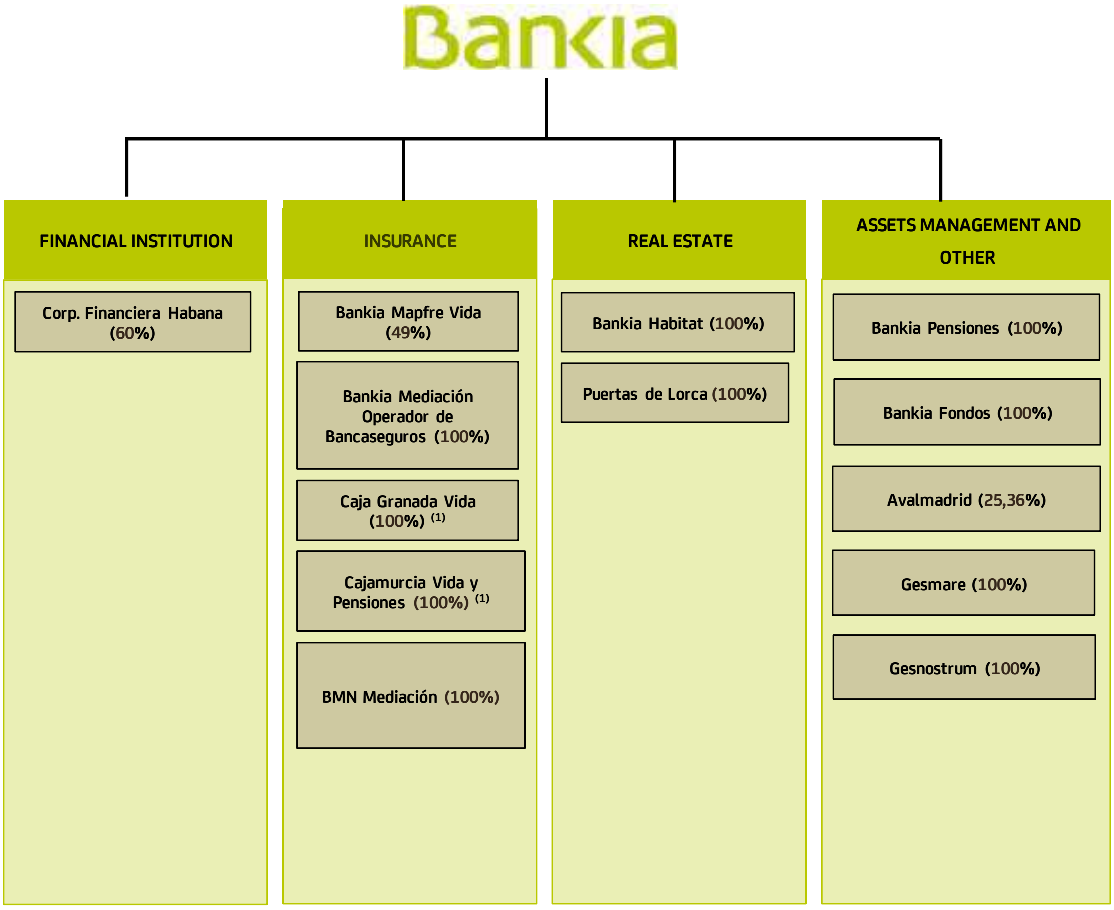
Underpinned by organic capital generation ability and an increasingly strong balance sheet, the Bankia Group's goal is to maintain and improve shareholder remuneration in coming years as another step towards getting the business back to normal and repaying the public assistance received.

2. - ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

2.1. - Overview of Bankia Group and its organisational structure

Bankia is a financial group with a presence throughout all the national territory, with an activity that is mainly focused on traditional retail banking, corporate banking, asset management and private banking businesses.

BFA is Bankia's biggest shareholder, with a 61.38% stake at 31 December 2018. The participations in the companies that make up the perimeter of consolidation of the Bankia group are maintained directly in Bankia's own portfolio or, indirectly, through different holdings, highlighting the following as the most relevant:



(1) In December 2018, Bankia reached an agreement for the sale of 51% stakes in these companies to Mapfre Vida Sociedad Anónima de Seguros sobre la Vida Humana ("Mapfre Vida"). The transaction is subject to the pertinent regulatory and competition authorities' approvals.

Organisationally, Bankia is the Group's parent. At 31 December 2018, the consolidation scope comprised 63 companies between subsidiaries, associates and joint ventures, engaging in a range of activities, including the provision of finance, insurance, asset management, services, and real estate development and management. Bankia mainly does business in Spain. The Group had total assets at 31 December after the integration of BMN of EUR 205,223 million. The Group's branch network comprised 2,298 offices at the year-end. Section 2.3 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 and supervising the functioning of any committees it may have set up and the actions of the delegate bodies.

There are five 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 15 meetings in 2018**
(8 independent directors and 4 executive directors at 31 December 2018) • Mr. José Ignacio Goirigolzarri Tellaeche. Executive Chairman • Mr. José Sevilla Álvarez. Chief Executive Officer • Mr. Antonio Ortega Parra. Executive Director • Mr. Carlos Egea Krauel. 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 • Mrs. Laura González Molero. Independent Director • Mr. Antonio Greño Hidalgo. Independent Director

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. It makes proposals to the Board of Directors for the selection, appointment, re-election and replacement of the statutory auditors. It also conducts the necessary relations with the external auditor and examines and supervises compliance with Bankia's governance and compliance rules, among other responsibilities.	**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 17 meetings in 2018.
Appointments Committee and Responsible Management Committee	
This committee has general authority to propose and report on the appointment and removal of directors and senior managers, determines the competencies, abilities, experience, diversity and knowledge required on the Board of Directors, and defines the functions to be performed and the aptitudes required of candidates to fill vacancies. It also assesses the time and commitment required for directors to be able to perform their duties effectively, examines and organises the succession plan for the governing bodies and reviews the corporate social responsibility policy. In addition, it monitors the strategy and practices for implementing that policy and assesses all aspects of the bank's social, environmental, political and reputational risks.	**Four external independent directors:** - Mr. Joaquín Ayuso García (Chairman) - Mr. Francisco Javier Campo García (Director) - Mr. Fernando Fernández Méndez de Andés (Director) - Mrs. Laura González Molero (Director) The Appointments Committee and Responsible Management Committee held 14 meetings in 2018.
Remuneration Committee	
The Remuneration Committee has general authority to propose and report on remuneration and other contractual terms and conditions of	**Four external independent directors:**

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.	- 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 9 meetings in 2018.
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 37 meetings in 2018.
Board Risk Committee	
It is an executive body with responsibility for approving risk-related decisions within the scope of authority delegated by the Board of Directors, and guides and administers the exercise of delegated authority by lower-ranking bodies. It approves important transactions and defines overall risk limits. It is also reports to the Board of Directors on any risks that may affect the Bank's solvency, 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 35 meetings in 2018.

In addition, at 25 January 2018, the Board of Directors resolved to terminate the **Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum ("BMN")**, amending the Board of Directors Regulations by the deletion of the final disposition to regulate the Committee's duties, functioning, composition and organisation. This Committee, which was set up in March 2017, was composed exclusively of independent directors: Mr. Joaquín Ayuso García (Lead Independent Director and Chairman of the Appointments and Responsible Management Committee), as Chairman, and Mr. Francisco Javier Campo García (Chairman of the Risk Advisory Committee), Mrs. Eva Castillo Sanz (Chairman of the Remuneration Committee) and Mr. Antonio Greño Hidalgo (Chairman of the Audit and Compliance Committee).

Its core mission was 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 reported to the Board of Directors on the development of all these tasks. In addition, it focused in particular on the interests of all Bankia shareholders, ensuring autonomy and independence in decision-making.

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 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.

On **director appointments**, in January 2018, pursuant to the merger between Bankia and BMN, Mr. Carlos Egea took a seat on the Board of Director with the category of other external director. He was subsequently appointed executive director.

Additionally, the General Meeting of Shareholders held on 10 April 2018, after hearing that an opening had arisen on the Board of Directors on 17 October 2017 following the resignation of independent director Mr. Álvaro Rengifo Abbad, agreed to keep the number of board members at 12, meaning that the vacancy remained open.

Given the importance of diversity in the composition of Bankia's Board of Directors and its commitment to have women directors occupy at least 30% of board places by 2020, on 25 October 2018, after obtaining the pertinent regulatory authorisations, the Board of Directors agreed to appoint, by co-option, Mrs. Laura González Molero as independent director of Bankia to fill this vacancy.

Accordingly, the Board of Directors comprised 12 members, eight external independent and four executive directors. This appointment favours the diversity of training, experience, knowledge and skills of board members and also promotes the Board of Directors' gender diversity.

Mrs. Laura González Molero was also appointed member of the Appointments and Responsible Management Committee.

In addition, Bankia also has a Management Committee, at the end of 2018 was 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 and investees and associates, Mr. Joaquín Cánovas. As described in section 15 (Events after the reporting period), on 24 January 2019, the Board of Directors approved a change in the Bank's organisation to drive its transformation and that of its businesses, creating four new general subdivisions –Financial, Credit Risk, People and Culture, and Digital Strategy and Transformation. Their members will have a seat on the Management Committee. This comes after the transfer of duties following the departure of the Deputy General Director of Investees and Associated Undertakings.

- **Advances in Corporate Governance**

One of Bankia's main priorities is to align its corporate governance with Spanish and international best practices. 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 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 of the listed companies.

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 Company's corporate governance and the operational functioning, basically made up of corporate texts (Corporate Bylaws, General Meeting Regulations, Board of Directors Regulations and, more recently, the Regulations of the Audit and Compliance Committee), internal procedures and rules of conduct (including the Code of Ethics and Conduct, and the Internal Rules of Conduct for Securities Markets activities) and corporate policies.

The Board of Directors approved the **Regulations of the Audit and Compliance Committee** at a meeting held on 26 April 2018 so as to embrace and implement the principles and recommendations set out in CNMV Technical Guide 3/2017 on audit committees. Due to Bankia's status as a credit institution, the regulations also reflect the recommendations contained in EU banking industry publications, such as the Final Guidelines on Internal Governance (EBA/GL/2017/11), the guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12) and the Guide to Fit and Proper Assessments of the European Central Bank.The Regulations of the Audit and Compliance Committee were duly filed at the Companies Registry and reported to the CNMV and can be found on the Bank's corporate website (www.bankia.com).

Bankia reviewed its corporate governance system in 2018. This led to approval in the year by the Board of Directors, on a proposal by the Appointments and Responsible Management Committee, of **the Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers and Similar, and incumbents of other key positions in Bankia, S.A.** This policy sets out the core principles, criteria and main lines of the procedures for assessing the suitability of members of the Board of Directors and incumbents of other key positions, particularly Board of Director selection, diversity and integration, and training processes.

Ensuring that the members of Bankia's Board of Directors are suitable and have the right knowledge, skills and experience necessary to carry out their duties is the overriding principle of this policy. It also promotes diversity in nationality, gender, knowledge and experience to enrich decisions and provide a broad range of viewpoints.

Therefore, the bodies overseeing the director selection process at Bankia must ensure that the selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and, in general, does not have implicit biases that could imply any discrimination, seeking a diversity of profiles in the Board of Directors. The Board of Directors and the Appointments and Responsible Management Committee shall ensure that the following areas of diversity are upheld at all times:

a) Academic and professional profile
b) Gender
c) Age
d) Geographic origin
e) Non-discrimination

2.3. - Business model

The Bankia Group 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 long-term value, to respond to the expectations of its shareholders, customers, employees and society at large. Accordingly, the Bankia Group's business model is characterized 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 commercial model of the Bankia Group, is structured in three main business lines:

- Retail Banking
- Business Banking
- Corporate Centre.

Note 1.14 of the Bankia Group's financial statements provides a breakdown of the results of each business line at 31 December 2018 and 2017, as well as the key balance sheet items of the two year-ends.

After the integration with BMN, the Bankia Group carries out its business through a network of 2,298 branches, distributed geographically as follows:

Autonomous communities	Branches number
Andalucía	326
Aragón	10
Asturias	11
Baleares	155
Canarias	104
Cantabria	20
Castilla - La Mancha	103
Castilla - León	125
Cataluña	134
Ceuta	5
Extremadura	9
Galicia	22
La Rioja	51
Madrid	636
Melilla	1
Región de Murcia	163
Navarra	3
País Vasco	17
Valencia	403
TOTAL BRANCHES	**2,298**

Retail Banking

Retail Banking includes retail banking activity 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 Directorate of Private Banking and Asset Management, as well as Insurance Banking Directorate.

Retail banking is a strategic business for Bankia; it is one of Spain's leading financial institutions in this segment. The Bank focus its efforts on traditional banking products, such as mortgages, consumer loans, direct deposit of salary and pension, credit cards, payments of bills, insurance, investment and pension funds, and other asset management services, in the latter case for high net worth customers requiring specialist financial and tax advice.

This area focuses on **retail activity** following a universal **banking model**. Its objective is to achieve customer satisfaction and loyalty, retaining customers and, providing them with added value in products and services, and in advisory, and service quality, thereby increasing its satisfaction rate with Bankia. For it, it segments his clients offering specialized attention, as well as products and services adapted to every segment that allow to realize an integral advice of the client depending on the needs of every type of client (particular clients, personal banking customers, private banking, self-employed workers, SMEs and trades). This segmentation allows Bankia to assign specific customers a specialised manager responsible for their overall relationship with the Bank, which increases satisfaction and generates new business opportunities. Moreover, with a view to offering families a comprehensive commercial service, ensuring that they are provided with the same quality as the biggest customers, all customers of each family group are assigned the same manager. This way, we simplify their dealings with Bankia, while at the same time enhancing the service we offer them.

The **main objectives and future strategies of the Bankia Group to continue driving retail banking activity** in the short and medium term focus on improvement margins and profitability, increasing lending to individuals, SMEs and self-employed professionals, controlling non-performing loans and deposit gathering. And all of this with a customer-centric approach.

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.

In 2018, Retail Banking continued to focus on a loyalty strategy with **retail customers** which began on January 2016, eliminating fees and commissions for customers with payroll and direct income deposit. The “We remove your fees” strategy has become a cornerstone for the Bank with retail customers. Following the merger with BMN, over 4.3 million retail customers no longer pay fees by benefiting from the advantages of this commercial strategy. This strategy also is applied to autonomous clients with social domiciled insurances.

Another strategic product for Bankia, which saw further improvements during 2018, is 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.

Bankia continued to pursue its commercial strategy of increasing engagement with individual customers by launching "Anticipo de nómina" (salary advance) in 2018, giving customers up to three months' advance on their salary or pension, and "Bankia Fácil" (Bankia Easy), a suite of services offered by the Bank to address specific day-to-day situations, making banking more user friendly for customers. This new suite of services will allow the Bank to troubleshoot problems that customers often encounter and ultimately make banking an easier task. With this new line of services, customers can find out how much they can borrow should needs arise, cancel products without having to pay additional costs provided they do so within two months of arranging the product, or speak with a manager if need be through a secure and private channel accessible via the app or Bankia Online.

In line with its growing multi-channel and digital banking strategy, one of the pillars of the Group's commercial position, noteworthy is that Bankia was Spain's first bank to offer customers all the digital payment platforms available in the market, after reaching agreements with the leading players (Apple Pay, Samsung Pay, Google Pay, PayPal, Bizum).In this line, “Oficina Internet” (Internet Office) and the new Bankia app, with improved innovative features in 2018 to make it easier for customers to take out products and contact the Bank. Also, this year, Bankia has strengthened “Bankia online”, the net internet office for retail customers, which was launched in 2017 and continued promoting new business models through “Open Business”, and its main component, “Bankia Connect”. Several third-party platforms have been integrated through the latter, including PayPal, Zankyou and MTV, while the capability of taking out credit and debit cards from third-party platforms was also developed.

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, based on its relationship with customers, Bankia's commercial model is based on a segmented branch network in which universal branches, business branches, private banking centres, +Valor offices (oriented to multichannel consumers) 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 allows it to deliver quality, fast service to the customers who execute the most transactions, to free up time for the rest of the branches, 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.

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. Amongst these are, the "Conecta con tu Experto" ("connect with your expert") service, provided though multi-channel managers integrated in the multi-channel branches, that is directed to customers requiring a 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 ***personal banking and private banking*** business are 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 retail network.

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 have been 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 product for individuals (life, home, auto, health and saving) and businesses (comprehensive trade, credit insurance, general liability and comprehensive business).

The Bancassurance department defines the framework for relations with partner insurance companies based on the strategic alliances entered into, with the aim to boost the contribution from the sale of insurance products to the Entity's fees and commissions.

The distribution model is under constant development to bring marketing and sales processes in line with customer needs across the main sales channels (physical, assisted distance and digital) as the Bank seeks to unlock the value of an enhanced and more effective single distribution model for the entire network. The Bank is also driving new initiatives in a bid to maximise its results from this business.

On this front, as part of reorganisation of the bancassurance business started following the merger with BMN, in December 2018 Bankia, S.A. signed an agreement with Grupo Mapfre and Grupo Caser for the reorganisation of its insurance distribution alliances. In the life business, the agreement included the sale of 51% stakes held by in Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. to Mapfre Vida for a total price of EUR 110 million, although Bankia maintains its exclusive bancassurance agreement with Group Caser in the Balearic Islands for the life insurance and pension business. The effectiveness of the sale is subject to the pertinent regulatory and competition authorities' approval. In addition, in the non-life business, Bankia agreed to terminate its alliance with Grupo Caser covering certain general insurance branches, while extending the scope of the current alliance with Grupo Mapfre for general insurance in the network from BMN.

At 31 December 2018, the activity focused on 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.

In addition to providing support and advice to the distribution networks and employee training, Bancassurance is continuing to improve support for in-branch sales and portfolio management, as well as after-sales service. Progress was also made in optimising commercialisation systems and in streamlining procedures for arranging insurance and managing the portfolio, not only through the traditional branch network but also new channels, which now have added features and functionalities to enhance the customer experience.

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 commerce, manufacturing and service sector followed by supply and construction. Bankia 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 Comunidad Valenciana. Bankia also has good penetration rates among companies in other regions where it is a strong player such as La Rioja, the Canary Islands or Castilla la Mancha.

Bankia Group **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 (excluding 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 is 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 three centres, in Madrid and Barcelona, and Palma de Mallorca, the latter specialised in dealing with customers from the Hotel business. When selling products and services, Corporate Banking managers work alongside Capital Markets product 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 called BOL-E (Bankia On- Line Empresas) 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 (Risk adjusted Return) approach to transactions.

The prices offered to customers take into consideration the cost of funds, the customer's risk —which is determined through advanced internal models validated by the Bank of Spain— and their level of engagement with the Bank.

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, sanction 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 has opened 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 raised long-term finance again in 2018 for 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 increased 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 in short and middle-term.

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 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 Group'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.

Digitalisation is one of the key growth drivers in the 2018-2020 Strategic Plan for the coming years, above all in the area of payment methods. By the plan's conclusion, over 65% of bank customers will be digital and over 35% of purchases will be made via digital channels.

Significant strides were made in the Bankia Group's multi-channel strategy in 2018, cementing many of the projects initiated in previous years, which have driven considerable growth in the multi-channel and digital customer bases. At the end of December 2018, digital customers were overcoming 3.2 million, one 19.8 % more than in December 2017.

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.

As part of Bankia's strategic digital transformation in 2018, Bankia has become the first financial institution in Spain to offer its customers the possibility of using all the digital payment platforms available on the market. This way, bank customers can may digital payments however it suits them best, via Apple Pay, Samsung Pay, Google Pay, PayPal or Bizum. The objective is to provide users with access to the full range of digital solutions so that both their e-commerce and in-store payments are easier, more convenient and more secure.

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 attract new customers to the Bankia Group. While the results obtained in recent years are encouraging, more work needs to be done.

3. - ACTIVITY AND RESULTS

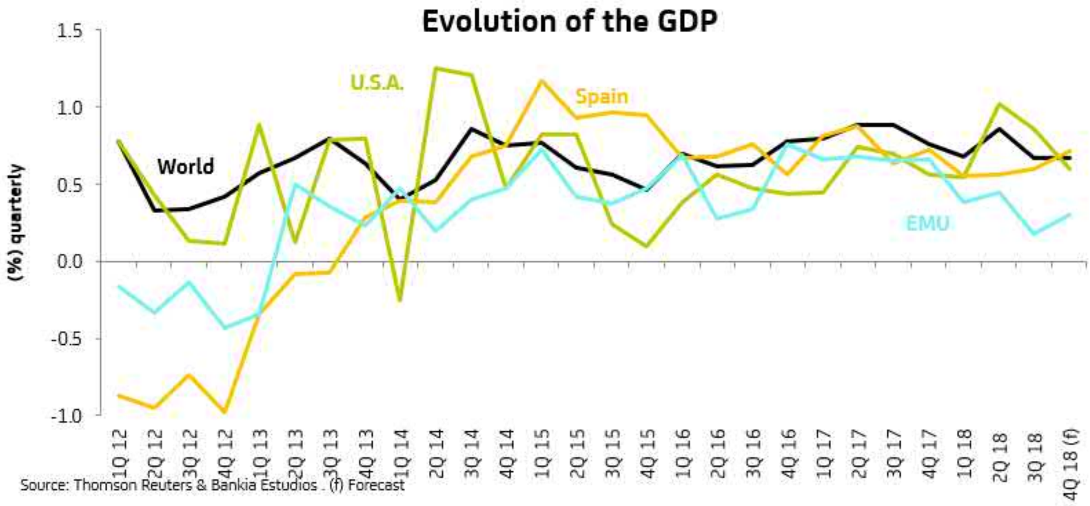
3.1. - Economic and financial backdrop

The macroeconomic scenario remained positive in 2018. Global growth topped 3%, exceeding the potential growth for the second year in a row. Nonetheless, in contrast to 2017, the performance of the leading economies, except the US, disappointed, with growth losing steam as the year progressed. Specifically, the EMU weakened more than expected, with the growth rate falling from 2.5% in 2017 to 1.9%. This was fuelled by the slowdown in global trade, the change in emissions regulations in the auto industry, the sharp spike in oil prices (until they slumped in October), Brexit, and the dispute over budgets between Italy and the European Commission. The US-China trade war and the tightening of US monetary policy also heightened global risks overall. This shook market sentiment in the latter months of the year and led to steep falls by the major stock markets.

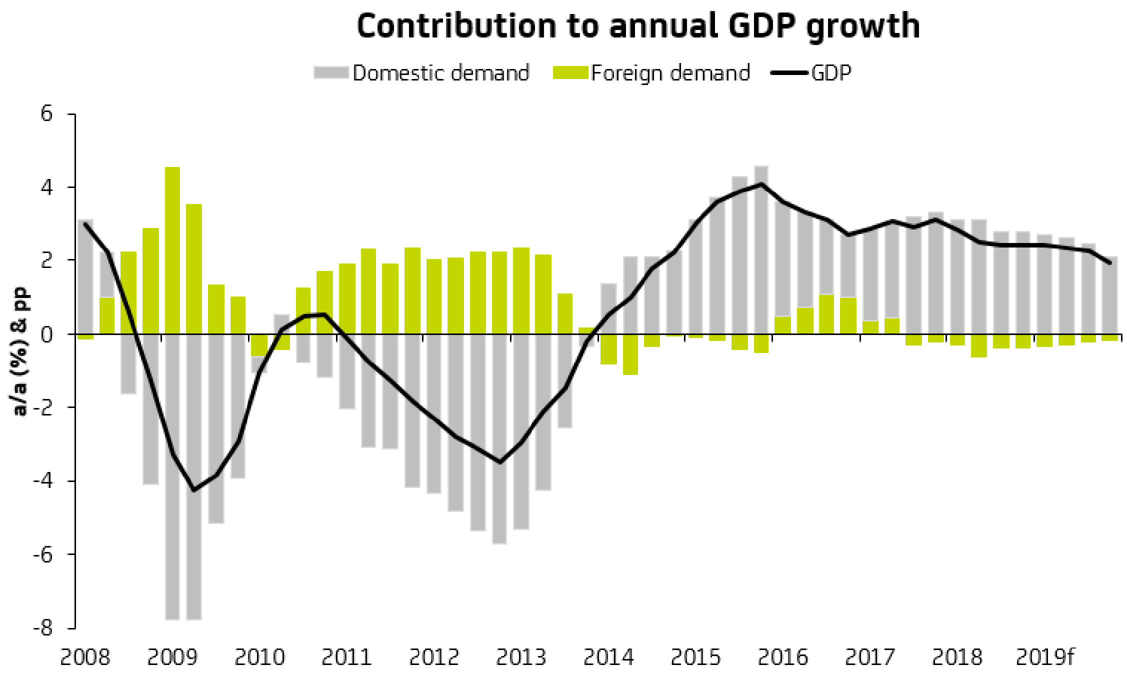
Turning to monetary policy normalisation, 2018 brought with it significant changes, with the Fed stepping up its rate tightening cycle and the ECB curtailing its asset purchase programme. Indeed, the US hike interest rates by a percentage point to a 2.25%-2.50% range, while reducing its balance sheet by nearly USD 400,000 million. In the EMU, the ECB went from buying EUR 60,000 million of assets in 2017 to halting the programme at the end of 2018. These decisions drove up US public bond yields, albeit to a smaller extent for longer-dated paper because of the myriad uncertainties and since they are somewhat less affected by changes in monetary policy. As a result, the spread between 10Y and 2Y bonds narrowed from 55 bp to a low of 10 bp, accentuating worries about a pending recession. In the EMU, 10Y bond yields decreased pretty much across the board (20 bp in Germany and 15 bp in Spain). Italy was an exception, notching up a 75 bp rise.

The Spanish economy continued to expand in 2018, but the pace of GDP growth eased slightly, to 2.5% (from 3% in 2017). This dip in activity was the result of factors, such as the constrained spending during the crisis, the tourism sector, and the positive effect of neighbouring economies and oil prices playing a less prominent role. Against this backdrop, the labour market continued to create jobs for the fifth consecutive year, and at a fast rate (564,000 new Social Security registrations). Activity was fuelled by domestic demand –both investment in capital goods and construction, and consumer spending– underpinned by the strong job creation. Meanwhile, external demand, unlike in previous years, made a negative net contribution to GDP growth, as the economies of our main trade partners slowed and tourism made a less positive contribution as the main competing destinations returning to normal. The balance of trade worsened, but the Spanish economy still generated net lending capacity (1.5% of GDP YOY to 3Q18), enabling it to pare back its trade deficit (80.6% of GDP).

The buoyant economy continued to benefit Spain's banking system, as evidenced by the uptick in transactions, the significant improvement in the balance sheet quality and the increase in profitability. Household lending was up in the year, driven especially by robust consumer lending. On the contrary, deleveraging by businesses continued, stoked by NPL portfolio sales, despite the increase in new lending. In terms of credit quality, there was a sharp fall in the volume of NPLs and, accordingly, in the NPL ratio, to its lowest level since 2010. On the savings side, the volume of deposits rose, in contrast to mutual funds, which were adversely affected by heightened market volatility in the second quarter. Sector profitability remains under pressure from the extraordinarily low interest rates, with banks having to search for efficiency gains through cost constraints, mergers and digitalisation. In November, the European Banking Authority released the results of its stress tests of the leading European banks, with the Spanish banking sector showing a high level of resilience. Lastly, on the regulatory front, the second phase of Basel III was completed, culminating in the regulatory framework championed by the G20 following the financial crisis. Work continued in Europe to complete the Banking Union, with the creation of a financial backstop for the Single Resolution Fund. That said, a common deposit guarantee scheme still needs to be introduced and MREL (loss absorption requirement) to be fully rolled out.



Source: Thomson Reuters & Bankia Estudios . (f) Forecast



Source: INE & Bankia Estudios. (f) Forecast Bankia Estudios.

3.2. - Financial performance in 2018

- **Note about comparative information**

When comparing financial information of 2017 and 2018, please take note of the following aspects and events:

1. **Merger with BMN:** since the merger between Bankia and BMN was completed for accounting purposes on 1 December 2017, the group's balance sheets at 31 December 2018 and 31 December 2017 already include all the assets and liabilities of the resulting entity. Meanwhile, the income statement only shows BMN earnings after the December 2017 statement. Accordingly, the group's income statements of 2018

and 2017 are not expressed on a like-for-like basis. To provide a more meaningful comparison between both periods, this report indicates how the main items of the income statement would have changed on a like-for-like basis as if BMN had also contributed earnings by year end in 2017.

2. **Presentation of comparative information:** the Bankia Group’s condensed Annual Accounts at 31 December 2018 are presented in accordance with the financial reporting criteria set out in IFRS 9, which entered into force on 1 January 2018. The group has elected to apply the classification and measurement changes of IFRS 9 prospectively, without restating the information for previous periods as permitted under the standard. However, the Bankia Group’s balance and income statement sheet at 31 December 2017, which are presented as part of the annual accounts at 31 December 2018, have been adapted accordingly to reflect the criteria for presenting financial information set out in IFRS 9, thus providing a more meaningful comparison between two periods in like-for-like terms.

   The impacts of applying the financial reporting criteria contained in IFRS 9 to previous periods are described at length in Note 1.3 to the annual accounts at 31 December 2018. The most relevant of these are certain reclassifications made to fixed income portfolios and changes in their nomenclature, although none were material enough to have an impact on the final balances.

3. **Impacts of first-time adoption of IFRS 9**: the main impacts of the first-time adoption of IFRS 9 at 1 January 2018 were reported under impairment of financial assets at amortised cost, which were up EUR 653 million due to the recognition of provisions for expected losses, as opposed to the incurred losses model under the preceding IAS 39. New provisions were charged to reserves. Meanwhile, certain fixed-income assets have been reclassified between the amortised cost portfolio and the fair value portfolio through other comprehensive income. This process generated positive measurement adjustments of EUR 172 million in equity.

Sections 3.3, 3.4 and 3.5 below include a summary of basic data and comments on the most significant trends in Bankia Group´s main balance sheet and income statement items in 2018.

3.3. - Key figures

KEY FIGURES DATA - BANKIA GROUP

Balance (Millions of euros) (*)	dec-18	dec-17	Variation
Total assets	205,223	213,932	(4.1%)
Loans and advances to customers (net)	118,295	123,025	(3.8%)
Loans and advances to customers (gross)	122,505	128,782	(4.9%)
Balance sheet customer funds	144,680	150,181	(3.7%)
Customer deposits	126,319	130,396	(3.1%)
Debt securities issued	18,360	19,785	(7.2%)
Total customer managed funds (1)	169,254	172,645	(2.0%)
Total turnover (2)	287,549	295,670	(2.7%)
Equity	13,189	13,613	(3.1%)

Solvency and leverage (%) (*)	dec-18	dec-17	Variation
Common Equity Tier I (CET 1) - BIS III Phase In	13.80%	14.15%	(0.35) p.p.
Solvency ratio - Total BIS III Phase In capital	17.58%	16.84%	+0.74 p.p.
BIS III Risk Weighted Assets	82,380	86,042	(4.3%)
Phase In leverage ratio (Delegated regulation No. 62/2015)	6.09%	6.02%	+0.07 p.p.

Risk management (Millions of euros and %) (*)	dec-18	dec-17	Variation
Total risk	129,792	136,353	(4.8%)
Doubtful loans	8,416	12,117	(30.5%)
Provisions for credit lose	4,593	6,151	(25.3%)
NPL ratio	6.5%	8.9%	(2.4) p.p.
Hedging ratio	54.6%	50.8%	+3.8 p.p.

Profit / Losses (Millions of euros) (*)	dec-18 (3)	dec-17 (3)	Variation
Net interest income	2,049	1,968	4.1%
Gross income	3,368	3,064	9.9%
Operating income /(expenses) before provisions	1,498	1,038	44.2%
Operating income /(expenses)	1,061	744	42.6%
Profit/ Loss before tax from continuing operations	920	625	47.2%
Profit/ Loss	703	494	42.4%
Profit/ Loss attributable to owners of the parent	703	505	39.4%

Key ratio (%)	dec-18 (3)	dec-17 (3)	Variation
Efficiency (4)	55.5%	66.1%	(10.6) p.p.
ROA (5)	0.3%	0.3%	-
RORWA (6)	0.9%	0.6%	+0.3 p.p.
ROE (7)	5.6%	4.1%	+1.5 p.p.
ROTE (8)	5.7%	4.2%	+1.5 p.p.

Bankia's share	dec-18	dec-17	Variation
Number of shares at the end of the period (millions)	3,085	3,085	0.0%
Market price at close	2.56	3.99	(35.8%)

Additional information	dec-18	dec-17	Variation
Number of employees	15,924	17,757	(10.3%)
Average payment period to suppliers (days)	8.88	9.98	(11.0%)

(*) Financial Statement amounts rounded to millions of euros
(1) Comprises customer deposits marketable debt securities and off balance sheet funds managed
(2) Comprises net loans and advances to customer, on and off balance sheet client managed funds
(3) Figures at 31 December 2018 are for the Bankia Group post-merger with BMN. Figures at 31 December 2017 do not include BMN, as the merger was effective for accounting accounting for accounting purposes from 1 December 2017.
(4) Administration and amortization costs / gross margin. The efficiency ratio in 2017 is affected by the non-recurring integration costs arising from the merger with BMN.
(5) Profit/ Loss/ average total assets
(6) Profit/ Loss attributable to owners of the parent/ risk weighted assets
(7) Profit/ Loss attributable to owners of the parent/ average own funds
(8) Profit/ Loss attributable to owners of the parent/ average tangible own funds

3.4. - Highlights and changes of the balance sheet

CONSOLIDATED BALANCE SHEET - BANKIA GROUP

			Variation dec-17	
(millions of euros) (*)	dec-18	dec-17	Amount	%
Cash, cash balances at central banks and other demand deposits	4,754	4,504	250	5.5%
Financial assets held for trading	6,308	6,773	(466)	(6.9%)
Derivatives	6,022	6,698	(675)	(10.1%)
Debt securities	282	2	280	13971.5%
Equity instruments	4	74	(70)	(94.7%)
Non-trading financial assets mandatorily at fair value through profit or loss	9	0	9	-
Debt securities	0	0	0	-
Loans and advances to customers	9	0	9	-
Financial assets at fair value through other comprehensive income	15,636	22,745	(7,109)	(31.3%)
Equity instruments	76	71	5	7.6%
Debt securities	15,559	22,674	(7,115)	(31.4%)
Financial assets at amortised cost	156,461	158,711	(2,249)	(1.4%)
Debt instruments	33,742	32,658	1,084	3.3%
Loans and advances to credit institutions	4,433	3,028	1,405	46.4%
Loans and advances to customers	118,286	123,025	(4,739)	(3.9%)
Derivatives – Hedge accounting	2,627	3,067	(440)	(14.3%)
Investments in joint ventures and associates	306	321	(15)	(4.6%)
Tangible and intangible assets	2,487	2,661	(174)	(6.5%)
Non-current assets and disposal groups classified as held for sale	3,906	3,271	635	19.4%
Other assets	12,728	11,879	849	7.2%
TOTAL ASSETS	**205,223**	**213,932**	**(8,709)**	**(4.1%)**
Financial liabilities held for trading	6,047	7,421	(1,374)	(18.5%)
Derivatives	5,925	7,078	(1,153)	(16.3%)
Short positions	122	343	(221)	(64.5%)
Financial liabilities measured at amortised cost	181,869	188,898	(7,029)	(3.7%)
Deposit from central banks	13,856	15,356	(1,500)	(9.8%)
Deposit from credit institutions	21,788	22,294	(506)	(2.3%)
Customer deposits	126,319	130,396	(4,076)	(3.1%)
Debt securities issued	18,360	19,785	(1,425)	(7.2%)
Others financial liabilities	1,545	1,067	478	44.8%
Derivatives – Hedge accounting	183	378	(195)	(51.6%)
Provisions	1,922	2,035	(112)	(5.5%)
Other liabilities	2,013	1,587	426	26.8%
TOTAL LIABILITIES	**192,033**	**200,319**	**(8,285)**	**(4.1%)**
Minority interests (Non-controlling interests)	12	25	(12)	(49.9%)
Other comprehensive accumulated income	147	366	(218)	(59.7%)
Own funds	13,030	13,222	(193)	(1.5%)
TOTAL EQUITY	**13,189**	**13,613**	**(424)**	**(3.1%)**
TOTAL LIABILITIES AND EQUITY	**205,223**	**213,932**	**(8,709)**	**(4.1%)**

(*) Financial Statement amounts rounded to millions of euros

- **Summary of Group Activities**

The Bankia Group ended December 2018 with EUR 205,223 million of total assets, 4.1% less than in December 2017.

Customer loans fell 3.8% as a result of natural maturities of the mortgage portfolio and the sustained reduction in doubtful assets. However, new loans continued to grow at a healthy pace in 2018, with gains reported in both loans to business and to individuals in the form of mortgages and consumer loans.

In customer funds, there was further growth in the most liquid and lower cost deposits (i.e. current accounts) which continued to attract large proportion of funds withdrawn by customers from deposits with set maturity. With reference to the resources out of balance sheet, investment funds grow by 9.4% due to the growing demand for these savings products and the organic growth of the Group's assets under management.

We now briefly comment the trends of the Bankia Group's key balance sheet items in 2018.

- **Loans and receivables**

Note 3 and Appendices IX and X of the notes to the Bankia Group's annual accounts provide details on the Group’s loan approval policies, NPL monitoring, debt refinancing and recovery policies 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 2018 and the main movements therein.

Under this item, **loans and advances to customers reported as financial assets at amortised cost** amounted to EUR 118,286 million, down 3.9% on the figure at 31 December 2017, mainly in response to the reduction in doubtful loans and the stock of mortgage loans, which have continued to feel the effects of the household deleveraging process. Even so, new loans have continued to grow since December 2017 in both the mortgage segment and consumer and business loans, due to the unification of the commercial model after the merger with BMN and the improvement in macroeconomic indicators.

Gross non-performing loans (NPLs) extended the downtrend seen in 2017, falling by EUR 3,588 million, gross (-31.7%). The fall was both organic (lower gross NPL inflows and healthy pace of recovery), and due to credit portfolio sales in the year amounting EUR 1,312million, gross. Part of the decrease in NPLs in the year was alsodue to the transfer to non-current assets held for sale of doubtful mortgage loans for EUR 1,373 million, gross, following the sale of problem assets to an institutional investor, as described in section 1.2 of this report.

Stripping out non-performing loans and reverse repurchase agreements, the Group's performing loan portfolio has got down 2.1% from December 2017, underscoring the good performance of the Group's new loans in the year with an increasing impact of new loans, as shown by the good performance of commercial credit (+2.2%), other term loans (+3.4%) and other demand deposits (+13.5%).

LOANS AND ADVANCES TO CUSTOMERS BANKIA GROUP BY MODALITY AND STATUS OF THE CREDIT

(millions of euros) (*)	dec-18	dec-17	Variation dec -17 Amount	%
Commercial credit	5,246	5,135	111	2.2%
Real guarantee debtors	74,893	78,527	(3,634)	(4.6%)
Storms assets acquisitions	14	256	(242)	(94.7%)
Other term debtors	30,637	29,637	1,001	3.4%
Other demand and miscellaneous debtors	2,949	2,598	352	13.5%
Other financial assets	868	1,142	(274)	(24.0%)
Doubtful assets	7,716	11,304	(3,588)	(31.7%)
Other fair value adjustements	173	184	(11)	(5.9%)
Gross loans and customer advances	**122,496**	**128,782**	**(6,286)**	**(4.9%)**
Impairment losses	(4,210)	(5,757)	1,547	(26.9%)
Net loans and customer advances	**118,286**	**123,025**	**(4,739)**	**(3.9%)**

(*) Financial Statement amounts rounded to millions of euros

- **Debt securities**

Debt securities at 31 December 2018, recognised under “Financial assets held for trading”, “Financial assets at fair value through other comprehensive income” and “financial assets at amortised cost” amounted to EUR 49,583 million compared to EUR 55,334 million at December 2017. Of the total at the end of December 2018, EUR 19,155 million were SAREB bonds received as a result of the asset transfer carried out by the Group in 2012. The remainder are comprises sovereign debt, mainly Spanish, and debt from other public and private issuers.

The debt securities held in these portfolios- by Bankia Group by type of instrument, at 31 December 2018 and 2017 are as follows:

DEBT SECURITIES - BANKIA GROUP

(millions of euros) (*)	Financial assets held for trading	Financial assets designated at fair value through other comprehensive income	Financial assets at amortised cost	TOTAL
Spanish goverment debt securities	94	12,409	10,817	23,321
Foreign goverment debt securities	182	2,633	3,559	6,375
Financials institutions	-	28	30	58
Other straight fixed income securities (**)	5	490	19,343	19,839
Impairment losses and other fair value adjustments	-	(1)	(8)	(9)
Total portfolio at 31 December 2018	**282**	**15,559**	**33,742**	**49,583**
Spanish goverment debt securities	2	16,215	10,204	26,421
Foreign goverment debt securities	-	4,280	1,260	5,540
Financials institutions	-	1,590	3	1,593
Other straight fixed income securities (**)	-	594	21,195	21,788
Impairment losses and other fair value adjustments	-	(5)	(4)	(8)
Total portfolio at 31 Decembre 2017	**2**	**22,674**	**32,658**	**55,334**

(*) Financial Statement amounts rounded to millions of euros
(**) Financial assets at amortised cost includes securities received as consideration for assets transferred to the SAREB in December 2013.

The biggest change reported 2018 was seen in the portfolio of financial assets at fair value through other comprehensive income, which decreased EUR 7,115 million (-31.4%) on the figure reported at 31 December 2017 to reach EUR 15,559 million at 30 December 2018. This reduction can be explained by the sales made by the Group ahead of an expected change in market interest rates. Meanwhile, the portfolio of assets at amortised cost gained EUR 1,084 million to reach EUR 33,742 million after the Group completed the reinvestment initially proposed and approved in January 2018.

Following the application of IFRS 9 for periods beginning on 1 January 2018, the Group reviewed its business models and contractual terms and conditions on the portfolio of financial assets at year-end 2017. This process led to certain reclassifications of debt securities between financial assets at amortized cost and financial assets at fair value through other comprehensive income. These movements had the effect of valuation transfers and adjustments net amounting to EUR 246 million and pushing up equity by EUR 172 million in 2018.

- **Financial liabilities at amortised cost**

Financial liabilities at amortized cost at 31 December 2018 stood at EUR 181,869 million, decrease EUR 7,029 million (-3.7%) from December 2017. This performance was shaped by wholesale and retail debt maturities in the period and the Group's lower overall funding needs thanks to the liquidity raised from disposals of fixed-income assets.

FINANCIAL LIABILITIES AT AMORTISED COST - BANKIA GROUP

			Variation dec-17	
(millions of euros) (*)	dec-18	dec-17	Amount	%
Deposits from central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**
Deposits from credit institutions	**21,788**	**22,294**	**(506)**	**(2.3%)**
Customer deposits	**126,319**	**130,396**	**(4,077)**	**(3.1%)**
Government agencies	6,608	5,678	930	16.4%
Other financial companies	8,218	9,336	(1,118)	(12.0%)
Non-financial companies	14,340	16,186	(1,846)	(11.4%)
Households	90,861	89,029	1,833	2.1%
Reserve repurchase agreement	44	2,668	(2,624)	(98.4%)
Single mortgage bonds	6,248	7,499	(1,251)	(16.7%)
Debt securities issued	**18,360**	**19,785**	**(1,425)**	**(7.2%)**
Other financial liabilities	**1,545**	**1,067**	**478**	**44.8%**
Total financial liabilities at amortised cost	**181,869**	**188,898**	**(7,030)**	**(3.7%)**

(*) Financial liabilities amounts rounded to millions of euros

Deposits from central banks and deposits from credit institutions

Deposits from central banks totalled EUR 13,856 million at the end of 2018, decrease EUR 1,500 million on the figure at 31 December 2017 due to the early repayment of the ECB's TLTRO I facility that Bankia arranged during the first half of the year. At 31 December 2018, all ECB funding (EUR 13,856 million) comprised the amounts acquired at the TLTRO II auctions.

Deposits from credit institutions amounted to EUR 21,788 million at 31 December 2018, rise 2.3% year-on-year, caused by the lower volume of reverse repurchase agreements with other entities.

Customer deposits

Customer deposits at the Group totalled EUR 126,319 million at 31 December 2018, down EUR 4,076 million (-3.1%) versus 31 December 2017. This change came in response to a reduction in repo transactions in the year (EUR -2,624 million) and in one-off non-marketable mortgage-backed securities (EUR -1,251 million), while strict customer funds do not present wide variations regarding the past year (EUR -201 million).

Within customer deposits, **strict customer deposits** excluding repurchase agreements, and one-off non-marketable mortgage-backed securities totalled EUR 120,028 million, marking a slight decrease of 0.2% from the year before owing to the performance of on-balance sheet loans and receivables. Highlights in the year an increase in funds deposited by the public sector and growth 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. With low interest rates, the Bankia Group 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 9.4% after the integration of BMN and despite the adverse impact of market volatility on valuations. Investment funds continued to deliver the best performance of any product thanks to healthy subscription.

CUSTOMER DEPOSITS - BANKIA GROUP

			Variation dec-17	
(millions of euros) (*)	**dec-18**	**dec-17**	**Amount**	**%**
Strict customer deposit	**120,028**	**120,229**	**(201)**	**(0.2%)**
Public sector	6,608	5,678	930	16.4%
Other financial companies	8,218	9,336	(1,118)	(12.0%)
Current accounts	5,731	5,743	(13)	(0.2%)
Term deposits (1)	2,488	3,593	(1,105)	(30.8%)
Non-financial companies	14,340	16,186	(1,846)	(11.4%)
Current accounts	12,034	12,408	(374)	(3.0%)
Term deposits	2,306	3,778	(1,472)	(39.0%)
Households	90,861	89,029	1,833	2.1%
Current accounts	59,632	53,677	5,955	11.1%
Term deposits	31,229	35,351	(4,123)	(11.7%)
Single mortgage bonds	**6,248**	**7,499**	**(1,251)**	**(16.7%)**
Reserve repurchase agreement	**44**	**2,668**	**(2,624)**	**(98.4%)**
Total customer deposits	**126,319**	**130,396**	**(4,076)**	**(3.1%)**
Investment funds (2)	17,210	15,726	1,484	9.4%
Pension funds (2)	7,364	6,738	626	9.3%
Total off balance funds resources	**24,574**	**22,464**	**2,110**	**9.4%**

(*) Financial Statement amounts rounded to millions of euros.

(1) Excluded single mortgage bonds, showed in a separate epigraph.

(2) Excludes off-balance-sheet customer funds marketed by the Group but managed by third parties outside the Bankia Group.

The combined balance of strict customer deposits and off-balance sheet funds was broadly steady in 2018, increasing by EUR 1,909 million (+1.3%) from December 2017.

Debt securities issued and subordinated debt

Bankia has selective policy in fixed-income markets wholesale issuance, orientated to maintain the Group financial soundness, to adapt deal sizes to its structural liquidity needs and maintaining an appropriate funding structure. 2018 featured a successful issuance of AT1 for EUR 500 million in September, which enjoyed strong take-up in institutional markets and was more than five times oversubscribed.

Despite the new senior and subordinate debt emissions made at 31 December 2018, the balance of debt securities issued by the Group stood at EUR 18,360 million, down EUR 1,425 million on the figure reported at 31 December 2017. This reduction was a product of maturities and wholesale redemptions during the year, mainly in relation to mortgage covered bonds (mortgage bonds).

- **Provisions**

Provisions recognised on the Group's balance sheet at 31 December 2018 amounted to EUR 1,922 million, down EUR 112 million (-5.5%) from the amount recognised at 31 December 2017. This decrease was due mainly to the use of provisions set aside to cover payments related to floor clauses and the provisions set aside to cover payments relating to the Group's integration process following the merger with BMN (mainly for workforce restructuring and the cancellation of contracts).

- **Total equity**

At 31 December 2018 amounted to EUR 13,189 million, EUR 424 million less than at year-end 2017. This reduction was mostly concentrated in “accumulated other comprehensive income” (EUR -218 million due to the valuation of the fixed-income securities included in the portfolio at fair value) and own funds (EUR -193 million owing to the impact of the application of IFRS 9 on reserves and the payment of dividends out of 2017 profit).

3.5. - Evolution of the income statement

INCOME STATEMENT - BANKIA GROUP

(millions of euros) (*)	dec-18	dec-17 [1]	Variation dec-17 Amount	%
Net interest income	**2,049**	**1,968**	**81**	**4.1%**
Dividend income	11	9	1	14.7%
Share of profit/(loss) of companies accounted for using the equity method	56	40	17	41.5%
Fee and comission income	1,065	864	201	23.3%
(Fee and comission expenses)	411	367	43	11.8%
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	400	310	90	29.0%
Gains or (-) losses on financial assets and liabilities held for trading, net	40	87	(47)	(54.1%)
Gains or (-) losses from hedge accounting, net	(29)	(30)	1	(3.7%)
Exchange differences [gain or (-) loss], net	15	10	5	46.5%
Other operating income (-) expenses, net	(239)	(194)	(44)	22.9%
Gross income	**3,368**	**3,064**	**303**	**9.9%**
Operating expenses	(1,870)	(2,026)	156	(7.7%)
Administrative expenses	(1,696)	(1,852)	156	(8.4%)
Staff expenses	(1,161)	(1,390)	229	(16.5%)
Other administrative expenses	(535)	(462)	(73)	15.9%
Depreciation	(174)	(174)	0	(.2%)
Pre impairment income	**1,498**	**1,038**	**459**	**44.2%**
Provisions or reversal of provisions	(10)	34	(44)	-
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(427)	(329)	(98)	29.8%
Total operating income	**1,061**	**744**	**317**	**42.6%**
Impairment or reversal of impairment of investments in joint ventures and associates	41	(3)	44	-
Impairment or reversal of impairment on non-financial assets	(31)	(11)	(20)	191.6%
Other gains and losses	(151)	(106)	(45)	42.9%
Profit or (-) loss before tax from continuing operations	**920**	**625**	**295**	**47.2%**
Tax expense or income related to profit or loss from continuing operations	(223)	(131)	(92)	70.0%
Profit or (-) loss after tax from continuing operations	**697**	**494**	**203**	**41.2%**
Profit or (-) loss after tax from discontinued operations [2]	6	0	-	-
Profit or (-) loss	**703**	**494**	**209**	**42.4%**
Profit or (-) loss attributable to minority interest	0	(11)	11	(102.7%)
Profit or (-) loss attributable to owners of the parent	**703**	**505**	**199**	**39.4%**
Main indicators				
Efficiency ratio [3]	55.5%	66.1%	(10.6) p.p.	(16.0%)
ROA [4]	0.3%	0.3%	-	-
ROE [5]	5.6%	4.1%	+1.5 p.p.	35.4%

(*) Figures from the annual financial statements rounded to the nearest EUR million.
(1) Figures at end-December 2017 include just one month of BMN data, as the merger was effective for accounting purposes from 1 December 2017.
(2) Includes 100% of the profit/(loss) of Caja Murcia Vida and Caja Granada Vida from the acquisition of the entire share capital of the two companies on 10 June 2018. The share of their profit or loss until then was accounted for using the equity method.
(3) (Administrative expenses + Depreciation) / Gross income. The efficiency ratio in 2017 was affected by the non-recurring integration costs arising from the merger with BMN.
(4) Profit or (-) loss / Total assets.
(5) Profit attributable to owners of the parent / Own funds.

INCOME STATEMENT BANKIA, GROUP- QUARTERLY TREND

(millions of euros) (*)	4Q 18 (1)	3Q 18 (1)	2Q 18 (1)	1Q 18 (1)	4Q 17 (1)	3Q 17 (1)	2Q 17 (1)	1Q 17 (1)
Net interest income	**507**	**495**	**521**	**526**	**501**	**472**	**491**	**504**
Dividend income	3	0	7	1	2	0	2	6
Share of profit/(loss) of companies accounted for using the equity method	13	14	18	12	9	12	10	9
Total net fees and commissions	266	265	270	264	229	210	218	207
Gain and losses on financial assets and liabilities	30	90	152	139	54	51	101	161
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	48	82	141	130	47	45	71	146
Gains or (-) losses on financial assets and liabilities held for trading, (net)	(7)	14	18	16	15	12	36	24
Gains or (-) losses from hedge accounting, (net)	(10)	(5)	(7)	(7)	(9)	(5)	(6)	(9)
Exchange differences [gain or (-) loss], net	4	5	5	1	3	3	2	2
Other operating income (-) expenses, net	(160)	(5)	(70)	(3)	(132)	2	(61)	(3)
Gross income	**662**	**865**	**903**	**939**	**666**	**751**	**762**	**886**
Operating expenses	(468)	(458)	(459)	(485)	(875)	(387)	(378)	(386)
Administrative expenses	(425)	(415)	(419)	(437)	(828)	(344)	(336)	(345)
Staff	(278)	(287)	(291)	(305)	(700)	(229)	(226)	(235)
Other administrative expenses	(147)	(128)	(128)	(132)	(128)	(114)	(110)	(110)
Depreciation	(43)	(42)	(40)	(48)	(47)	(44)	(42)	(41)
Pre impairment income	**194**	**407**	**444**	**453**	**(209)**	**364**	**384**	**500**
Provisions or reversal of provisions	(46)	(0)	24	13	38	(6)	(5)	8
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses, (net)	(146)	(73)	(91)	(116)	(88)	(66)	(67)	(107)
Total operating income	**1**	**334**	**376**	**350**	**(259)**	**291**	**312**	**401**
Impairment or reversal of impairment of investment in joint-ventures or associates	0	0	41	0	0	0	0	(3)
Impairment or reversal of impairment on non-financial assets	(19)	(3)	(5)	(4)	(2)	(2)	(1)	(6)
Other gains and losses	(31)	(43)	(28)	(49)	(67)	(29)	(22)	12
Profit or (-) loss before tax from continuing operations	**(49)**	**288**	**384**	**297**	**(328)**	**260**	**289**	**404**
Tax expense or income related to Profit or Loss from continuing operations	7	(63)	(99)	(67)	82	(34)	(78)	(100)
Profit or (-) loss after tax from continuing operations	**(42)**	**224**	**285**	**230**	**(246)**	**226**	**210**	**304**
Profit or (-) loss after tax from discontinued operations (2)	1	5	0	0	0	0	0	0
Profit or Loss	**(40)**	**229**	**285**	**230**	**(246)**	**226**	**210**	**304**
Profit or Loss attributable to minority interest	(0)	0	(0)	0	(12)	1	0	0
Profit or Loss attributable to owners of the parent	**(40)**	**229**	**285**	**229**	**(235)**	**225**	**210**	**304**

(*) Financial Statement amounts rounded to millions of euros.

(1) Data for 4Q18, 3Q18, 2Q18 and 1Q18 are for the resulting entity of the merger between Bankia and BMN. Data for 4Q17 include one month of BMN data, as the merger was effective for accounting purposes from 1 December 2017. Data for 3Q17, 2Q17 and 1Q17 are reported by the Bankia Group before the merger with BMN.

(2) Includes 100% of the profit/(loss) of Caja Murcia Vida and Caja Granada Vida from the acquisition of the entire share capital of the two companies in December 2017 and until June 10, 2018. Their profit or loss was accounted using the equity method.

INCOME STATEMENT BANKIA GROUP - HIGHLIGHTS

(millions of euros) (*)	December 2018 Amount	December 2018 % of gross income	December 2018 % os average total net assets	December 2017 (1) Amount	December 2017 (1) % of gross income	December 2017 (1) % os average total net assets
Net income interest	**2,049**	**60.8%**	**1.0%**	**1,968**	**64.2%**	**1.1%**
Gross income	**3,368**	**-**	**1.6%**	**3,064**	**-**	**1.7%**
Operating expenses	(1,870)	(55.5%)	(0.9%)	(2,026)	(66.1%)	(1.1%)
Administrative expenses	(1,696)	(50.4%)	(0.8%)	(1,852)	(60.4%)	(1.0%)
Depreciation and amortization charge	(174)	(5.2%)	(0.1%)	(174)	(5.7%)	(0.1%)
Provisions or reversal of provisions	(10)	(0.3%)	(0.0%)	34	1.1%	0.0%
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses, (net)	(427)	(12.7%)	(0.2%)	(329)	(10.7%)	(0.2%)
Total operating income	**1,061**	**31.5%**	**0.5%**	**744**	**24.3%**	**0.4%**
Impairment or reversal of impairment on non-financial assets Investments in joint ventures and associates	41	1.2%	0.0%	(3)	(0.1%)	(0.0%)
Impairment or reversal of impairment on non-financial assets	(31)	(0.9%)	(0.0%)	(11)	(0.3%)	(0.0%)
Other gains and losses	(151)	(4.5%)	(0.1%)	(106)	(3.4%)	(0.1%)
Profit or Loss before tax from continuing operations	**920**	**27.3%**	**0.4%**	**625**	**20.4%**	**0.3%**
Tax expense or income related to profit or Loss from continuing operations	(223)	(6.6%)	(0.1%)	(131)	(4.3%)	(0.1%)
Profit or (-) loss after tax from continuing operations	**697**	**20.7%**	**0.3%**	**494**	**16.1%**	**0.3%**
Profit or (-) loss after tax from discontinued operations	6	0.2%	0.0%	-	-	-
Profit or Loss	**703**	**20.9%**	**0.3%**	**494**	**16.1%**	**0.3%**
Profit or Loss attributable to minority interest (non-controlling interests)	0	0.0%	0.0%	(11)	(0.3%)	(0.0%)
Profit or Loss attributable to owners of the parent	**703**	**20.9%**	**0.3%**	**505**	**16.5%**	**0.3%**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures at 31 December 2017 only include BMN income statement of December, as the merger was effective for accounting purposes from 1 December 2017.

- **Overview of Group earnings**

The Bankia Group reported net attributable profit of EUR 703 million in 2018, above the EUR 199 million reported in 2017. The full integration of BMN's earnings, the initial post-merger cost savings and the absence of the one-off staff costs incurred in 2017 arising from the integration (EUR 445 million) are all factors explaining this result.

Main movements in the Group’s income statement items of ended December 2018 are discussed below.

- **Net interest income**

Net interest income for the Bank totalled EUR 2,049 million, up EUR 81 million (+4.1%) year on year following the integration of BMN. If we include BMN's total earnings in 2017 so as to provide a like-for-like comparison, the Group’s net interest income would have fallen by 9.6% year on year due to the impact of the lower yield on fixed income securities following the sales and portfolio rotation carried out, as well as the natural maturities of the loans and the still-negative repricing of the mortgage portfolio in the year’s first half.

The following table shows trends in net interest income in 2018 and 2017, 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 2018.

STRUCTURE OF INCOME AND EXPENSES - BANKIA GROUP

(millions of euros y %) (*)	December 2018 Average balance [1]	December 2018 Income/ expenses [1]	December 2018 Type	December 2017 Average balance	December 2017 Income/ expenses	December 2017 Type	Variation Average balance	Variation Income/ expenses	Effect Type	Effect Volume
Finance income										
Credit institutions [2]	7,351	87	1.19%	6,280	84	1.33%	1,070	4	(9)	13
Loans and advances to customers (a)	120,282	2,018	1.68%	104,183	1,746	1.68%	16,099	272	2	270
Debt securities	51,818	341	0.66%	48,916	477	0.97%	2,903	(135)	(154)	19
Other interest bearing assets	449	8	1.77%	391	3	0.80%	57	5	4	1
Other non interest bearing assets	26,624	-	-	23,458	-	-	3,166	-	-	-
Total assets (b)	**206,524**	**2,454**	**1.19%**	**183,228**	**2,309**	**1.26%**	**23,296**	**145**	**(132)**	**277**
Financial expenses										
Credit institutions [2]	37,538	45	0.12%	35,750	47	0.13%	1,789	(2)	(4)	2
Customer deposits (c)	125,873	153	0.12%	103,818	103	0.10%	22,054	49	23	27
Strict customer deposits	118,500	61	0.05%	98,372	84	0.09%	20,128	(22)	(33)	10
Repos	508	2	0.44%	416	0.2	0.05%	92	2	2	0
Singular bonds	6,865	89	1.30%	5,030	20	0.39%	1,835	70	46	24
Debt securities issued	18,470	195	1.06%	19,130	184	0.96%	(660)	11	18	(7)
Other interest bearing liabilities	1,156	12	1.05%	932	7	0.74%	224	5	3	2
Other non interest bearing liabilitites	10,234	-	-	10,697	-	-	(463)	-	-	-
Equity	13,253	-	-	12,901	-	-	351	-	-	-
Total Liabilities and Equity (d)	**206,524**	**405**	**0.20%**	**183,228**	**341**	**0.19%**	**23,296**	**64**	**18**	**46**
Customers margin (a-c)		**1,865**	**1.56%**		**1,642**	**1.58%**		**222**	**(21)**	**243**
Balance sheet differential (b-d)		**2,049**	**0.99%**		**1,968**	**1.07%**		**81**	**(150)**	**231**

(*) Financial Statement amounts rounded to millions of euros

(1) Bankia and BMN merged with effect for accounting purposes on 1 December 2017. Therefore, earnings and average balances for 2018 include the finance income, finance costs, interest-bearing assets and liabilities of the merged entities. Meanwhile, data for 2017 correspond to the Bankia Group pre-merger and BMN december 2017 income and expenses.

(2) Includes central banks and credit institutions. Loans and advances to credit institutions includes negative interest arising from deposits from credit institutions (mainly TLTRO II and repo transactions), since, according to accounting regulations, income arising from the application of negative interest rates is recognised in accordance with the nature of the item.The opposite occurs with deposits from credit institutions.

Finance income was up 6.3% (EUR 145 million) due to the positive impact of the full integration of BMN. However, on a like-for-like basis, i.e. if we work on the assumption that BMN contributed earnings over the entire 2017, finance income would have been down by an estimated 11.5% because of both prevailing rates (rotation of fixed income portfolios and mortgage repricings) and a reduction in volume (sales of fixed income portfolios and natural maturities of credit stock, which are still outpacing the growing contribution made by new loans).

The integration of BMN has pushed up the Group’s finance costs by EUR 64 million (+18.8%) versus of 2017. Were we to include every earnings at BMN in 2017, total finance costs on a like-for-like basis would have fallen by an estimated 20.1%, mainly in response to the reduction in the average price of arranging new term deposits.

The lower finance cost of retail savings, along with the lower impact of the euro yield curve on the Group´s credit stock, has remained stable the customer´s margin, which stood at 1.56% at 31 December 2018 after the integration of BMN, compared 1.58% at 31 December 2017.

The Group's net interest margin at 31 December 2018 stood 0.99% at the end of December 2018, down 8 basis points on the level seen in December 2017.

- **Gross income**

Gross income for Bankia Group amounted to EUR 3,368 million, up 9.9% year on year. Were we to include earnings at BMN in 2017, we would see a negative adjustment in like-for-like terms of 6.5%. Net interest income and fee and commission income accounted for 92.5% of the Group’s gross income at 31 December 2018.

Net fees and commissions totalled EUR 1,065 million, 23.3% more than 2017 following the full integration of BMN and an increase in business and customer engagement at the Group. This healthy showing was largely down to collections and payments (cards) and asset management activity (mainly sales of investment funds and insurance and impaired assets management of BFA), which offset the reduction in fees generated from transaction structuring and design services. Were we to include earnings at BMN in 2017, fee and commission income would have grown 3.4% year on year.

NET FEES AND COMISSIONS - BANKIA GROUP

(millions of euros) (*)	dec-18	dec-17 [1]	Variation dec-17 Amount	Variation dec-17 %
Traditional banking	511	384	127	33.0%
Contingent liabilities and commitmentss	102	89	12	14.0%
Collection and payment services	410	295	115	38.8%
Banking financial product sales	336	299	37	12.4%
Investment funds	130	113	17	15.1%
Pensions funds	65	60	5	8.1%
Insurance and others	142	126	15	12.1%
Total fees and commissions and banking sales	**848**	**684**	**164**	**24.0%**
Other commissions income	**302**	**260**	**41**	**15.9%**
Security services	57	57	1	0.9%
Operations design and framing	29	37	(8)	(21.0%)
Recovered written off assets	22	6	15	251.8%
Claim of debtor positions	125	104	21	20.1%
Others	69	56	12	21.7%
Fees and commission income	**1,150**	**944**	**206**	**21.8%**
Fees and commission expenses	**85**	**80**	**5**	**5.8%**
Total net commissions	**1,065**	**864**	**201**	**23.3%**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures at 31 December 2017 only include BMN commisions of December, as the merger was effective for accounting purposes from 1 December 2017.

Gains and losses on financial assets and liabilities has totaled EUR 411 million, 11.8% more than in 2017. Mainly includes the gains obtained on fixed-income sales, mostly during the year based on the outlook for trends in market interest rates. In like-for-like terms, gains and losses on financial assets and liabilities would be down 5.2% on December 2017 if we include a full year BMN's earnings of 2017.

Other operating income and expenses showed a net expense of EUR 239 million at 31 December 2018, an increase of EUR 44 million from the last year, driven by lower income by leases, a larger contribution paid to the Deposits Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and higher tax on deposits following the integration of BMN.

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, totalling EUR 82 million at year-end 2018, up EUR 23 million from the year earlier (EUR +4 million on a same-scope basis if 12 months of BMN's earnings were included in 2017), thanks mostly to the larger contribution to share of profits of companies accounted for using the equity method (Bankia Mapfre Vida, Caser and Redsys). Since the acquisition of all the shares of Cajamurcia Vida and Caja Granada Vida in July 2018, the full amount of profit and loss of both companies was reported as profit or loss from discontinued operations. Until July 2018, the share of profit and loss of Cajamurcia Vida and Caja Granada Vida was accounted for using the equity method.

- **Operating expenses**

Operating expenses (administrative expenses and depreciation) fell by 7.7 to EUR 1,870 million in 2018, due to the realisation of the initial cost synergies after the merger with BMN and the recognition in 2017 of one-off staff costs of EUR 445 million to cover the integration costs arising from the merger. This decrease was in line with the objective of controlling costs and managing efficiency as a core element of the Group's strategy. In November 2018, the Bankia Group completed its headcount restructuring set out in the collective redundancy agreement signed after the merger, resulting in the departure of 2,000 employees.

The Groups's efficiency ratio (operating expenses/gross income) at 31 December 2018 stood at 55.5% opposite to 66.1% registered in 2017.

ADMINISTRATIVE EXPENSES - BANKIA GROUP

(millions of euros) (*)	dec-18	dec-17 (1)	variation Dec-17 Amount	variation Dec-17 %
Staff costs	**1,161**	**1,390**	**(229)**	**(16.5%)**
Wages and salaries	882	688	194	28.1%
Social security costs	219	182	37	20.4%
Pension plans	32	47	(14)	(30.6%)
Others	27	473	(446)	(94.2%)
Other administrative expenses	**535**	**462**	**73**	**15.9%**
Real state, facilities and material	120	103	17	16.1%
IT and communications	192	160	31	19.4%
Advertising and publicity	52	47	5	10.5%
Technical reports	27	25	2	7.8%
Surveillance and security courier services	18	14	4	25.4%
Levies and taxes	30	24	6	24.0%
Insurance and self insurance premiums	4	4	(0)	(2.2%)
Other expensives	94	85	9	11.1%
Total administrative expensives	**1,696**	**1,852**	**(156)**	**(8.4%)**
Efficiency ratio	**55.5%**	**66.1%**	**(10.6)p.p.**	**(16.0%)**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures at 31 December 2017 only include BMN administrative expenses of 2018, as the merger was effective for accounting purposes from 1 December 2017.

- **Pre-provision operating income**

The evolution of operating income and expenses placed pre-provision profit´s margin in EUR 1,498 million at 31 December 2018, up EUR 459 million (+44.2%) on the amount reported in 2017. Of having joined a complete year of BMN's results in 2017, in terms of comparable there would have taken place a decrease of the net margin estimated of 9.1%.

- **Provisions and write-downs**

Provisions, which include provisions for pending legal issues, tax litigation, commitments and guarantees given, and other provisions, amounted to a negative EUR 10 million in 2018, related to the restructuring of the Group's insurance business. Conversely, in 2017 the Group recognised a positive figure of EUR 34 million due to reversals of provisions for issuer risk and other contingent liabilities in the year.

Impairment of financial assets not measured at fair value through profit or loss, which includes mainly provisions for credit losses, increased by EUR 98 million in 2018 (+29.8%) to EUR 427 million.

Impairment of non-financial assets, mainly goodwill, tangible assets, investment properties and inventories, was EUR 31 million, up EUR 20 million from 2017, concentrated in the Group's investment properties. **Impairment of investments in joint ventures and associates** showing a positive EUR 41 million versus the negative EUR 3 million reported at 31 December 2017.

The trends in the various items of provisions and impairments resulted in total charges in 2018 of EUR 426 million, up 38.6% from the amount endowed in 2017.

- **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 Group and the extraordinary results of the sale of property and share stakes. At 31 December 2018, it shows a negative figure of the EUR 151 million, up on the negative EUR 106 million reported in 2017 since the previous year's amount included the income from the deferred payment on the sale of Globalvia (EUR 47 million).

- **Attributable profit**

After the integration of BMN, the Bankia Group generated profit attributable to owners of the parent of EUR 703 million in 2018, up 39.4% from 2017, which was shaped by non-recurring restructuring costs related to the merger and only includes one month of profit or loss of BMN.The Group obtained this attributable profit after EUR 6 million of profit from discontinued operations, which included the profit and loss of Cajamurcia Vida and Caja Granada Vida since the acquisition of the entire amount of their share capital at 10 July 2018. Previous this date, the share of profit and loss of Caja Murcia Vida and Caja Granada Vida was accounted for using the equity method.

4. - ALTERNATIVE PERFORMANCE MEASURES

In addition to the financial information prepared in accordance with generally accepted accounting principles (IFRS), the Bankia Group uses certain alternative performance measures ("APMs") that are used habitually in the bank sector as indicators for monitoring the management of the Group'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 — Security debts issued Third-party resources managed and marketed by the Group (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 Group (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.	1.5 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. — Customer deposit less repos.	1.7 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 non-trading financial assets mandatorily at fair value through profit or loss, 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.	3.5
Operating income before provisions	Gross margin less administrative expenses and depreciation	Sum of the flowing items of the income statement: — Gross Margin — Administration expenses — Depreciation	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 of the year divided by the average month-end balance of customer deposits in the year. Interest income and expense are annualised at the June accounting close.	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. Interest income and expense are annualised at the June accounting close.	3.5

PERFORMANCE MEASURE	DEFINITION	CALCULATION METHOD AND ACCOUNTING DATA USED	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. Earnings for the period are annualised at the June accounting close.	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. Earnings for the period are annualised at the June accounting close.	3.3
RORWA (%)	Measures the return obtained from the risk-weighted average assets	Profit/(loss) for the year attributable to owners of the Parent divided by regulatory risk-weighted assets at the end of the period. Earnings for the period are annualised at the June accounting close.	3.3 3.5
ROTE (%)	Measures the return on equity excluding intangible assets	Profit/(loss) for the year attributable to owners of the Parent divided by average equity less intangible assets at the end of the 12-month period adjusted for expected dividends. Earnings for the period are annualised at the June accounting close.	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

ACCOUNTING DATA (EUR million and %)	Dec-18	Dec-17 (1)
Resources managed by customers	**169,254**	**172,645**
— Customer deposits	126,319	130,396
— Marketable debt securities	18,360	19,785
— Investment companies and funds	17,210	15,726
— Pension funds	7,364	6,738
Total turnover	**287,549**	**295,670**
— Loans and advances - customers	118,295	123,025
— Customer deposits	126,319	130,396
— Debt securities issued	18,360	19,785
— Investment companies and funds	17,210	15,726
— Pension funds	7,364	6,738
NPL ratio (%)	**6.5%**	**8.9%**
- Doubtful risks of loans and advances to customers and contingent risks	8,416	12,117
- Total risks of loans and advances to customers and contingent risks	129,792	136,353
NPL coverage ratio (%)	**54.6%**	**50.8%**
- Loan impairment and customer advances and contingent risks	4,593	6,151
- Doubtful risks of loans and advances to customers and contingent risks.	8,416	12,117
LTD ratio (%)	**91.2%**	**93.9%**
- Loans and advances to customers	118,295	123,025
- Temporary Acquisitions of Assets	14	256
- Deposits of the customers	126,319	130,396
- Temporary Assignment of Assets	44	2,668
- Funds for mediation appropriations received from the EIB and ICO	3,424	3,007
Gains or losses on financial assets and liabilities (net)	**411**	**367**
— Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	400	310
— Gains or losses on financial assets and liabilities held for trading, net.	40	387
— Gains or losses on Non-trading financial assets mandatorily at fair value through profit or loss, 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	(29)	(30)
Operating income before provisions	**1,498**	**1,038**
— Gross income	3,368	3,064
— Administrative expenses	(1,696)	(1,852)
— Depreciation	(174)	(174)

ACCOUNTING DATA (EUR million and %)	Dec-18	Dec-17 (1)
Customer Margin (%)	**1.56%**	**1.58%**
Average interest rate on loans and advances to customers (%):	1.68%	1.68%
— Interest income on loans and advances to customers in period	2,018	1,746
— Average month-end balances of loans and advances to customers	120,282	104,183
Average interest rate paid on customer deposits (%):	0.12%	0.10%
— Interest expenses on customer deposits in the period	153	103
— Average month-end balances of customer deposits	125,873	103,818
Balance sheet diferential (%)	**0.99%**	**1.07%**
Average return on assets (%):	1.19%	1.26%
— Interest income in the period	2,454	2,309
— Interest income in the period annualised	206,524	183,228
Average cost of liabilities and equity (%):	0.20%	0.19%
— Interest expenses in the period	405	341
— Interest expenses in the period annualized	206,524	183,228
ROA (%) (2)	**0.3%**	**0.3%**
— Profit/(loss) of the period	**703**	**494**
— Average value of recognised assets at the end of the first half of the year	**206,524**	**183,228**
RORWA (%) (2)	**0.9%**	**0.6%**
— Profit/(loss) of the period	703	494
— Regulatory risk-weighted assets at the period end	82,380	86,042
ROE (%) (2)	**5.6%**	**4.1%**
— Profit/(loss) of the period	703	505
— Average value of equity of the 12 months preceding the period end adjusted for expected dividends	12,648	12,286
ROTE (%) (2)	**5.7%**	**4.2%**
— Profit/(loss) of the period	703	505
— Average value of tangible equity of the 12 months preceding the period end adjusted for expected dividends	12,375	12,053
Efficiency ratio (%) (2)	**55.5%**	**66.1%**
— Administrative expenses	1,696	1,852
— Depreciation for the period	174	174
— Gross income	3,368	3,064

(1) At the end of December 2017 profit and loss account data only include one month of BMN results, as the merger was effective for accounting purposes from 1 December 2017.

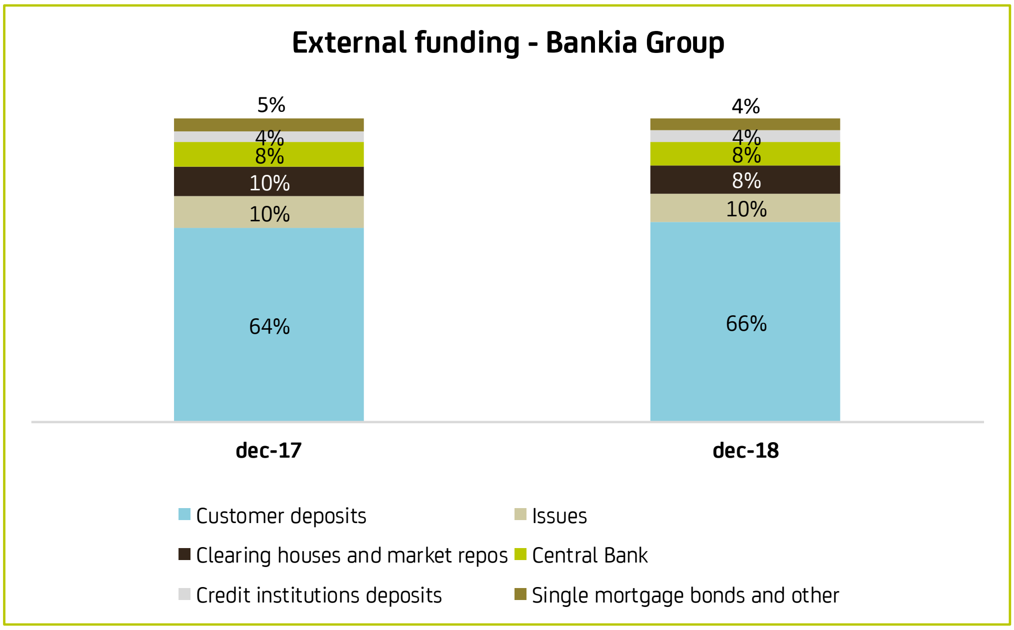
(2) In December 2017, the profitability and efficiency ratios were affected by the non-recurring integration costs arising from the merger between Bankia with BMN.

5. - FUNDING STRUCTURE AND LIQUIDITY

Note 3.2 and 3.3 to the annual accounts for the period ended 31 December 2018 describes Bankia Group's liquidity management policies and provide details on maturities of financial assets and financial liabilities that allows as to project its liquidity balance at different maturities. Accordingly, this section refers to the performance of the Group's main liquidity indicators and funding sources in 2018.

The Group'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 2018 the Group continued to maintain a very comfortable liquidity position, with no material changes with regards to its liquidity and funding management policies.

According to the retail business model underpinning its banking activity, the Bankia Group's main source of funding are strict customer deposits, which cover the whole of net loans and advances to customers at year end and provide great stability to the Group's funding structure. Strict customer deposits arise mainly from business with retail customers (81.7% of customer deposits come from retail banking). Funds obtained through customer deposits are complemented by wholesale funding gearing towards the medium and long term (issuances), repos arranged in the market, balances with the ECB and (non-marketable) single mortgage bonds.



In 2018, the Bankia Group's external funding needs were down by EUR 7,029 million compared to 31 December 2017 thanks to the liquidity released from disposals of fixed-income securities and management of the commercial gap during the year.

FUNDING SOURCES- BANKIA GROUP

(Millions of euros) (*)	dec-18	dec-17	Variation Dec-17 Amount	Variation Dec-17 %	% of the total dec-18	% of the total dec-17
Strict customer deposit	**120,028**	**120,229**	**(201)**	**(0.2%)**	**66.0%**	**63.6%**
Public sector	6,608	5,678	930	16.4%	3.6%	3.0%
Other financial companies	8,218	9,336	(1,118)	(12.0%)	4.5%	4.9%
Current accounts	5,731	5,743	(13)	(0.2%)	3.2%	3.0%
Term deposits	2,488	3,593	(1,105)	(30.8%)	1.4%	1.9%
Non-financial companies	14,340	16,186	(1,846)	(11.4%)	7.9%	8.6%
Current accounts	12,034	12,408	(374)	(3.0%)	6.6%	6.6%
Term deposits	2,306	3,778	(1,472)	(39.0%)	1.3%	2.0%
Households	90,861	89,029	1,833	2.1%	50.0%	47.1%
Current accounts	59,632	53,677	5,955	11.1%	32.8%	28.4%
Term deposits	31,229	35,351	(4,123)	(11.7%)	17.2%	18.7%
Wholesaler funding	**25,505**	**26,521**	**(1,016)**	**(3.8%)**	**14.0%**	**14.0%**
Deposits and credit institutions (1)	7,145	6,736	409	6.1%	3.9%	3.6%
Debt securities issued	18,360	19,785	(1,425)	(7.2%)	10.1%	10.5%
Single mortgage bonds	**6,248**	**7,499**	**(1,251)**	**(16.7%)**	**3.4%**	**4.0%**
Repos	**14,687**	**18,225**	**(3,538)**	**(19.4%)**	**8.1%**	**9.6%**
Central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**	**7.6%**	**8.1%**
Others	**1,545**	**1,067**	**478**	**44.8%**	**0.8%**	**0.6%**
Total external funding sources	**181,869**	**188,898**	**(7,029)**	**(3.7%)**	**100.0%**	**100.0%**

(*) Financial Statement amounts rounded to millions of euros
(1) Includes interbank deposits, collateral posted and other loans and deposits from credit institutions

Customer funds reached EUR 120,028 million, 66% of the Group's external funding mix, compared to 63.6% in December 2017, with the following breakdown: (i) 50% households, (ii) 7.9% non-financial corporations, (iii) 4.5% other financial institutions and (iv) 3.6% public sector deposits. Customers continued to transfer savings to current accounts and short-term deposits in 2018, along with off-balance sheet products under management further illustrating the shift of funds by Bankia customers away from longer-term products earning lower interest.

Wholesale funding stood at EUR 25,505 million at 31 December 2018, representing 14% of external funding (same percentage as 31 December 2017), and comprising mainly mortgage-backed securities and deposits from credit institutions. The decrease of EUR 1,016 million is explained by maturities during 2018 mainly mortgage-backed securities.

Repos arranged through clearing houses and in the market stood at EUR 14,687 million, representing 8.1% of the Bankia Group's external funding at December 2018 compared to 9.6% in 2017. This activity forms part of the Group's strategy to diversify its funding sources, to reduce costs, and to maintain alternative external funding secured by liquid assets, other than that of the ECB.

ECB financing decreased by EUR 1.5 billion from 2017 owing to the early repayment on the undrawn amount of the TLTRO I, reaching EUR 13,856 million at 31 December 2018. As a result, the weight of central banks on the Bankia Group's funding structure stands at 7.6% of external funding compared to 8.1% in December 2017. The total funding from central banks held by the Bankia Group at 31 December 2018 was related to funds obtained in the TLTRO II programme.

Lastly, non-marketable mortgage-backed securities included in customer deposits and other funding sources amounted to a combined EUR 7,793 million at 31 December 2018. They are a residual component of the Group's funding structure, representing 3.4% and 0.8%, respectively, of the Bankia Group's borrowings at year-end.

Core liquidity metrics remain at comfortable levels. The commercial gap, i.e. the difference between loans (excluding reverse repos) and strict customer deposits, plus funds received from the EIB and ICO to extend second-floor loans, was a negative EUR 5,170 million at the end of 2018 compared to a negative EUR 467 million at 31 December 2017. The “Loan to deposits” or LTD ratio (net loans less reverse repos divided by strict customer deposits less reverse repos plus funds received for second-floor loans) ended at 31 December 2018 in 91.2% (93,9% on December 2017), reflecting the balance achieved by the Group in funding its credit stock through customer deposits.

The Group has a comfortable debt maturity profile, with EUR 4,769 million in 2019 and EUR 418 million in 2020, of which EUR 3,182 million are mortgage-backed securities. To cover these maturities and scheduled redemptions in the coming years, the Group had EUR 31,938 million of available liquid assets at December 2018, equivalent to a 15.6% of the Group's assets and covers its entire wholesale debt maturities.

Therefore, with manageable debt maturities in coming quarters and a favorable capital markets 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 GROUP

			Variation dec-17	
(Millions of euros) (*)	**dec-18**	**dec-17**	**Amount**	**%**
Highly liquid available assets [(1)]	17,678	19,703	(2,025)	(10.3%)
Undrawn amount on the facility	11,339	10,918	421	3.9%
Cash [(2)]	2,921	2,206	715	32.4%
TOTAL	**31,938**	**32,827**	**(889)**	**(2.7%)**

(*) Financial Statement amounts rounded to millions of euros

(1) Market value cut by ECB

(2) 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 part of the Strategic Planning process to ensure that the capital plan in consistent, coherent and aligned with the strategic objectives, the Group's Risk Appetite Framework and the rest of the tactical plans comprising the financial plan for the forecast macroeconomic environment. The Financial Plan and the Capital Plan -as an integral part thereof- are updated annually by the management committee and submitted to the Board of Directors. Additionally, the capital planning process includes hypothetical stress scenarios created by applying a combination of adverse impacts to the projected situation, enabling the possible impacts on earnings and capital to be quantified in the event of an economic crisis. The Group has mitigation plans in place to offset impacts in adverse economic scenarios.

Moreover, the Bankia Group, as part of its governance framework, formally documents its capital planning and management process and keeps it up to date in a series of reports approved by the Bank'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 governance framework to ensure the involvement 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.

These documents are reviewed at least annually to update the definition, number and calibration of the capital indicators to include the findings of the Internal Capital Adequacy Assessment Process (ICAAP) report submitted to the supervisor in April 2018.

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 with a monthly base, real capital adequacy ratios are compared 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 Group 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

At December 2017, the ECB notified the Bankia Group the minimum capital requirements of its SREP applicable to 2018 on a Phase-in basis (scheduled applied to capital buffers) of a minimum Common Equity Tier 1 ratio of 8.563% of transitional regulatory capital (Phase in), comprising 4.5% of Pillar 1, plus a 2% Pillar 2 requirement plus a combined buffer requirement of 2.063%, and a minimum Total Capital ratio of 12.063% of transitional regulatory capital (Phase in), comprising 8% of Pillar 1,plus a 2% Pillar 2 requirement plus a combined buffer requirement of 2.063%.

In February 2019, the European Central Bank notified the Bank Group of the minimum capital requirements in the SREP applicable to it for 2019. The Pillar 2 Requirement is unchanged from 2018, at 2%. Therefore, in 2019, after the end of the transitional period applicable to capital buffers, a minimum Common Equity Tier I capital ratio of 9.25% and a minimum Total Capital ratio of 12.75% are required, both measured in relation to its transitional (phase-in) regulatory capital.

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 has only required to maintain 75% of this buffer in 2018; i.e. 0.1875%, and in 2019, 100% of the buffer will be required, i.e. 0.25%. Lastly, the Group's counter-cyclical capital buffer, calculated according to the geographical location of exposures, and set by Bank of Spain, has been 0% in 2018.

In December 2018, the Bankia Group achieved a Common Equity Tier 1 BIS III Phase-In ratio of 13.80% and a Total Capital BIS III Phase-in ratio of 17.58%. These capital levels imply surpluses of EUR 4,313 million and EUR 4,543 million above the minimum Common Equity Tier 1 and Total Capital ratios, respectively.

Once again in 2018, the Bankia Group employed an organic CET1 generation model (+83 bp), which allows it to offset the negative impact of regulatory changes on solvency, while continuing to meet the CET1 target set in the Corporate Risk Appetite and Tolerance Framework. The main factors explaining CET1 Phase-In capital performance in 2018 are the following:

- The **calendar effect** has had an impact of -**25 basis points**.
- **Full implementation IFRS 9** has had an impact of -**26 basis points**. The Bankia Group has not applied the transitional arrangements contemplated in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017.
- **"Targeted Review** of **Internal Models (TRIM)" process,** which had an impact of **-23 basis points**. The European Central Bank has begun reviewing banks' internal models for calculating capital requirements in order to eliminate any inconsistencies between banks. In 2018, Bankia underwent a review of its internal model for mortgages, resulting in this negative impact.

– **Decrease in unrealised gains** on financial assets at fair value, with a negative impact of **-44 bp** due mostly to market trends and the portfolio rotation strategy followed during the year.

– **Organic generation in the year of +83 bp,** including mostly profit attributable to the Group (EUR +703 million) net of the estimated dividend (EUR -357 million) and the decrease in risk-weighted assets excluding the impact of the TRIM on the mortgage portfolio, due mainly to credit and operational risk.

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 31 December 2018 and to comparative effects on 31 December 2017 applying the phase-in schedule for each period and includes profit or loss for each period to be taken to reserves.

BANKIA GROUP Solvency Basilea III

Eligible capital	December 2018 (*) (**)		December 2017 (*)	
Common Equity Tier I	11,367	13.80%	12,173	14.15%
Equity tier I	12,617	15.31%	12,856	14.94%
Equity tier II	1,863	2.27%	1,632	1.90%
Total Equity BIS III	**14,480**	**17.58%**	**14,487**	**16.84%**

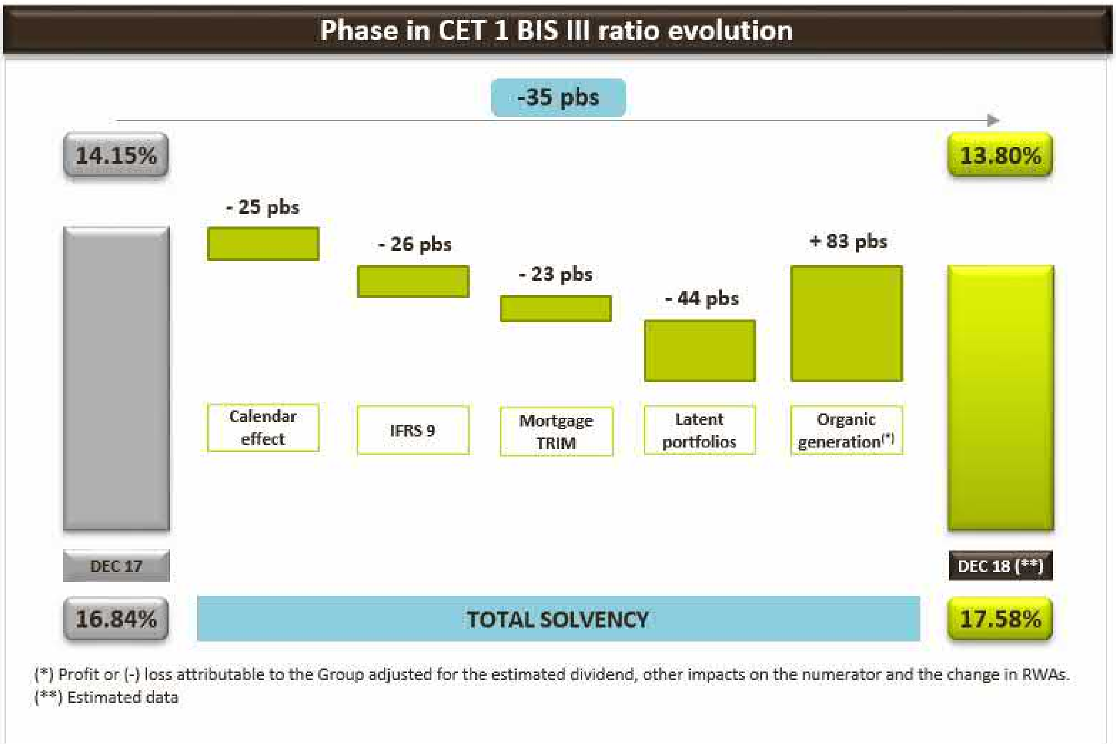
Risk weighted assets BIS III	Dec. 2018 (**)	Dec. 2017 (**)
Credit risk (include CVA)	74,921	77,958
Operational risk	5,881	6,476
Market risk	1,579	1,608
Total weighed assets BIS III	**82,381**	**86,042**

Excess/(Minimal regulatory defects)	December 2018 (*) (**)		December 2017 (*) (**)	
		minimum		*minimum*
Excess Common equity Tier I BIS III	**4,313**	**8.563%**	**5,398**	**7.875%**
Total Equitt Bis III	**4,542**	**12.063%**	**4,700**	**11.375%**

(*) Including the amount of net profit allocated to reserves
(**) Estimated at 31/12/2018

The Bankia Group's Phase-in Total Capital ratio increased by +74 bp in 2018, to 17.58%. Aside from this trend in Common Equity Tier I, September 2018 featured the issuance of contingent bonds convertible into Bankia shares for EUR 500 million eligible for inclusion as additional Tier 1 (AT1), with an impact on Phase-in Tier 1 Capital and Total Solvency of +60 bp. With this issue, the Bankia Group complied with the 1.5% minimum additional Tier I capital requirement of Pillar I, and increased its base of instruments with loss-absorbing capacity ahead of the future regulatory requirement of the MREL (minimum requirement for eligible liabilities) envisaged in the BRRD directive.

The following chart shows the trend in capital ratios:



It also presents reconciliation of equity in the balance sheet to regulatory capital, including profit of dividend for the year earmarked for reserves.

BANKIA GROUP reconciliation between Equity and Eligible Capital BIS III

(millions of € y %)

Eligible elements	Dec. 2018 (**)	Dec. 2017	Variation	% Variation
Own funds	13,030	13,222	(193)	(1%)
Other comprehensive accumulated income	147	366	(218)	(60%)
Non controlling interests	12	25	(12)	(50%)
Total Equity (Public Balance)	**13,189**	**13,613**	**(424)**	**(3%)**
Adjustment between public and regulatory balance	0.4	0.4	(0)	2%
Total Equity (Regulatory balance)	**13,190**	**13,614**	**(424)**	**(3%)**
Elementos patrimonio contable no computables	**(53)**	**(137)**	**83**	**(61%)**
Ineligible valuation adjustments as CE T-1	(24)	(104)	79	(76%)
Non controlling interests	(13)	(20)	8	(37%)
Regulatory autoportfolio adjustmets	(16)	(12)	(4)	29%
Regulatory capital deductions	**(1,770)**	**(1,304)**	**(466)**	**36%**
Intangible assets and other deductions (regulatory balance)	(530)	(342)	(189)	55%
Deferred tax assets	(847)	(587)	(260)	44%
Valuation adjustments due to prudent requirements (AVA)	(36)	(35)	(1)	2%
Dividends	(357)	(340)	(17)	5%
Common Equity Tier I	**11,367**	**12,173**	**(807)**	**(7%)**
Additional Equity Tier I	**1,250**	**682**	**568**	**83%**
Equity Tier II	**1,863**	**1,632**	**231**	**14%**
TOTAL REGULATORY EQUITY (*)	**14,480**	**14,487**	**(8)**	**(0%)**

(*) Including the amount of net profit earmarketed for reserves.
(**) Estimated at 31/12/2018.

The minimum capital requirements cover credit, foreign currency, market and operational risks.

At 31 December 2018, the capital requirements for credit risk, including equity and CVA, amounted to EUR 5,994 million (EUR 74,921 million risk-weighted assets). At present, the requirements for credit risk are calculated using both the standardised and internal rating-based approaches.

Currency and market risk exposures were calculated using internal models. In 2018, the requirements included an increase related to the calculation model and not merely to market activity. At 31 December 2018 capital requirements for this concept amounted to EUR 126 million (EUR 1,579 million risk-weighted assets).

Finally, the Bankia Group used the standardised approach to calculate the capital requirements for operational risk, totalling EUR 470 million at December 2018 (EUR 5,880 million risk-weighted assets).

Leverage ratio

The leverage ratio was implemented by 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 with the aim of including the leverage ratio as a binding Pillar I requirement.

The CRR does not require to comply with a minimum level, and there is only an indicative 3% of CET1 which was set by the BCBS starting January 2014. The proposed banking reforms, which will become effective in early 2019, in line with Basel recommendations, establish a binding leverage ratio requirement of 3% of Tier 1 capital.

The Bankia Group's (phase-in) leverage ratio at 31 December 2018 stood at 6.09%, above the 3% minimum reference level set by the Basel Committee. In 2018, the leverage ratio increased by +7 bp, due above all to the reduction in exposure (mostly for balance sheet deleveraging), with an impact on the ratio of +19 bp. This was partly offset by the reduction in Phase-in Tier 1 capital, with an impact of -12 bp. In addition to the trend in Tier 1 capital explained previously, in September the Bankia Group issued EUR 500 million worth of contingent bonds convertible into Bankia shares eligible for inclusion as additional Tier 1, resulting in an increase in the Phase-in leverage ratio of +23 bp.

The following table provides a breakdown of the leverage ratio at 31 December 2018 and to comparative effects as 31 December 2017 along with a reconciliation of total assets on the balance sheet and leverage exposure measure:

BANKIA GROUP leverage ratio

Items (Millions of euros and %)	Dec. 2018 (*) (**)	Dec. 2017 (*)
Tier 1 Capital	12,617	12,856
Exposure	207,078	213,505
Leverage ratio	**6.09%**	**6.02%**
Reconciliation between Public Balance sheet and exposure for leverage ratio		
Total Assets Public Balance	**205,223**	**213,932**
(+/-) Adjustments difference between Public and Regulatory Balance	(330)	9
(-) Items already deducted from Tier 1 capital	(1,385)	(1,003)
(-) On-balance sheet derivatives assets	(8,649)	(9,765)
(+) Derivative exposure	721	210
(+) Add-ons for counterparty risk in securities financing transactions (SFTs)	3,925	3,255
(+) Off-balance sheet items (including use of CCFs)	7,574	6,867
Total exposure leverage ratio	**207,078**	**213,505**

(*) Including the amount of net profit earmarked for reserves.
(**) Estimated at 31/12/2018.

7. - RISK MANAGEMENT

Risk management is a strategic cornerstone in the organisation which primary objective 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 past due exposures.

Note 3 to Bankia Group's annual accounts for the period ended 31 December 2018 provides details on the governing bodies responsible for supervising and controlling the Group's risks, as well as the general principles, organisational model, policies and methods to control and measure the risks to which the Group 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 2018.

7.1. - Credit risk

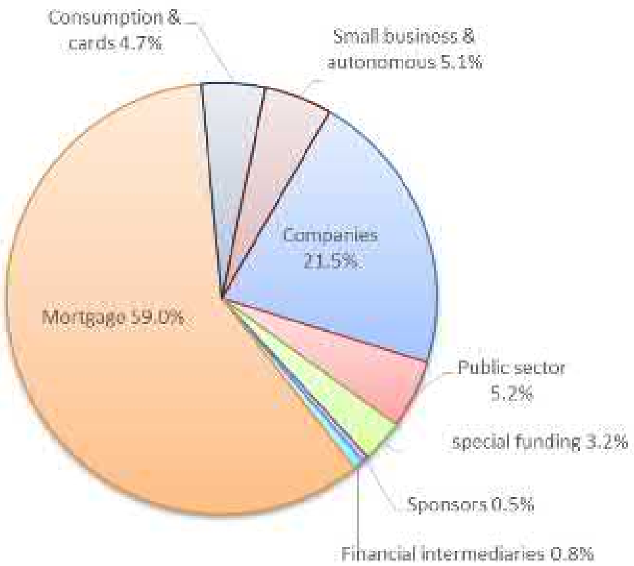
Credit risk is the risk of loss assumed by Bankia Group in the regular course of its banking business if its customers or counterparties fail to comply with their contractual payment obligations.

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 the Group's customers.

The variables the Bankia Group 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 Group'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 Group's credit risk profile and its performance in 2018 according to data from the audited portfolio (does not include positions in financial investees) are as follows:

- In the breakdown of loans and advances to customers, the weight of the retail segment increased from 67% December in 2017 to 69% at December 2018, to the detriment of the weight of the wholesale segment (including the public sector), which dropped from 33% in December 2017 to 31% at the end of 2018.

- The weight of the real estate portfolio over total loans is below 0.5%.

- The mortgage portfolio accounts for 59% of total loans and receivables. The second largest portfolio corresponds to companies representing 21.5% of the total, followed by loans to public institutions and bodies and loans to micro-enterprises and self-employed professionals accounting for 5.2% and 5.1% respectively of the total portfolio.

- As of December 2018 36% of non-performing loans was classified as such for subjective criteria or are in the "curing" period. This means that no loans in this portfolio are past-due and imply subjective arrears, or refinancing agreements have been reached with the customers and, therefore, there is an apparent willingness to paythat must be verified over a period of at least twelve months, but can be extended to the entire grace period when applicable.

The following table shows the distribution by portfolio of expected loss and regulatory capital for credit risk of Bankia Group at 31 December 2018:

MM€	dec-18	
Segment name	**Regulatory capital**	**Expected loss**
Entities	39.7	105.8
Banks and financial intermediaries	211.8	13.9
Companies	1,652.9	1,846.1
Sponsors	84.4	278.1
Retailer:	2,702.6	2,780.9
Mortgage	2,108.2	2,076.0
Consumption	*245.0*	*157.9*
Cards	*94.8*	*49.4*
Small business and self-employed professionals	*254.6*	*497.6*
Equity	28.7	0.8
TOTAL	**4,720.0**	**5,025.6**

The maturity profile of credit exposure is detailed in Note 3.3 to the condensed consolidated annual accounts of 2018 (table on residual maturities). A significant portion of loans and advances to customers (58.4%) 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.**

The Group 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 2018.

At 31 December 2018, the Group's **doubtful exposures** fell further, by 30.5% (EUR 3,072 million) from the end of 2017 to EUR 8,416 million at December 2018. 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, which resulted in the reclassification of EUR 1,373 million of non-performing loans as non-current assets held for sale due to the sale to institutional investor Lone Star XI described in section 1.2. As a result, the NPL ratio improved further, to 6.5% at 31 December 2018, 2.4 percentage points lower on a same-scope basis than at 31 December 2017.

At 31 December 2018, Bankia Group had counted a portfolio of refinanced operation of EUR 8,860 million in gross terms. The 53.4% of the refinanced credits had been classified as doubtful with a NPL ratio of 40.8%.

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.

NPL and Coverage - BANKIA GROUP

			Variation dec-17	
(Millions of euros and %) (*)	**dec-18 (1)**	**dec-17**	**Amount**	**%**
NPLs	8,416	12,117	(3,702)	(30.5%)
Total risk	129,792	136,353	(6,561)	(4.8%)
Total NPL Ratio (2)	**6.5%**	**8.9%**	**(2.4) p.p.**	**(27.0%)**
Total provisions	4,593	6,151	(1,558)	(25.3%)
Hedging ratio	**54.6%**	**50.8%**	**+3.8 p.p.**	**7.5%**

(*) Financial Statement amounts rounded to millions of euros

(1) NPL ratios and NPL coverage in 2018 discount the transactions reclassified to non-current assets held for sale arising from the sale agreement with Lone Star XI described in Note 18.5.1 to the annual financial statements.

(2) NPL ratio: non- performing loans and advances to customers and contingent liabilities/risk assets consisting of loans and advances to customers and contingent liabilities.

- **Credit risk of trading in derivatives**

The Group 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, the Bankia Group 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 2018, there were 1,947 netting and 230 guarantee agreements (120 derivatives, 74 repos and 36 securities loans). The main figures regarding quantification of the derivatives activity at that date are as follows:

- Original or maximum exposure: EUR 15,001 million.
- Exposure applying mitigation techniques through netting: EUR 5,698 million.
- Net exposure after applying all mitigation techniques: EUR 1,510 million.

As shown, counterparty risk in derivatives trading is reduced by 89.93% 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 Group managing to liquidate its assets in reasonable time and price conditions.

Note 3.2 and 3.3 Bankia Group's annual accounts at December 2018 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 2018.

The Entity's 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, the Entity 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. It is a question of a frame of action that it allows to anticipate and to manage tension events of liquidity. 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 Group'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 2018, the regulatory LCR (163% for Bankia on a standalone basis) was at levels that are demonstrably higher than the regulatory requirements for 2018 (100%). The net stable funding ratio (NSFR) is still 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%. The Group 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 Group's results. Rate fluctuations affect both the Group'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 Group's level of risk tolerance.

Trends in interest rates depend on certain factors that are beyond the Bankia Group'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 Group'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**

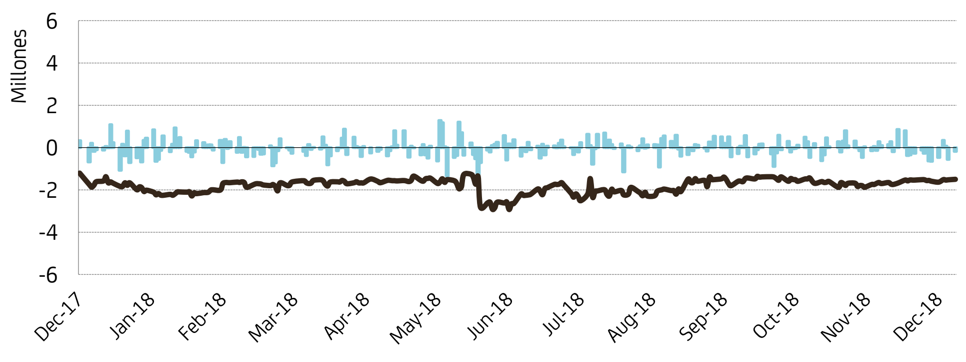
For market risk measurement used two metrics: VaR (value at risk), which provides a prediction of the maximum loss that can suffer in a time interval with a certain level of confidence and sensitivity, which expresses the impact on the valuation of financial instruments to the changes in various risk 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.

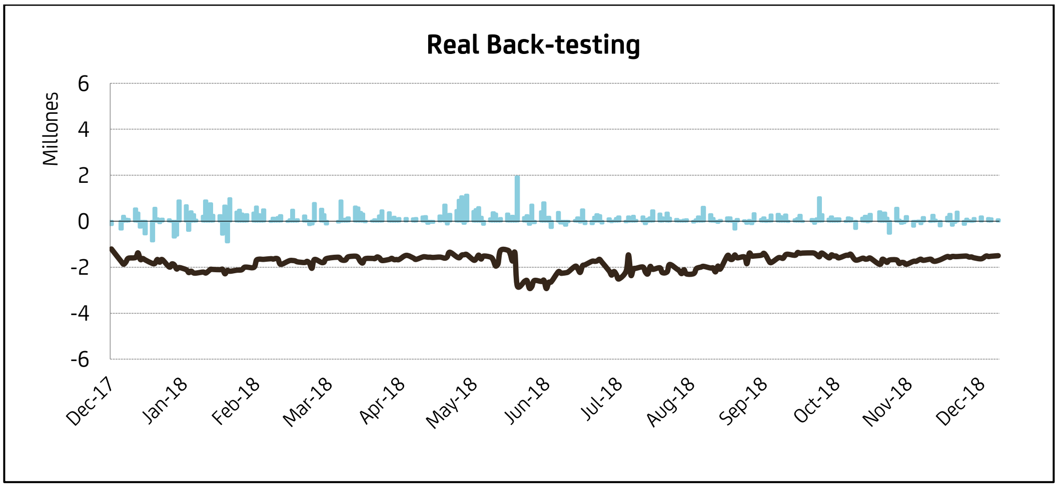
a) Value at Risk (VaR) and back-testing

VaR is measured by the historical simulation method using a 1-day time horizon and a 99% confidence level and a temporary horizon of one day, with 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 2018 confirm the effective operation of the model used by the Bankia Group to measure VaR in accordance with the assumptions used, with no breaches in the year.

Theoretical Back-testing





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.

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 2018

Bankia Group maintained an average VaR in 2018 of EUR 0.96 million, with a maximum of EUR 2.28 million and a minimum of EUR 0.36 million.

VaR	**Financial assets and liabilities held for trading** (Millions of euros)
Average	0.96
Maximum	2.28
Minimum	0.36

Distribution of VaR by risk category *(Millions of euros)*				
Risk category	**Punctual**	**Average**	**Maximum**	**Minimum**
Interest rate	0.31	0.48	1.08	0.18
Equity instrument	0.05	0.03	0.11	0.01
Exchange rate	0.14	0.36	0.84	0.05
Credit	0.02	0.08	0.29	0.00

- **Trading derivatives**

Bankia Group's 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 2018 are as follows:

VaR of derivatives activity *(Millions of euros)*	**Fixed income**	**Variable income**	**Exchange rate**	**Total**
Average	0.44	0.05	0.41	0.90
Maximum	1.13	0.18	0.91	1.99
Minimum	0.10	0.01	0.04	0.24

7.4. - 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.).

The Bankia Group's country risk management principles are grounded on criteria of maximum prudence, whereby this risk is assumed on a highly selective basis.

Bankia Group's exposure to country risk at 31 December 2018 was marginal due to the largely domestic bias of its operations, recognising a provision in this connection of EUR 4 million.

7.5. - 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 Group 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 2018, 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 Group has the following operational risk management objectives:

– The Bankia Group's operational and IT risk management not only covers the recognition of loss events and accounting of the losses, but also promotes control to minimise the potential negative impacts through continuous improvement to processes and the strengthening of 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 and Technological Risk Committee, whose responsibilities include approving policies and methods, is the natural channel for senior management participation in operational risk management. It is an executive committee and meets on a monthly basis. At its meetings, the Committee addresses issues such as the consumption of own resources, the performance of real and expected losses, risks in outsourcing processes, and all actions taken in the operational and technological risk management process.

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.

The Bankia Group 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 2018, Bankia Group 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. The Bankia Group's capital requirement for operational risk at 31 December 2018 amounted to EUR 470.478 million (EUR 518.10 million at December 2017).

- **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, other capital indicators, ability to generate future profit, business model, dividend policy, and capital and liability structure.

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.

Regulatory developments have been much more profound since the entry into force in January 2014 to the new prudential 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.

In this vein, to further strengthen the resilience of banks, on 23 November 2016, the European Commission presented a package of banking reforms to prevailing legislation on capital requirements (the CRR and CRD IV), and on the resolution of banks (Bank Recovery and Resolution Directive or BRRD). From that date, the package of banking reforms was subject to a public consultation, until in November 2018 it was submitted for consideration by the European Parliament and Council, and subsequently endorsed by the ECOFIN on 4 December 2018. The reforms are expected to become effective in early 2019 after final approval by the European Parliament and publication in the Official Journal of the European Union. The Bankia Group is taking measures to pre-empt and manage the potential impacts of these measures on its capital levels.

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).

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 took 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.

As noted previously, the package of banking reforms proposed by the European Commission, which are expected to enter into force in 2019, will introduce amendments to the BRRD; e.g. regarding minimum requirements of subordination of MREL eligible liabilities and the determination of a maximum distributable amount (MDA); i.e. limit on the discretionary distribution of capital, in terms of MREL. However, on 20 November 2018, the SRB published its annual policy paper on the MREL, which serves as a basis for setting minimum MREL requirements for banks not considered “complex” (subject to resolution colleges) and that, therefore, did not having binding targets in 2018, including the Bankia Group.

- **Reputational risk**

Since 2016, following the Board of Directors’ approval of the Reputational Risk Management Policies Manual (which is reviewed annually), Bankia has included reputational risks in its risks model, and meets regulatory and supervisory requirements for the management of this extra financial 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.

Sustainable management of reputational risk is crucial for carrying out the Bankia Group's long-term plans and achieving its objectives. It considers reputation not only as past performance, but also as a possibility and future opportunity. The Bankia Group 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.

Spurred by these requirements, in year 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.

By drawing up a reputational risk map, Bankia is able to manage risk events, which are classified according to probability and financial impact by management centres and reputational risk coordinators. The identification of these centres also enables the reputational risk culture to be prioritised internally in business and management areas that are more sensitive due to their exposure to the events identified.

Bankia also has 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.Through this indicator, the Board of Directors is able to assess Bankia's level of reputational risk and decide whether there is a need to implement measures or make any decisions relating to its internal management processes or its relations with stakeholders.

8. - FORECLOSED REAL ESTATE ASSETS

The net balance of the Bankia Group's property assets foreclosed or received in payment of debt ended at 31 December 2018 at EUR 2,800 million (EUR 4,331 million gross), representing just 1.4% of the Group's assets. Most of the foreclosed properties are held by Bankia, S.A. and entail liquid assets (67.1% gross terms), mainly existing and newly built homes, which makes the disposal easier.

FORECLOSED AND ACQUIRED ASSETS OF BANKIA GROUP- SPAIN BUSINESS

	December 2018			
(Millions of euros) (*)	Gross value	Valuation adjustments	Net value	Coverage (%)
Real estate assets from construction and development	719	311	408	43.2%
Of which: finished buildings	319	106	213	33.3%
Of which: buildings under constructions	53	24	29	46.0%
Of which: land	347	180	167	51.9%
Property assets from loan for house purchase	2,586	987	1,599	38.2%
Other real estate assets	1,026	233	793	22.7%
Total foreclosed assets	**4,331**	**1,530**	**2,800**	**35.3%**

(*) Financial Statement amounts rounded to millions of euros

The Group'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 Group'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 Group engaged Haya Real Estate to manage, administer and sell its foreclosed assets including all portfolio from BMN. In a bid to improve its cost-to-income ratio following the merger with BMN, on 26 April 2018 Bankia terminated the service contracts in effect between BMN and a number of companies for the management of unpaid debts and certain real estate assets. Haya Real Estate is now solely responsible for managing all of Bankia's real estate assets. On 27 April 2018, Bankia and Haya Real Estate signed a novation to the agreement for the purchase and sale of the real estate management business and a further novation to the service contract for the administration and management of those assets.

Accordingly, Bankia Group has an active provisioning policy for these assets based on appraisal updates and the outlook for the real estate market. Provisions recognised at 30 December 2018 for foreclosed assets from Bankia Group's business in Spain amounted to EUR 1,530 million, implying financial coverage of 35.3 % since the adjudication.

The Bankia Group continued to pursue its strategy of reducing problem assets by selling a total of EUR 615 million in foreclosed real estate assets in 2018, up 43.8% on total proceeds from sales completed in 2017. This increase was down to a more buoyant real estate market, in which both demand and prices have continued to rise. In line with this strategy is the agreement reached with two subsidiaries of the Lone Star XI fund to administer, develop and have available a portfolio of foreclosed assets and transfer a portfolio of non-performing loans, for a combined gross book value of approximately EUR 3.07 billion, of which approximately EUR 1.65 billion are foreclosed assets. The transaction is expected to be closed in the second quarter of 2019, when the assets will be derecognised from the balance sheet (see section 1.2).

9. - INFORMATION ON CREDIT RATINGS

The ratings granted to Bankia Group by different rating agencies include the following:

Issuer ratings BANKIA				
	STANDARD &POOR'S	FitchRatings	DBRS	SCOPE
Long Term	BBB-	BBB-	BBB (high)	BBB+
Short Term	A-2	F3	R-1 (low)	S-2
Perspective	Stable	Stable	Stable	Stable
Date	04/06/2018	01/30/2019	07/04/2018	11/30/2017

Mortgages bonds ratings BANKIA				
	STANDARD &POOR'S	FitchRatings	DBRS	SCOPE
Rating	AA-	A	AAA	AAA
Perspective	Positive	Positive	---	Stable
Date	03/27/2018	03/23/2018	09/21/2018	07/12/2018

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.*

Along 2018 the rating's agencies cited the strong economic recovery and progress made in recent years in reducing the fiscal deficit and have also believed that the structural improvements in the Spanish economy have increased the prospect of sustainable growth.

This triggered a one-notch upgrade to Spain's sovereign rating by S&P Global Ratings ("S&P"), Fitch Ratings ("Fitch") and DBRS Ratings Limited ("DBRS"), to "A-", "A-" and "A", respectively.

As for Bankia, its ratings are firmly in the "investment grade" category after a year marked by the consolidation of BMN's integration, the prompt realisation of cost synergies and the improvement in balance sheet quality thanks to rapid reduction of problem assets.

S&P took the following rating actions on Bankia during 2018:

– On 6 April, it upgraded Bankia's long-term rating from "BBB-" to "BBB", with a Stable outlook. The move was prompted by the perceived improvement in the "economic climate and the state of the banking sector" in Spain, following the upgrade in country's sovereign rating. The agency is confident that Bankia's capital will continue to improve on the back of organic capital generation and the issuance of hybrid instruments. It is also confident that problem assets will continue to fall over the coming two years, while recurring profit should improve following the integration of BMN. The agency affirmed the "A-2" short-term rating, which it upgraded from "A-3" on 6 April 2017.

– Regarding the rating of Bankia's mortgage covered bonds (cédulas hipotecarias), on 27 March, after the upward revision to its rating outlook on Spain on 23 March, S&P affirmed its rating on Bankia's mortgage covered bonds at "AA-", 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 6 February, it upgraded Bankia's outlook from Stable to Positive, while holding the rating at "BBB-". On the same date, Fitch affirmed Bankia's short-term rating at "F3" and its subordinated debt rating at "BB+".

– After the end of the reporting period, on 30 January 2019, Fitch upgraded Bankia's long-term rating from "BBB-" to "BBB", changing its rating outlook from positive to stable. It also raised its rating of Bankia's subordinated debt, from "BB+" to "BBB-", affirming its short-term F3 rating. The rating action reflects the reduction in exposure to problem assets and the challenge to rebalance its business mix and improve banking profitability. The rating agency also factored in Bankia's strengthened national retail franchise following its merger with BMN, sustained sound post-merger capitalisation, adequate funding and liquidity and management's proven record in integrations, as demonstrated BMN's speedy and trouble-free integration.

– Regarding the rating of Bankia's mortgage covered bonds (cédulas hipotecarias), on 23 March, 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 positive.

– Early in the year, on 9 January, Fitch withdrew its rating of BMN following the completion of the legal merger and as BMN ceased to exist as a separate legal entity. At the time, the rating was "BB", rating watch positive.

Turning to the ratings assigned by **DBRS**, the rating agency affirmed Bankia's rating at "BBB (high)/Stable" 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 on 4 July 2018.

Regarding the mortgage covered bonds, on September 21 DBRS ratified the rating of Bankia's cards in "AAA", after the review carried out as part of the agency's ongoing monitoring.

With regard of **Scope Ratings**, Bankia keeps on maintaining the same ratings, all with stable outlooks from 30 November 2017:

- 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.

Finally, after the annual review of Bankia's mortgage-covered bonds (cédulas hipotecarias) and on 12 July 2018, Scope affirmed its rating of "AAA" with Stable outlook.

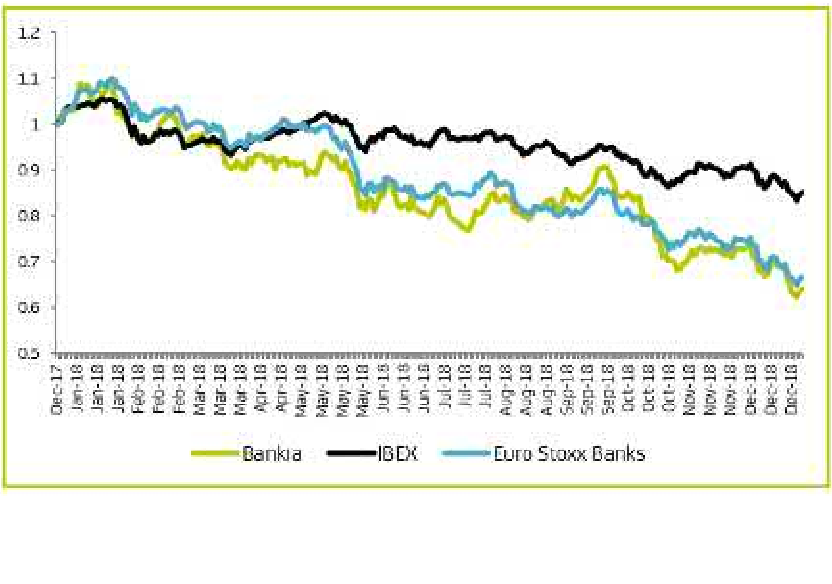
10. - SHARE PRICE PERFORMANCE AND SHAREHOLDER STRUCTURE

Markets were bearish in 2018, dragged down by: i) the protectionist policy imposed by the US on its trading partners, ii) political uncertainty in Europe stemming from Brexit, the spreading of populism and the end of an era in Germany's chancellorship, and iii) the delay in interest-rate hikes. Against this backdrop, the Ibex 35 shed 15% and the Euro Stoxx 14%.

The financial sector fared even worse, with the Euro Stoxx Bank plummeting 33% by the end of the year. In Spain, the slowing economy, coupled with a highly competitive environment, spawned concerns over the sustainability of banks' income statements, causing market volatility to rise and hitting share prices, especially in the last quarter of the year.

Against this backdrop, Bankia's share price share price fell -35.8% in 2018. Average daily trading volume was 7.7 million shares, with amount of EUR 26.9 million.

SHARE PRICE



At year-end, there were 33 equity analysts covering the stock actively and issuing target prices for Bankia (average target price of EUR 3.38 per share at that date). 21.2% of analysts had buy recommendations, 33.3% sell and 45.5% hold. More than 350 research reports with references made to Bankia were published in 2018, with analysts updating their target prices over 120 times and their recommendations more than 15 times.

The main highlights regarding Bankia's share price in 2018 were as follows:

- On 27 February 2018, the Group unveiled its strategic plan for the 2018-2020 horizon, the main objectives of which are to boost earnings by driving sales, continue to enhance balance sheet quality and improve shareholder remuneration.

- A cash dividend of 11.02 euro cents per share was paid on 20 April 2018 out of 2017 profit, giving a total outlay of EUR 340.1 million, gross.

Moving to Bankia's share capital, a total of 205,630,814 shares were registered in 2018 as a result of the rights issue completed following the merger with BMN. Share capital now amounts to 3,084,962,950 euros, represented by 3,084,962,950 registered shares each with a par value of EUR 1. At the end of December 2018, Bankia had a total of 184,643 shareholders. BFA remained the Group's main shareholder with a stake of 61.38%.

11. - INFORMATION ON TREASURY SHARES

Group 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.

At 31 December 2017, Bankia held 20,023,158 treasury shares, with a par value of EUR 1 each and a combined carrying amount of EUR 79.8 million. Along 2018, a total of 37,119,377 shares were acquired while 27,598,698 shares were sold, bringing the total number of treasury shares held at 31 December 2018 to 29,543,837, with a par value of EUR 1 each and a combined carrying amount of EUR 96.6 million.

Treasury shares held at the end of December 2018 represented 0.96% of Bankia's share capital at that date.

The following tables show treasury share transactions carried out in 2018:

TREASURY STOCK OPERATIONS - BANKIA GROUP

SHARES ACQUIRED IN 2018

Communication date	Number of shares acquired	Nominal value per action (€)	Nominal value (€ Mn)	% on the share capital (*)
January	1,369,070	1,0	1,4	0.04%
February	2,629,926	1,0	2,6	0.09%
March	3,866,532	1,0	3,9	0.13%
April	1,482,640	1,0	1,5	0.05%
May	3,428,702	1,0	3,4	0.11%
June	3,385,141	1,0	3,4	0.11%
July	1,616,772	1,0	1,6	0.05%
August	2,634,765	1,0	2,6	0.09%
September	3,366,257	1,0	3,4	0.11%
October	3,793,022	1,0	3,8	0.12%
November	3,448,092	1,0	3,4	0.11%
December	6,098,458	1,0	6,1	0.20%
TOTAL	**37,119,377**		**37,1**	**1.2%**

(*) Percentage calculated on share capital at the close of each month. The percentage of total acquisitions is calculated on the share capital at the end of December.

TREASURY STOCK OPERATIONS - BANKIA GROUP

SHARES SOLD IN 2018

Communication date	Number of shares acquired	Nominal value per action (€)	Nominal value (€ Mn)	% on the share capital (*)
January	2,801,079	1,0	2,8	0.09%
February	3,759,042	1,0	3,8	0.12%
March	2,120,326	1,0	2,1	0.07%
April	1,164,432	1,0	1,2	0.04%
May	3,217,735	1,0	3,2	0.10%
June	3,233,482	1,0	3,2	0.10%
July	2,639,900	1,0	2,6	0.09%
August	2,941,826	1,0	2,9	0.10%
September	3,483,528	1,0	3,5	0.11%
October	791,035	1,0	0,8	0.03%
November	1,347,285	1,0	1,3	0.04%
December	99,028	1,0	0,1	0.003%
TOTAL	**27,598,698**		**27,6**	**0.89%**

(*) Percentage calculated on share capital at the close of each month. The percentage of total acquisitions is calculated on the share capital 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.

Pursuant to the resolutions adopted at the General Meeting of Shareholders of 24 March 2017, on 31 March 2017, Bankia paid a final dividend out of 2016 profit for a total amount of EUR 317.42 million gross, 5% higher than the dividend paid last year.

Further to the resolutions adopted at the General Meeting of Shareholders held on 10 April 2018, on 20 April 2018 Bankia paid a total dividend of EUR 338 million out of profit for 2017.

Finally, approval was given at the Board of Directors meeting held on 24 January 2019 to submit a proposal to the General Meeting of Shareholders for the payment of a EUR 11.576 cents gross cash dividend out of 2018 profit, resulting in a total gross amount of EUR 357 million in dividends.

Underpinned by organic capital generation ability and an increasingly strong balance sheet, the Bankia Group'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

Since 2016, investment in software development at Bankia has been characterised for targeting transformational projects. This has followed the major shift in the financial industry's activity to adapt to the continuous changes demanded by our customers, regulators, income statements plagued by thin net interest margins, and the arrival of new competitors.

Technology has become a key element of the Bank's business strategy, with the priorities of software development in 2018 framed within the following scenario:

- BMN's technological integration, which was completed in March.
- Regulatory requirements, with directives that have a major impact on the treatment of customers (GDPR), distribution models (PSD2), commercial models (MIFID II, IDD), financial models (IFRS 9, MREL), management information (RDA) and operational models.
- The continuation of the Bank's multichannel transformation.
- Upgrades of IT capabilities and modernisation of core banking systems to ensure that the Bank's transformation plans are completed and to make its operational model more efficient.

Bankia considered these priorities when drawing up its IT strategy, which includes the following development projects: process transformation, the multichannel transformation plan, IT system redesign, Big Data, core banking and new technology applications transformation, the operations master plan and cyber security.

A summary of the most significant projects in 2018 is provided below:

13.1. - BMN technological integration

2018 featured the completion of the work on BMN's technological integration in terms of infrastructure, systems and applications. Since 20 March 2018, the IT integration date, Bankia and BMN have operated jointly and in a unified manner.

The integration plan was carried out through a functional plan, a technology plan and a set of support projects. Integration affected the development of GAPS, adaptation of interfaces, and provision to BMN of the necessary infrastructure -central and workstations- for its overall integration into Bankia.

Key integration indicators:

- Technological and operational integration completed 2.5 month after the business integration.
- 613 offices and 4,000 employees from BMN working on Bankia's platform since mid-March 2018.

- 1,700,000 customers, 6 million contracts and 22,000 office devices migrated.

13.2. - Regulatory projects

2018 was a crucial year for the banking industry in the application of new regulations with a high impact on systems: Markets in Financial Instruments Directive MIFID II, International Financial Reporting Standard IFRS 9, the General Data Protection Regulation GDPR, the Insurance Distribution Directive IDD, the Payment Services Directive PSD2 and Risk Data Aggregation RDA (which has required a review of the risk information systems to ensure traceability of data).

There are also projects to create the new COREP and FINREP regulatory standards, the application of Anacredit, the requirements arising from the SREP, adaptations to the Spanish insurance sector regulatory law (LOSSEAR / ROSSEAR) and the Directive for Packaged Retail and Insurance-based Investment Products (PRIIPs). Moreover, the projects to upgrade the anti-money laundering, market abuse and compliance function governance systems included in the transformation plan were completed.

13.3. - Process transformation

Efforts to transform processes in 2018 included:

- Incorporating artificial intelligence in processes, applying IA techniques in process automation to create digital products without human intervention and replace low-value manual tasks in a bid to achieve a unique business proposition.
- Completing the loan product range with the redesign of developer loans.
- Completing the redesign of insurance products: process redesign in life and maintenance of non-life products.
- Evolving document management tools to given them custodian and purge, physical archiving and documentary file management capabilities.
- Implementing the improvements identified at workshops with branches to processes that have already been redesigned.

13.4. - Digital channel transformation

Actions undertaken in this area were geared towards promoting customer products and services, integrating the various components managing the bank's commercial actions, and driving multichannel architecture (Cloud and APIs).

Customer products and services

- **Customer registration**. The offer for new customers was bolstered with new video-call registration, in addition to identification via SEPA, messenger and branch office.
- **Improvements in account history viewing**. Integration of transactional systems with Big Data to provide advanced visualisation via income and expense categories and comparisons.
- **Payment methods**. Integration of the Bank's payment methods with the systems of the brands and PayPal, helping the Bank’s strategy of becoming the first to have all payment methods available to customers. These integrations also make use of the Bank’s API platform, so they are prepared for future evolutions.

Commercial action

Integration of the various components managing the Bank's commercial action continued in 2018; all digital channels and the branch network now use the same centralised system. This system starts with daily calculation of the next best action and distributes commercial actions for all customers among all channels. It also manages the responses and ensures their consistency across the channels, so if a customer responds to a commercial action in a given channel the response is taken into account by the rest. Lastly, digital channels are rounded off with real-time components that combine the calculated action with specific customer-centric actions in the channel.

Multichannel architecture

- **Cloud**. Bankia rolled out its new cloud computing platform in 2018. This platform responds quickly and smoothly to the increasing demand for resources stemming from the new digital channels. Based on a **hybrid cloud** paradigm, it combines optimally the capabilities of the large public cloud services providers with the advantages of critical workload management with in-house resources within the private cloud, thereby maximising cost efficiency, as well as data security and regulatory compliance.
- **APIs.** The new API and microservices architecture has enabled Bankia to build an open business ecosystem with new partners in which we can deliver the needs of our customers in third-party platforms, thereby complying with the new European payments directive, PSD2. With this architecture, Bankia can connect its systems to other companies in a way that is both secure and scalable, allowing, for instance, visualisation of information from PayPal in the Bank's channels.

Enhancements to channels

- Including a communications wall functionality for new customer segments.
- Arranging digital products; e.g. ON credit card, the Cuenta_ON Nómina salary account and the Un&dos account.
- Creating a new mobile version of the web for businesses.
- Integrating global funding facilities for customers in a single system that provides easy access to a variety of alternatives.

13.5. - Informational system redesign

The main actions carried out on the information system were the following:

- The information system redesign project: open the risks line, scheduling the migration of departments' risk engines (MIR and SGR). The commercial line will be addressed in 2019, after designing the definitive information distribution model and the RCI-Big Data relationship.
- The construction of the Corporate Reporting Centre (CRC), so the CDO can draft reports and dashboards with commercial information as a tactical solution to the wait to add the commercial area to the CDR.
- The development of the regulatory information built in the CDR for the addition of new regulations: Annex IX, IFRS 9, MREL, updates to FINREP and COREP statements.
- Redesign of the analytic engine to supply it with data from the CDR.
- Migration of DataStage from the mainframe environment to Grid Linux infrastructure to achieve the required stability for new developments.
- Preparation of an action plan on data storage to identify the part to be decommissioned and solutions for information that is not migrated to the CDR and Big Data, as appropriate.

13.6. - Big Data

In 2018, Bankia's analytics platform **extended its capabilities** for computing to train **artificial intelligence** models and integrated cloud computing capabilities for processing deep learning analytics models, using the latest libraries and open source and commercial tools available on the market. It has evolved the ability to activate analytics models in real time, expressing its functionality via a service (API) whereby **human tasks integrated in core processes** in the Bank have been replaced.

13.7. - Transformation of core banking and new technologies

In 2018, the drivers behind the **core banking transformation and new technologies** strategy were the reduction of infrastructure costs and improvements to platforms, alongside the roll-out of new technologies and upgrades to existing technologies.

Regarding **infrastructure costs**, Bankia has made further inroads in **lowering consumption in the mainframe platform** (by migrating to distributed systems from batch processing of payments and collections, and payment methods, and by optimising online transactions and batch processes in terms of the number of executions and consumption) and **extended the Open Source Cloud / DevOps technology approach** (all new channel applications are Cloud Ready from outset, and existing software, both in the channel in the Bank's operational applications and in the on-line channel, are being migrated to the Cloud).

Regarding **platform improvements**, work continued to solve the obsolescence of certain applications, migrating them to open source technology and eliminating the infrastructure of those that must be decommissioned. Test execution and project estimation mechanisms were optimised (the objective is to have greater control over investment earmarked for projects and of services rendered by contracted suppliers), while the NEO platform (the Bank's operational applications) was optimised further, along with the monitoring systems to meet the needs of the branch office network.

Regarding the roll-out of new technologies, efforts went to **adding cognitive systems for transaction and process automation** (automatic validation of documents in loan processes and data input in the Bank's operational processes) and the **reference architecture for APIs** was created, enabling Bankia to exhibit third-party functionalities and how it uses their functionalities and offers them to customers through the channels (Open Banking and PSD2 are examples of the use of this architecture).

In addition, work began on the **redesign of the customers application**, entailing both modification to its current database model and to its services for adaptation to a banking model executed in midrange systems. The aim is to have a customers application that is decoupled from the applications that consume it to begin the smooth implementation of the downsizing roadmap to midrange systems of the applications making up the customers ecosystem (agreements, product workshops, settlements).

During the course of the year, through the **Operations Master Plan**, Bankia continued to automate processes and operations in a bid to lower its exposure to operational risk and increase control over the various outsourced services.

Meanwhile, further advances were made in process monitoring and control systems, addressing the tracking of debts and COMEX and preparing a global transactions management dashboard of outsourced services and a user help centre), while collection and payments transactions and accounting reconciliation processes were automated. The aggregate processing of activities from different systems in task trays was stepped up and automation via RPA (e.g. management of taxes and other expenses on properties held under finance lease, reconciliation processes and invoicing, controls over lending portfolio) was increased.

13.8. - Cyber security

During the year, the Cyber Security Transformation Plan promoted, among others, the following development initiatives:

- Implementation of the secure software development model.
- Compliance with requirements arising from the Critical Infrastructure Protection Act (as Bankia has been classified as a critical operator).
- Developments to comply with PCI-DSS regulations in applications.
- Developments in Big Data for security analytics (cryptography, security and permits and accesses intake, the development of cyber security analytical models and the integration of the IT security monitor in corporate dashboards.
- Evolution of the fraud prevention model, which focused on completing the developments begun in 2017 (e.g. creation of a fraud monitor, Big Data Fraud, development of the anti-fraud analytics model, protection of transactions in remote channels) and undertaking new projects planned in 2018 (e.g. creation of a unified collector for tranches of transactions in channels to integrate them in the anti-fraud system, creation of parameterisation systems, alert generation, rules simulation and the case manager.

13.9. - PST Position

Projects proposed for 2018 arising from cross-organisational initiatives of the PST Position related to the following:

- **Internal information management:** Intranet restyling project and development of new intranet search engines and the operational support service.
- **Communication:** Modernisation of customer correspondence and documents workshops (e.g. contracts, pre-contractual information). These are highly complex projects due to the volume of documents affected and the number of processes that use them.

13.10. - Other projects

Beyond the scope of Bankia's Transformation Plans, the rest of investment in 2018 was spread out among projects on a number of fronts: business (retail, businesses and insurance), risks and recoveries, IT and infrastructure.

In individuals and companies, the leading projects were designed to enhance operating processes for arranging insurance (e.g. health, auto, burial) and specific loan products for businesses (e.g. multi-product credit line, non-recourse finance, marketing of Alphabet leasing products, instant transfers), and deployment of the main digital payment platforms (e.g. PayPal, Samsung Pay, Apple Pay, Google Pay).

In Risks and Recoveries, the main actions targeted adapting the risk applications to new international accounting standards, specifically IFRS 9, to replacing the risk models tool, to completing the roll-out of the new recoveries model, and to launching the new tool for managing business groups.

14. - FORECASTS AND BUSINESS OUTLOOK

- **Economic overview**

Fears are beginning to spread in financial markets that the growth stage of the US and global economy is ending, although the most likely macroeconomic scenario for 2019 is one of cooling and not recession. World growth looks set to slow generally, with most of the main economies expected to see slightly lower growth than in 2018. Current forecasts point to average growth for the US of 2.2%-2.5% (2.9% in 2018) and for the EMU of around 1.5% (1.9% in 2018).

In this scenario of slower growth, the Fed will mostly likely take a pause in its rate tightening campaign to assess the economic situation (the market is pricing in that the peak of the cycle has already been reached). For its part, the ECB could begin raising rates in the year's last quarter, but the market is not expecting a hike until 2020.

Regarding public debt, yields look set to rise assuming growth will remain around potential rates. Nevertheless, upside should be extremely limited in both the US and the EMU. Helping this tempered behaviour of yields is, initially, the steep fall in oil prices since October, since this bodes well for lower inflation in the coming months and downward revisions to full-year forecasts.

For Spain, Bankia' forecasts indicate an extension of the growth stage in 2019, albeit with gradually lower rates, mainly due to less buoyant export markets. As a result, GDP growth is estimated at around 2.2%. Nevertheless, growth in activity leaves room for further job creation; the number of people registered with Social Security could rise to around 325,000 by the end of the year, leaving the annual unemployment rate at below 14% from the estimated 15.4% in 2018. In addition, the economic situation of households will benefit from increases in real wages and income. External risks to this scenario arise from potential stress in financial markets, heightened protectionism and uncertainties surrounding Italy and the outcome of Brexit. Internally, there is uncertainty and a challenging political situation that could make it difficult to push through the much needed structural reforms, while a burgeoning public debt limits the scope of fiscal policy to head off the future crisis.

- **Business outlook for the Bankia Group**

As regards, in 2019, the Bankia Group 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. The Group's objectives are now enshrined in its new 2018-2020 Strategic Plan, which was approved by its Board of Directors on 22 February 2018.

The new Strategic Plan seeks to increase the Group's earnings by driving sales and commercial activity, while continuing to improve quality and the balance sheet and ultimately paying more to shareholders. To accomplish these objectives, the 2018-2020 Strategic Plan targets four key areas:

- **Synergies arising from the merger with BMN**. Both Bankia and BMN have a business model focused on retail banking, with a similar customer profile. This promises considerable synergy potential through the reduction of redundant costs and limited integration risk.. Meanwhile, the Strategic Plan envisions higher revenue generation, mostly in net interest income and fee and commission income, since BMN boasts a leading franchise in regions where Bankia has a relatively small presence, such as Murcia, Granada and the Balearic Islands, and this should drive a major increase in scale and customer bases in these areas. The technological integration of BMN's processes and transactions was completed on 19 March 2018, just two and a half months from obtaining the necessary regulatory authorisations.

- **Efficiency and cost control**. Having posted provisions in 2017 to cover the restructuring costs incurred from BMN's integration, the new Strategic Plan envisions an improvement in the Group's efficiency (cost-to-income) to below 47% by 2020 once the cost synergies have been unlocked from the merger with BMN (EUR 190 million on 2020, up 23% on the EUR 155 million initially envisaged).

- **Driving income through increased sales of high-value products**. Over the next three years, the Bankia Group aims to continue growing lending activity in the mortgage, consumer finance and business loan segments. It also intends to increase fees and commissions on high-value products (mutual funds, payment services and insurance) as a means of boosting income and margins in a bid to increase market shares while keeping the cost of risk under control. To help it achieve this objective, the Group have rolled out new lines of business now that the restrictions set out in the Restructuring Plan no longer apply, since the plan ended in December 2017. These activities include lending to real estate developers, long-term financing to large corporations through placements on the capital markets both in and outside Spain, and other fee-bearing products (project finance and M&A funding).

- **Drive to reduce problem assets.** Another pillar of the new Strategic Plan is to continue reducing problem assets organically and via the sale of portfolios. The aim here is to free up liquidity and funds with which to grant loans and new credit in segments where Bankia intends to increase its lending activity and market shares. The increase in lending will be accompanied by further reductions in non-performing loans and foreclosed assets (EUR 8,800 million projected for 2018-2020). According to the estimates contained in the new Strategic Plan, this will bring the Group's problem assets ratio (gross NPLs + gross foreclosed assets / total risks + gross foreclosed assets) to below 6% by year-end 2020 and the NPL ratio to 3.9%.

Accomplishing the objectives set out in the Strategic Plan will allow the Bankia Group to continue generating strong organic capital, while keeping its capital adequacy ratio at above 12% (fully-loaded CET1).

The Bankia Group has embarked on this new plan from a solid financial position, strong capitalized and an ability to enhance solvency organically and on a recurring basis. These strengths will be crucial for the Group 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. - SUBSEQUENT EVENTS AFTER REPORTING PERIOD 2018

On 24 January 2019, the Board of Directors of Bankia, based on a favourable report from the Appointments and Responsible Management Committee, approved a change in the Bank's organisation to drive its transformation and that of its businesses, creating four new general subdivisions –Financial, Credit Risk, People and Culture, and Digital Strategy and Transformation. Their members will have a seat on the Management Committee. This comes after the transfer of duties following the departure of the Deputy General Director of Investees and Associated Undertakings, Joaquín Cánovas. As a result, the composition of the Bank's highest management body increases from eight to 12 members, as follows:

- D. José Ignacio Goirigolzarri Tellaeche (Chairman)
- D. José Sevilla Álvarez (Chief Executive Officer)
- D. Antonio Ortega Parra (Executive Director and General Manager of People, Resources and Technology)
- D. Miguel Crespo Rodríguez (General Secretary and Deputy General Director of the General Secretariat)
- D. Gonzalo Alcubilla Povedano (Deputy General Director of Business Banking)
- D. Leopoldo Alvear Trenor (Deputy General Director of Financial Management)
- Dª Amalia Blanco Lucas (Deputy General Director of Communication and External Relations)
- D. Manuel Galarza Pont (Deputy General Director of Credit Risks)
- D. David López Puig (Deputy General Director of People and Culture)
- D. Fernando Sobrini Aburto (Deputy General Director of Asset Managementand Investees)
- D. Eugenio Solla Tomé (Deputy General Director of Retail Banking)
- D. Carlos Torres García (Deputy General Director of Transformation and Digital Strategy)

On 7 February 2019, the economic terms of an issuance of EUR 1,000 million of Bankia subordinated notes under the Entity's "€ 10,000,000,000 Euro Medium Term Note Programme" were established. The base prospectus for the issue, dated 5 July 2018, was approved by the Central Bank of Ireland as competent authority. The issue date of the subordinated notes is expected to be 15 February 2019. An application will be made for the subordinated notes to be listed on the Main Securities Market of the Irish Stock Exchange, currently called Euronext Dublin. Bankia will apply for the subordinated notes to be treated as tier 2 capital in accordance with the criteria of the CRR.

No other significant events took place between 31 December 2018 and the date of authorisation for issue of the Bankia Group's consolidated financial statements with a significant impact therein other than those described previously.

16. - CORPORATE ANNUAL REPORT

The 2018 Annual Corporate Governance Report for 2018, which forms part of this Management Report, was prepared in accordance with article 540 of the Corporate Enterprises Act, with the content outlined in Order ECC/461/2013, of 20 March, and CNMV Circular 2/2018, of 12 June, amending Circular 5/2013, of 12 June, which establishes the formats of the annual corporate governance report of listed companies, attached hereto as a separate document. The report includes a section on the Bank's level of compliance with corporate governance recommendations in Spain.

17. - OTHER NON-FINANCIAL INFORMATION

In accordance with Law 11/2018, of 28 December, amending Spain's Code of Commerce, the consolidated text of the Corporate Enterprises Act, enacted by Legislative Royal Decree 1/2010, of 2 July, and Spain's Audit Act (Law 22/2015), regarding the disclosure of non-financial and diversity information, the Bankia group has prepared a non-financial statement, which forms part of this management report and is attached as a separate document. This non-financial statement contains relevant information on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, and the company. The information contained therein was verified by E&Y, as independent assurance services provider.

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.

Non-Financial Information Statement

NON FINANCIAL INFORMATION STATEMENT

INDEX Page

SCOPE AND EXTERNAL REVIEW OF NON-FINANCIAL INFORMATION

On 29 December, Law 11/2018, of 28 December, amending Spain's Code of Commerce, the consolidated text of the Corporate Enterprises Act, enacted by Legislative Royal Decree 1/2010, of 2 July, and Spain's Audit Act (Law 22/2015), regarding the disclosure of non-financial and diversity information, were published in Spain's Official State Gazette (BOE). This document aims to specify the type of information that companies may disclose in response to the law on non-financial and diversity information in accordance with these frameworks. The specific content will vary depending on the sector, the materiality of the indicators, and the company's size and international footprint.

As a result, Bankia Group has prepared a non-financial statement, which contains relevant information on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, and the company.

Bankia Group prepared its non-financial statement using the GRI Sustainability Reporting Standards guidelines as a reference. The information contained therein was verified by EY, as independent assurance services provider.

1. BUSINESS MODEL

Bankia is a financial group with operations throughout Spain, focusing mainly on traditional retail banking, corporate banking, asset management and private banking businesses.

Its commercial model is customer-centric, offering a service that is close to customers, professional and aligned with customers' needs, through three main businesses: Retail Banking, Business Banking and Corporate Centre.

Note 1.14 to the Bankia Group's consolidated financial statements provides a breakdown of the earnings for each business line in 2018 and 2017, along with the key balance sheet items of each at the respective year-ends.

Section 2.3 of the Management Report provides a detailed description of the Bankia Group's business model and main business lines.

2. RESPONSIBLE MANAGEMENT

- **Responsibility, supervisión y evaluación**

Responsibility for Bankia's responsible management rests with the Board of Directors, although in 2015 this remit was delegated to the Appointments and Responsible Management Committee.

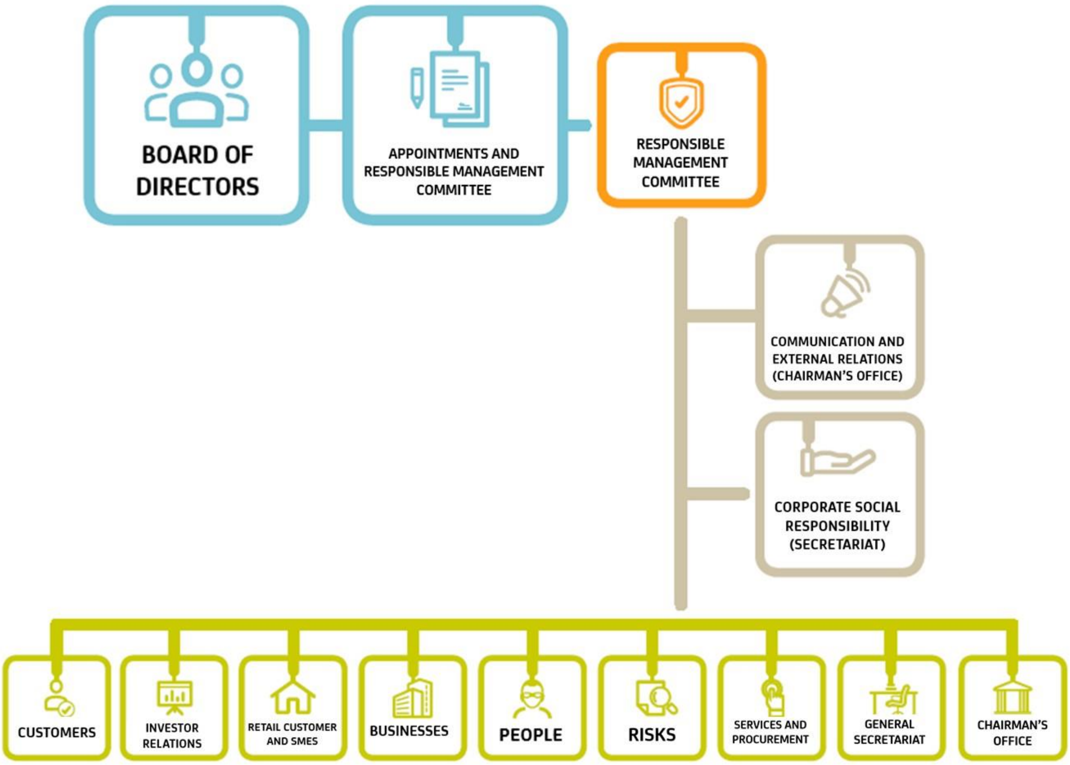
This Committee is composed of three independent directors. Its functions include reviewing and assessing the Bank's corporate social responsibility policy and practices and overseeing relations with stakeholders.

Initiatives and projects in this field are spearheaded by the Responsible Management Committee, whose members include executives of groups that deal directly with stakeholders. It meets regularly once a quarter.

The chair of the Responsible Management Committee is attributed to Communications and External Relations. Corporate Social Responsibility runs its secretariat, analysing trends, making proposals, coordinating and driving Bankia's responsible management.

In 2018, the Committee addressed issues such as monitoring of the Responsible Management Plan 2016-2018, climate change, reputational risk, relations with analysts and investors, analysis of new regulations and trends, SRI policies, new social and environmental products, approval of agreements and social investment, employee training on responsible management, and approval of the new Responsible Management Plan 2019-2020.

Government structure of responsable management



- **Risk management**

As a strategic pillar of the Organisation, the main objective of risk management is to preserve the Group’s financial and capital strength, while driving value creation and business development in accordance with the risk appetite and risk tolerance levels set by the governing bodies. To achieve that, it provides management with tools to measure, control and monitor the requested and authorised risk, manage non-performing loans and recover defaulted loans.

Note 3 to the Bankia Group’s consolidated financial statements describes the governance bodies charged with the oversight and control of the Group's risks, along with the general principles, organisational model, policies and methods used for controlling and measuring the various risks to which the Group is exposed as a result of its activity.

Section 7 of the Management Report describes how Bankia manages each risk profile.

- **Active listening for improvement**

For the Bank's business to meet the expectations of the environment in which it is carried out, Bankia performs periodic analyses of the key issues with the greatest impact on its relations with stakeholders. An external management team assures the reliability of the approach followed and the accuracy of the results.

Towards the end of 2017, Bankia carried out a materiality analysis to identify the main issues for the Bank's responsible management through active listening to stakeholders from both an internal and external perspective.

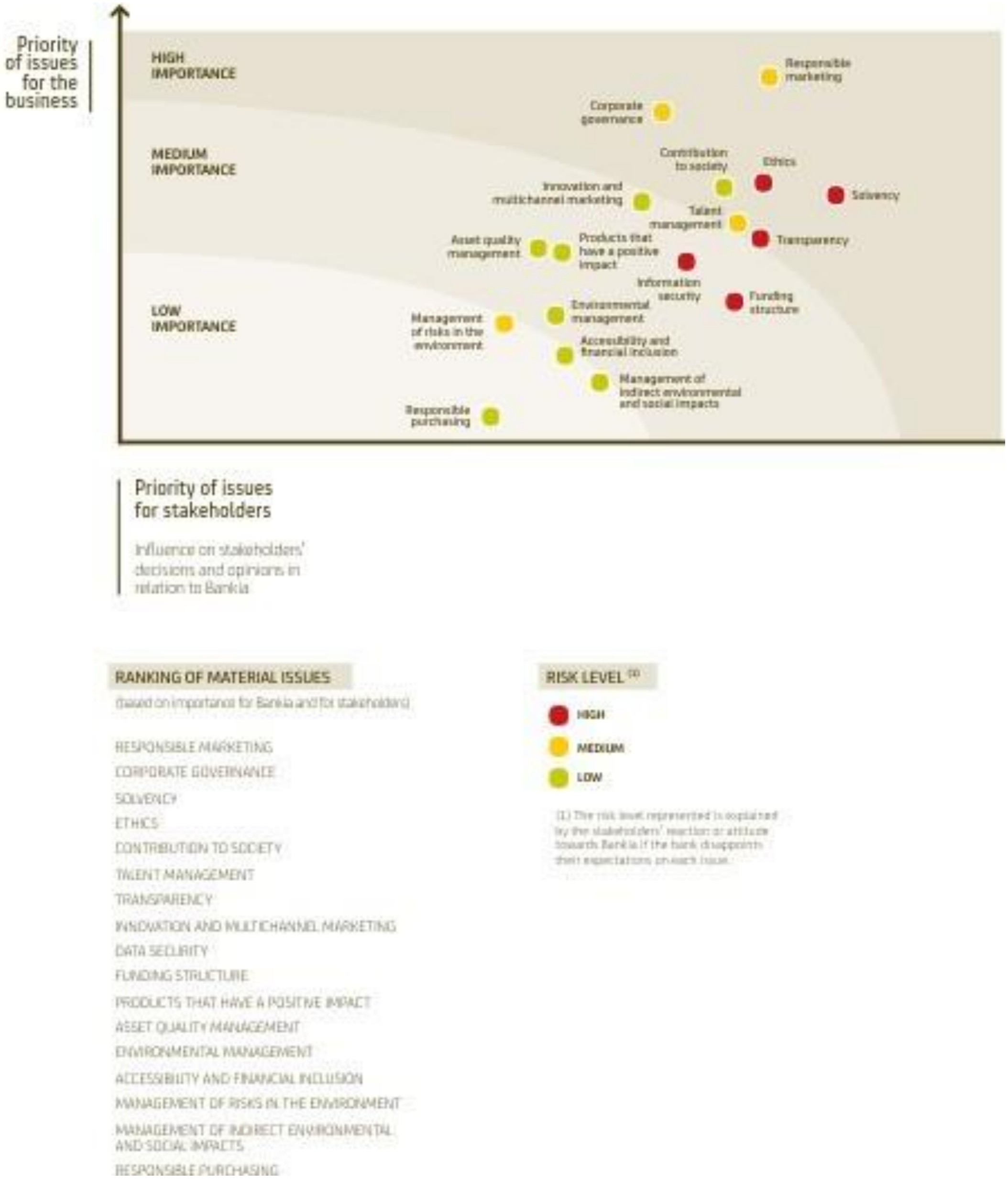
This analysis of key issues for Bankia and its stakeholders was used as input in the new Responsible Management Plan 2019-2020 approved at the beginning of 2019.

The issues that both external (i.e. shareholders and investors, customers, suppliers and society as a whole) and internal (employees) stakeholders consider most important are those linked to generating economic strength, business relationships and honest behaviour by the Bank’s people, and issues to do with keeping pace with technology.

The external perspective helped to provide insight into the influence of each issue on stakeholders’ decision-making and opinion of Bankia.

The internal perspective reflected the importance for the business of stakeholder confidence; i.e. the effect each issue has only the ability to create value for the organisation.

The materiality study included the reputational risk variable to identify stakeholders’ tolerance, confidence and their attitudes towards potential events that could come up short of their expectations, so they can be pre-empted.



- <u>**Responsible management policy**</u>

Bankia’s Responsible Management Policy is the bank’s global and company-wide framework for corporate social responsibility, helping to guide the business, manage its risks, identify and leverage opportunities, and pave the way for dialogue with stakeholders so that the Bank's activity is aligned with a common objective of ensuring Bankia’s sustainability. The principles of this policy are:

1. Value creation: prioritising the ‘how’ over the ‘what’
2. Transparency and good governance: we say what we do.
3. Ethics and integrity: actions that reflect our words.
4. Respect for human rights
5. Active listening and dialogue: focused on satisfaction.
6. Clarity, simplicity and understanding: identified with the customer.
7. Recognition and respect: foundations for the Bank's professional relationships.
8. Responsible procurement: shared growth.
9. Climate change: an issue for everybody.

10. Social commitment: local development and social proximity.

The responsible management policy is approved by the Board of Directors and regularly reviewed so that it constantly reflects the Bank's values and corporate strategy, as well as the expectations, requests and requirements of its stakeholders.

The Appointments and Responsible Management Committee is responsible for ensuring that the strategy and commitments included in this policy are correctly implemented, as well as assessing the level of achievement.

- **Responsible management plan 2016 - 2018**

Bankia has spent the past three years carrying out a responsible management plan drawn up considering the Bank's responsible management strategy and the interests of its various stakeholders.

Stakeholders were identified through internal consultations with the Responsible Management Committee and executives of the organisation, giving more weight to those with greater interdependence and capacity to influence the business and the Bank's decision-making.

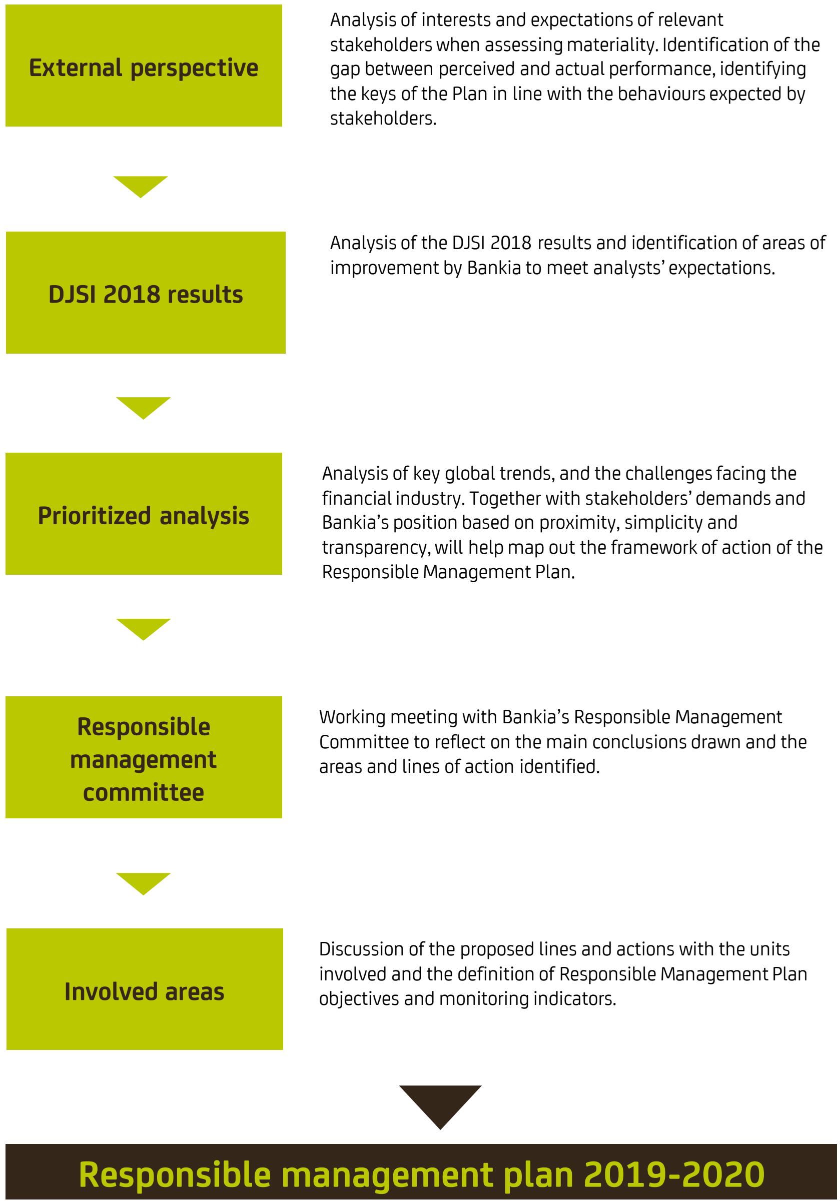
The two cornerstones of Responsible Management Plan 2016-2018 were stakeholder listening and dialogue, and continuous supervision and assessment of the actions envisaged in the plan.

To assess the level of compliance, a dashboard was developed specifying the various initiatives and their level of progress measured by specific indicators. This dashboard is presented to the Responsible Management Committee each quarter and to the Board of Directors each half.

- **Responsible Management Plan 2019 - 2020**

After completion of the first responsible management plan launched by the Bank, with overall positive results, the new Responsible Management Plan 2019-2020 aims to align Bankia's sustainability with its strategic objectives and anticipate the capabilities that will enable it to rise to the challenges facing banking over the coming years.

Approach for preparing RMP 2019-2020



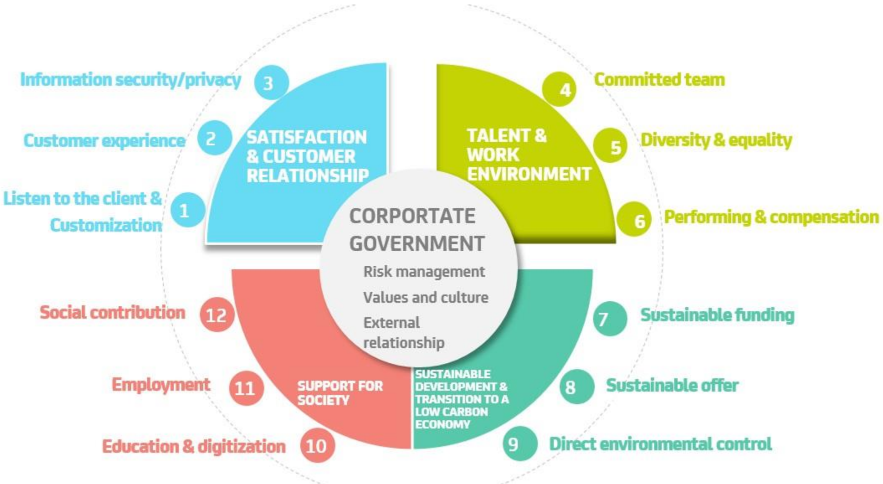
The Responsible management plan 2019-2020 has three main challenges:

- Prevent social, environmental and good governance risks.
- Support management with greater control over internal processes to promote continuous improvement and meet stakeholders' expectations.
- Drive leadership, placing Bankia at the forefront of its industry in sustainability.

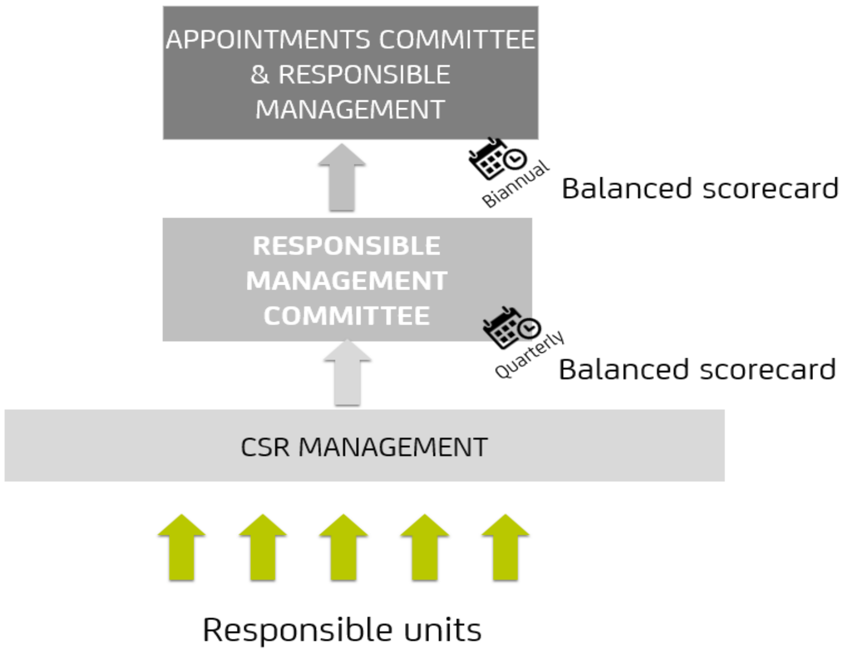
These challenges underlie the plan's five strategic objectives, set out in 15 lines and their related opportunities for action, specific objectives, performance indicators and departments in charge.

The new plan is underpinned by a corporate governance with sound values and a culture predicated on sustainability, risk management and third-party relations, though the Bank's position based on Proximity, Simplicity and Transparency. Revolving around corporate governance are two core areas for the Bank: customer relationships and satisfaction, and the development of talent and engagement of the Group's professionals.

It also covers another two strategic areas for the Bank and the 2030 Agenda: sustainable development and the transition towards a low-carbon economy, and Bankia's social contribution to the regions where it has operations.



As with the 2016-2018 plan, the new plan will be monitored with a dashboard so that, depending on the results, the Bank can take decisions or draw up action or improvement plans.



- **Global compact and contribution to the sustainable development goals (SDG)**

Since becoming a member of the UN Global Compact in November 2013, Bankia has upheld its 10 principles in the areas of human rights, labour, the environment and anti-corruption.

In 2015, along with the approval of the 2030 Agenda, the UN launched its Sustainable Development Goals (SDGs), which outline a series of measures to end poverty, protect the planet and guarantee the prosperity of everyone.

For Bankia, the two initiatives are important, as they help to prioritise and identify opportunities that can make its business model more sustainable and adapt it to the challenges the lay ahead to 2030.

- **Responsible Manage and Agenda 2030**

In line with its commitment to support the United Nations' 2030 Agenda for Sustainable Development, and considering Spain's sustainable development priorities and needs, Bankia has assessed its contribution bearing in mind its activity and mission as a financial institution, a company and a corporate citizen.

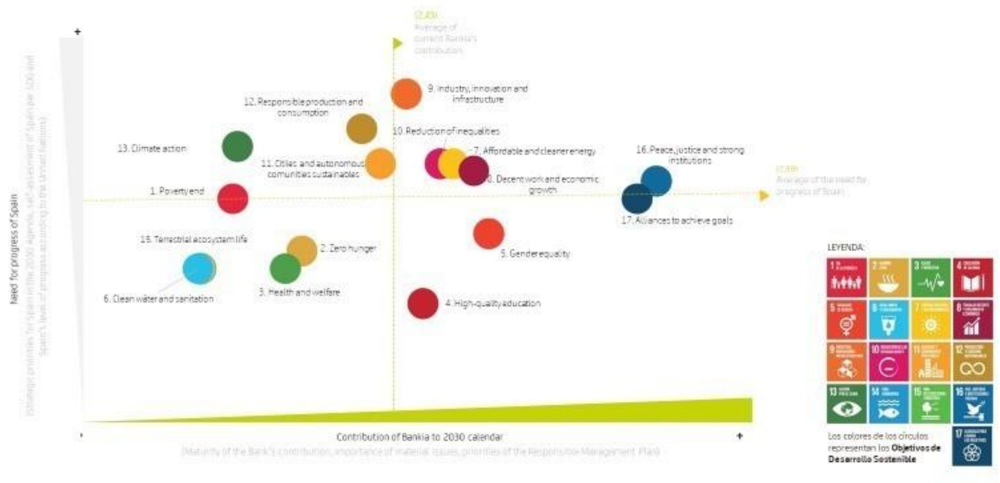
The Bank evaluated the 169 targets of the SDGs from a dual perspective:

- Internal perspective - Bankia's contribution to the SDGs: it assessed Bankia's performance considering the maturity of its contribution to each target, the relationship with the strategy outlined in the Responsible Management Plan 2019-2020 and the material issues considered top priorities for the Bank's responsible Management.

- Country perspective - need for Spain to progress in each SDG: it considered the priority given in Spain's Action Plan for the 2030 Agenda, Spain's self-assessment and the United Nations' evaluation of Spain's performance.

The results show how Bankia's activity contributes, as a priority and considering the need for Spain to progress, to six of the 17 SDGs (7, 8, 9, 10, 16 and 17), including decent work and economic growth; industry, innovation, infrastructure; and affordable and clean energy.

> Matrix: Contribution of Bankia vs. Need for progress of Spain



1 NB: Of the 17 SDGs, one was not represented, since it is not relevant for Bankia's business: 14. Life below water

- **<u>Membership of advocacy groups and lobbies</u>**

Bankia belongs to industry institutions and trade associations related to its business. Through its membership in these organisations, Bankia helps to defend its own interests and the interests of its stakeholders so that its activity is aligned with the needs and expectations of society.

Bankia only contributes through its membership fees to commercial, industrial and business associations related to the financial business, and to initiatives related to good business practices. Its objectives are to keep up on national and international trends so the Bank can always remain at the forefront of its sector, and to become involved with, and contribute experience and knowledge to, the legal and regulatory benchmarks developed in Spain.

Bankia does not make contributions to political parties because, although it operates in Spain and such contributions are prohibited by the Spanish law on the funding of political parties, the Bankia Code of Ethics and Conduct expressly states that “on no account may donations be made to political parties or unions, or to representatives thereof". Through the EU's Transparency Register, the Bank publicly discloses its involvement with associations and/or institutions which, by their nature and activity, have influence with Spain or the European Union.

Institutional initiatives adhered to by Bankia:

- CECA (the Spanish Savings Bank Association)
- CEOE (the Spanish Employers Association)
- The Spanish Chamber of Commerce
- Code of Best Tax Practices of the Spanish Tax Authorities
- Code of Best Practices for the viable restructuring of mortgage loans for normal residence.
- Social Housing Fund (Fondo Social de Vivienda)
- United Nations Global Compact
- Equator Principles
- SpainSIF (Spanish forum for responsible investing)

- Forética (Forum for the Assessment of Ethical Management)
- Diversity Charter
- Fundación SERES (Responsible Society and Businesses)
- Fundación LEALTAD
- Fundación ETNOR (foundation for ethics in business and organisations)
- Plan de Educación Financiera (financial literacy plan) of the CNMV and the Bank of Spain
- Asociación para la Autorregulación de la Comunicación Comercial (Autocontrol)
- The Spanish Association of Advertisers (Asociación Española de Anunciantes)
- The Spanish Association of Social Responsibility Directors (DIRSE)
- The Spanish Green Growth Group
- Fundación Empresa y Sociedad
- Fundación Ecología y Desarrollo (ECODES)

- **Commitment to human rights**

Bankia is one of Spain's leading financial institutions, boasting a sound customer base and a strong structure of approved suppliers. Because of this, not to mention its large workforce and social impact, the Bank is fully committed to complying with and respecting human rights in all its areas of operation.

This is stated in the Bank's Code of Ethics and Conduct and implemented in the Memorandum of Respect for and Compliance with Human Rights, approved by the Board of Directors. The United Nations Guiding Principles for Business and Human Rights, adopted by the Bank, recognise the role of business enterprises in ensuring compliance and respect, and express the need to provide victims with the necessary mechanisms to remedy possible infringements

Furthermore, Bankia includes responsibility in human rights in its strategy through the Responsible Management Plan.

In its relations with society, Bankia acts as:

- **Employer**. Bankia’s employment policies are governed by applicable Spanish legislation. All of Bankia’s employees’ employment conditions are set out in the Collective Labour Agreement for Savings Banks and Financial Institutions. The collective agreement and the Bank's employment policies ensure non-discriminatory treatment and equal working conditions for all employees, regardless of gender, age, race, religion, sexual orientation, marital status or social condition. Unions are actively involved in labour negotiations and the Bank respects freedom of association and social dialogue. In the workforce there are 468 union delegates, elected at the latest elections held in Bankia in 2018. Unionised employees spent 146,760 hours on union business during the year.

- **Provider of products and services.** As a provider of products and services, Bankia honours its commitment to human rights on several fronts:

  - **Data protection.** The entity preserves and safeguards the privacy of customer data, not only by preventing its use for marketing purposes, but also by ensuring that all the necessary measures are taken to avoid data leaks or unauthorised use. Beyond the requirements of data protection regulations, Bankia considers protecting customers' information and ethical obligation.

- **Relations with customers.** The entity does not apply any criterion that might entail discrimination against any person or group by reason of gender, age, race, religion, sexual orientation, marital status, social background or place of residence. To help customers and non-customers make informed decisions about their daily finances, Bankia has several financial literacy initiatives to help customers understand the products and services it offers. The Bank also offers the possibility of purchasing financial products and services through a wide range of face-to-face and remote channels that give the general public better access to banking services. In addition, Bankia has a Responsible Marketing Code, which is public and sets out its promise to customers to meet their real needs and create lasting ties. Bankia's Customer Service Department enables any Bank customer to lodge the complaints, claims or suggestions they see fit regarding any infringement of their basic rights.

- **Social and environmental impact.** 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**.** Bankia also has mechanisms in place to control or 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 updated with the approval of the Board in December 2017, 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.

- **Contractor**. Bankia has 792 approved suppliers, with a procurement volume of nearly EUR 1.2 million. To stimulate, promote and ensure respect for human rights, the Bank manages its suppliers in accordance with the Purchasing Policy, giving consideration to suppliers' adherence to the principles of the UN Global Compact, the Universal Declaration of Human Rights and the fundamental conventions of the International Labour Organization (ILO). The supplier approval process assesses social, environmental and good governance aspects. Issues related to corporate social responsibility, human rights and the environment account for 33% of the total assessment. The weight assigned to compliance with huma n rights is reviewed on a regular basis.
- **Social agent**. Bankia adopts the Equator Principles. With the limitations imposed by Brussels on Bankia's business lines lifted, it made sense for the Bank to undertake the commitment to these principles, which help to take into consideration social and environmental risks in projects it funds or advises on so that it can mitigate or eliminate any adverse impact on the population, society and the environment. Meanwhile, the strategic focus of Bankia's social action is on housing, new poverty, employment and training, local development, and disability. Specifically, Bankia allocates homes at social rents to individuals and families in situations of vulnerability. Bankia has adopted the Code of Good Practices of the financial sector and takes voluntary measures to resolve the loss of homes for failure to pay of families in situations of vulnerability. It also helps people find work and improve their employability through training initiatives. The Bank works with local social

organisations that focus mainly on employment, diversity, ageing and care giving. It also supports the integration of disabled people in society and employment through employment promotion and educational schemes.

Bankia is working on a complete conceptual and regulatory framework for the implementation and the external and internal assurance of its respect for human rights. The aim for 2019 is to create a single due diligence process with unified and unequivocal criteria for the entire Bank, so that the management of risk and the identification of opportunities in the area of human rights is structured in an integrated way and not merely through departments affected by their own activity.

In this respect, Bankia has set the following goals for this year:

- Define a human rights compliance government system within the Bank's structure, determining its authorities and how to deploy them in the organisation.
- Establish a specific system for communication and accountability.
- Organise a follow-up and monitoring mechanism in accordance with the UN's Guiding Principles.

3. PEOPLE[1]

Active diversity management leads to more inclusive leadership and helps women achieve greater positions of responsibility.

People management in 2018 was shaped by the adaptation of the workforce and the restructuring of the commercial network brought on by the absorption of BMN.

The following tables present the number of Bankia employees at year-end.

- **Employment**

Total number of employees and distribution by gender, age, country and professional category

GENDER	HEADCOUNT AT 31.12.18
Men	6.771
Women	8.715
TOTAL BANKIA	**15.486**

AGE BRACKETS	HEADCOUNT AT 31.12.18
Less than 30	38
Between 30 and 50	11,707
Over 50	3,741
TOTAL BANKIA	**15,486**

COUNTRY	HEADCOUNT AT 31.12.18
Spain	15,481
China	3
Cuba	2
TOTAL BANKIA	**15,486**

[1] Information related to Bankia, S.A.

PAY LEVEL	HEADCOUNT AT 31.12.18
Executive directors	4
Management Committee	5
Level I to Level IV	3,439
Level V to Level VII	5,994
Level VIII to Level XIV	6,036
Other*	8
TOTAL BANKIA	**15,486**

* According to the Collective Labour Agreement for Savings Banks and Savings Financial Institutions for 2015-2018, this professional category covers employees holding positions or providing unskilled trade or speciality services not related to the financial business, lending, or any other specific activity of savings banks; e.g. concierge, surveillance, cleaning, telephone assistance, conservation and maintenance, and other similar services.

Types of employment contract based on annual average of permanent, temporary and part-time contracts by gender, age and professional category

	HEADCOUNT AT 31.12.18			
GENDER	PERMANENT	PERMANENT PART TIME	TEMPORARY	TOTAL
Male	6,771	-	-	6,771
Female	8,714	1	-	8,715
TOTAL BANKIA	**15,485**	**1**	**-**	**15,486**
PERCENTAGE	**99.99%**	**0.01%**	**0.00%**	**100.00%**

	HEADCOUNT AT 31.12.18			
AGE	PERMANENT	PERMANENT PART TIME	TEMPORARY	TOTAL
Under 30	38	-	-	38
Between 30 and 50	11,706	1	-	11,707
Over 50	3,741	-	-	3,741
TOTAL BANKIA	**15,485**	**1**	**-**	**15,486**

	HEADCOUNT AT 31.12.18			
PAY LEVEL	PERMANENT	PERMANENT PART TIME	TEMPORARY	TOTAL
Executive directors	4	-	-	4
Management Committee	5	-	-	5
Level I to Level IV	3,439	-	-	3,439
Level V to Level VII	5,994	-	-	5,994
Level VIII to Level XIV	6,035	1	-	6,036
Other	8	-	-	8
TOTAL BANKIA	**15,485**	**1**	**-**	**15,486**

Number of dismissals by gender, age and professional category

GENDER	COLLECTIVE REDUNDANCY	DISCIPLINARY DISMISSAL	OBJECTIVE DISMISSAL AND OTHER
MEN	1.268	8	3
WOMANr	732	10	4
TOTAL BANKIA	**2.000**	**18**	**7**

AGE	COLLECTIVE REDUNDANCY	DISCIPLINARY DISMISSAL	OBJECTIVE DISMISSAL AND OTHER
Under 30	-	-	-
Between 30 and 50	355	11	5
Over 50	1.645	7	2
TOTAL BANKIA	**2.000**	**18**	**7**

CLASSIFICATION	COLLECTIVE REDUNDANCY	DISCIPLINARY DISMISSAL	OBJECTIVE DISMISSAL AND OTHER
Level I to Level IV	805	5	2
Level V to Level VII	796	3	1
Level VIII to Level XIV	392	10	4
Other	7	-	-
TOTAL BANKIA	**2.000**	**18**	**7**

*In accordance with the Labour Agreement of 15/02/2018 on the collective redundancy procedure arising from the merger between Bankia and BMN, signed by Bankia and its worker representatives.

- **Remuneration policy**

Bankia has a remuneration policy predicated on complying with regulations and upholding the following principles:

- Balance of components of remuneration
- Orientation to results and recognition of excellence
- Strategy and timeframe
- Engagement of the Bank with shareholders and customers
- Simplicity of regulation and communication
- Risk and management
- Internal fairness
- External competitiveness
- Gender equality

Remuneration of each professional is for all their actions in performing their duties both within the Bank and at other group entities or investees. The components are as follows:

- **Fixed remuneration.** This is based on the employee's position and any functional or personal allowances applicable in each case.

- **Variable remuneration.** This is linked to the additional or extraordinary contribution to the job, the amount of which is determined based on the level of achievement of the established targets. Its characteristics are:
    - It considers the Bank's overall results, the results of the unit to which the employee belongs, and an individual appraisal.
    - No amounts of variable remuneration are guaranteed.
    - Amounts are fully commensurate with the date of hiring, promotion or rotation, and the results achieved.

The variable remuneration policy ensures that no conflicts of interest will arise that could hurt customers and compliance with rules of conduct for the provision of investment services, and prevents any incentives from inducing employees from putting their interests (or those of the company) before customers.

In determining variable remuneration, employee performance appraisals not only consider sales volumes, but also other qualitative factors; e.g. compliance with regulatory requirements regarding conduct, equal treatment of customers or customer satisfaction.

A review is carried out annually to ensure that variable remuneration does not limit Bankia's ability to maintain a sound capital base and safeguard the interests of shareholders, customers and other stakeholders.

Average employee remuneration (excluding the total annual remuneration of the highest-paid individual)	EUR 51,862
Increase in average employee remuneration (excluding the total annual remuneration of the highest-paid individual)	1.25%
Annual remuneration of the highest-paid individual	EUR 800,000
Increase in annual remuneration of the highest-paid individual	0%
Percentage of employees eligible to receive variable remuneration	100%

Remuneration and wage gap

The following information was calculated taking headcount at 31.12.2018 at Bankia and considering as annual remuneration, the fixed remuneration, the complementary pension contribution, and remuneration in kind received in 2018 and the annual and multi-year bonuses.

Professional Category	Male: Average Age	Male: Average Wage	Female: Average Age	Female: Average Wage	%Gap
Executive Director	65	675,000			
Non executive Director	61	100,000	55	100,000	0.0%
Executives[2]	46	83,329	45	70,119	15.9%
Others	46	53,364	45	48,187	9.7%
Level I - Level IV	51	69,399	49	64,520	7.0%
Level V - Level VII	49	55,648	48	54,669	1.8%
Level VIII - Level XIV	40	41,794	41	40,842	2.3%

[2]Executives: includes remuneration of members of the Management Committee and other team leaders.

- **Work organization**

Measures designed to favour work-life balance and promote the sharing of responsibilities between both parents

Beyond regulatory provisions recognising work-like balance, Bankia has a broad range of measures in place that favour work-life balance and the sharing and balance of family responsibilities between parents. Specifically, employees may apply for the following types of leaves of absence and/or measures:

- Daily absence of 1 hour or reduction in working hours of up to 2 hours for period of up to one month, with no reduction in salary, in the case of premature childbirths and children hospitalised at birth.

- 15 calendar days per year for hospitalisation of children under 14 years old and, if this occurs during the maternity leave, the employee may take these days immediately after the maternity or paternity leave.

- Extension of paternity leave of up to 20 calendar days for the birth of a child with a disability equal to or greater than 33%. For a child with a disability equal to or greater than 65%, the employee may take 30 calendar days during the first 24 months of the child's life starting from the date of birth or the resolution of adoption or foster care.

- Three working days for accident or serious illness, hospitalisation or surgery without hospitalisation and rest of family members up to the first degree of consanguinity or affinity. This leave is increased by two calendar days if travel is required.

- Two working days for accident or serious illness, hospitalisation or surgery without hospitalisation and rest of family members up to the second degree of consanguinity or affinity. This leave is increased to four calendar days if travel is required.

- Three working days for death of family members up to the first degree of consanguinity or affinity. If the death occurs in a different city this leave is increased by two calendar days.

- Two working days for death of family members up to the second degree of consanguinity or affinity. If the death occurs in a different city this leave is increased by a total of four calendar days.

- Paid leave of up to 20 hours per year to accompany children, spouse, father or mother or registered domestic partner to medical appointments and treatments.

- Breastfeeding: Reduction of one hour, or split into two fractions, or alternatively a reduction in working hours of half an hour, or 10 calendar days immediately after maternity leave, and five calendar days within the first 12 months of the life of the child, which may not be added to the previous leave.

- For the birth of two children, the employee may take paid leave of 20 calendar days plus 10 working days until the children are 12 months old, which may not be added to the previous leave.

- For the birth of three or more children, the employee may take paid leave of 25 calendar days plus 15 working days until the children are 12 months old, which may not be added to the previous leave.

- Paid leave of 30 hours per year (recoverable) to accompany a child, spouse, mother or father, and registered domestic partner to medical appoints, medical treatments involving radiation, chemotherapy, dialysis or similar and rehabilitation.

- Unpaid leave from one week to one month: family needs, overseas adoption, assisted reproduction techniques.

- Unpaid leave from one week to six months: accident or serious illness of family members up to the first degree of consanguinity or affinity.

- Unpaid leave from one week to six months for hospitalisation or palliative care of family members up to the first degree of consanguinity or affinity.

- Unpaid leave from one month to six months to complete post-graduate studies or doctorates.

- Unpaid leave of up to 10 day for serious illness of spouse or registered domestic partner and children and family members up to the first degree of consanguinity or affinity.

- Reduction in working hours to care for children under the age of 12 or with a physical or mental disability from 1/8 to 1/2 of working hours. This 1/8 reduction may be accumulated in days. In these situations, the employee may ask the Bank not to consider the reduction in working hours related to temporary reductions in working hours in calculating the employee's financial assistance. Bankia undertakes to assess and study this on a case-by-case basis.

- Advance on holiday entitled for serious illness of a family member. In the event of a serious illness of family members up to first degree of consanguinity or affinity, the employee may take up to five days of their holidays of the following year.

- Leave of absence to perform services to a renowned charitable organisation with a right to reinstatement on conclusion.

- During the first year of leave of absence to care for children, the employee may request suspension of payment of the contribution of certain financial assistance.

- Flexibility in start and end times for work in certain units.

Social dialogue and relationships with trade unions

Right to freedom of association and collective bargaining

Bankia maintains ongoing and smooth dialogue with worker representatives, signing a host of labour agreements on matters affecting employees in areas outlined in legislation and others considered important by the Bank and unions for both the business and working environment. Bankia respects the right of all workers to form and join a trade union of their choice, and exercise their union activity within the company. There are no corporate restrictions or positions other than to prevent and eradicate any risk of discrimination towards employees for union activities.

In addition, Bankia guarantees enforcement of the Labour Union Freedom Act (Ley Orgánica de Libertad Sindical) through a signed labour agreement, which outlines certain criteria that, effectively, guarantee the exercise of the right of freedom of association of worker representatives.

Health and safety topics covered in formal agreements with trade unions

The occupational health and safety agreement signed by Bankia with all worker representatives is designed to set out the actions necessary for ensuring the safety of employees from potential risks arising from their professional activity. This agreement includes the creation of a joint-management (company and worker representatives) National Health and Safety Committee.

A plan of preventive activities to be carried out in health and safety is drawn up each year. Approved by that committee, the plan also includes proposals put forward in those areas by members.

The annual report on preventive activities containing Bankia's main health and safety performance indicators in the period are presented to the committee.

The National Health and Safety committee meets quarterly. Among other issues, it addresses the information provided by the Bank to worker representatives:

- Regarding occupational health, quarterly employee absenteeism rates and injury rates in the period.
- Regarding safety, quarterly work centre robberies and illegal occupations, and quarterly information on situations of external violence suffered by employees.

All occupational health and safety activities are audited every four years by a leading independent external company, which verifies that the system complies with prevailing OHS regulations.

Number of hours lost due to absenteeism

	Male	Female	TOTAL
Number of hours	263.703	603.369	867.072

Ocupational health and safety relevant indicators

	At work		Travel to and from work		Total
Type of accidents with medical leave	Women = 23	Men = 5	Women = 63	Men = 31	**122**
	28		**94**		
No. of days lost	Women = 495	Men = 120	Women = 1,496	Men = 721	**2,832**
	615		**2,217**		
Absenteeism rate	Women = 0.014	Men = 0.003	Women = 0.04	Men = 0.02	**0.08**
	0.017		**0.06**		
Injury rate	Women = 0.93	Men = 0.20	-	-	**1.13**
	1.13		-		
Severity rate	Women = 0.020	Men = 0.007	-	-	**0.027**
	0.027		-		
Occupational diseases	-	-	-	-	**0**
Work-related fatalities	Women = 1	-	-	.	**1**

- **Training**

Training policies

Bankia has a training policy that consists of a set of actions undertaken to guide and adapt employees' knowledge and learning about the strategic needs at any given time, and to enable them to further their professional careers. Accordingly, the purpose of this policy is to develop people's knowledge, competences and skills.

The training policy helps teach employees though a continuous learning process that enables them to adapt to change quickly and evolve in their jobs.

It also **helps to make the Bank's professionals more employable**. For this, training projects with leading Spanish and international partners are certified. The training plans have not only been received well internally at Bankia, but they have also been endorsed by leading external bodies and/or universities.

Another core objective is to ensure and facilitate **access and participation of Bankia employees in training**. Tools such as the virtual classroom make it possible for employees to arrange their own training options, making them responsible for managing their training sessions and choosing training actions within an extensive open access catalogue.

Lastly, the virtual classroom guarantees connectivity for all via any device, anytime and anywhere.

The principles guiding this policy are:

- **Response to business and customer needs**: Leverage training to match employees to their position, the business and external customer as a crucial factor to ensure the Bank's competitiveness.
- **Professional growth**: Provide people with the necessary knowledge and skills to drive their personal and professional growth.
- **Transfers to the workplace:** Maximise the applicability and transfer of learning in training actions.
- **Use of new technologies**: Integrate the use of the best digital tools in conducting training actions designed to make people more accessible and flexible.
- **Efficiency**: Optimise training processes, streamlining resources used and promoting the generation of synergies, while ensuring quality and achievement of the established goals.

- **Self-responsibility:** workers are responsible for, and the main protagonists of, their own training process.

Average number of employees training hours in 2018

AREA	Total hours	Average
Hours of training given to men	422,530	62.40
Hours of training given to women	601,881	69.06
Hours of training given to senior and middle managers	276,543	91.45
Hours of training given to the rest of staff	747,868	60.01

Anti-money laundering/combating the financing of terrorism (aml/cft)

In 2018, the Board of Directors was trained in anti-money laundering and terrorist financing tools. In addition, members of the Internal Control Body (ICB) were been trained on anti-money laundering and terrorist financing.

A total of 14,455 Bankia employees received AML/CFT training in 2018.

No. of employees	Total hours	% of employees trained
14,455	73,634	93%

Category	No. of employees	% of employees trained
Executives and middle management	3,960	95%
Other	10,495	92%

- **<u>Diversity and equality</u>**

Measures adopted to promote equal treatment and opportunities among men and women. Equal opportunities plans

On 19 July 2016, the Bankia Equal Opportunities Plan was signed by the majority of worker representatives. It outlines the following objectives and the specific measures to achieve them:

- Transmit the principles of equal opportunities guiding the organisation to all the heads of the various organisational units that are involved, directly or indirectly, in decision-making on promotions through specific equality modules.

- Promote the effective enforcement of equality among women and men, guaranteeing the same opportunities for hiring and career advancement in the workplace and carrying out affirmative action measures to achieve this objective.

- Ensure that people management systems guarantee equality between men and women at all times.

- Raise awareness in the organisation about the measures available for work-like balance, so employees can avail of them irrespective of their gender.

To achieve these objectives, specific actions have been designed in the following areas:

- Selection and procurement
- Professional development
- Training
- Remuneration

One objective of the Bankia Strategic Plan 2018-20 is to have women directors occupy 40% of executive positions by the end of the plan. As a result, on 15 October 2018, Bank's Management Committee approved a Gender Diversity Plan, with objectives and proposed actions **based on best practices and recommendations to promote gender diversity and considering the main barriers to the promotion of women in organisations**. The plan outlines four main courses of action with the following objectives and actions, some of which are already underway:

A. **COMPANY COMMITMENT:** Manage and develop gender diversity as a strategic factor, monitored by the Management Committee.

   - Approval of the Gender Diversity Plan by the Management Committee ✓

   - Inclusion of diversity in the Responsible Management Committee's plans ✓

   - Review and update of the Equal Opportunities Plan

   - Formal recognition: signing of agreements / equality seals

B. **TRAINING AND AWARENESS RAISING:** understand gender diversity from a broad and inclusive perspective, raising awareness among executives and employees about the importance of managing diversity and promoting behaviours that prevent prejudice and unconscious bias.

   - Director training on diversity ✓

   - Inclusive leadership workshops

   - Space on the intranet with diversity content ✓

- On-line learning pills on diversity

C. **TALENT DEVELOPMENT:** the Accelerate Plan was drawn up for all Bankia corporate departments to identify and develop women with talent via: - Personalised career development programmes

-Mentoring.

-Sponsoring.

-"Dare to" workshop: empowering women

- Other actions: e.g. temporary stays in other units, rotations

D. **INDICATORS AND MONITORING**: set goals, measure progress and level of achievement, and establish any additional measures as necessary.

- Annual promotion targets by units
- Rooney Rule: at least one female candidate for executive positions, including external recruits
- In equal conditions, selection of person of the gender least represented
- Monitoring indicators: ✓
    - % of women and men in executive positions
    - % of women and men promoted to each executive level (annual data)
    - % of women and men in talent programmes in different levels (annual data)
    - % of women and men included in training actions
    - % of female and male candidates in external recruitment processes
    - Monitoring of equal pay: an analysis of remuneration by job and gender is conducted each year to verify trends in remuneration against advances in promotions. Elimination of any unjustified remuneration difference.

Percentage of people in governing bodies and by professional category in the company for each category of diversity

Gender

PAY LEVEL/GENDER	HEADCOUNT AT 31.12.2018 MEN No.	MEN %	WOMEN No.	WOMEN %	TOTAL
Executive directors	4	100.0%	-	0.0%	4
Management Committee	4	80.0%	1	20.0%	5
Level I to Level IV	2,245	65.3%	1,194	34.7%	3,439
Level V to Level VII	2,585	43.1%	3,409	56.9%	5,994
Level VIII to Level XIV	1,926	31.9%	4,110	68.1%	6,036
Other	7	87.5%	1	12.5%	8
TOTAL BANKIA	**6,771**	**43.7%**	**8,715**	**56.3%**	**15,486**

Age group

PAY LEVEL/GENDER	HEADCOUNT AT 31.12.2018 UNDER 30 No.	UNDER 30 %	BETWEEN 30 AND 50 No.	BETWEEN 30 AND 50 %	OVER 50 No.	OVER 50 %	TOTAL
Executive directors	-	0.0%	-	0.0%	4	100.0%	4
Management Committee	-	0.0%	1	20.0%	4	80.0%	5
Level I to Level IV	-	0.0%	1,941	56.4%	1,498	43.6%	3,439
Level V to Level VII	1	0.0%	4,032	67.3%	961	32.7%	5,994
Level VIII to Level XIV	37	0.6%	5,729	94.9%	270	4.5%	6,036
Other	-	0.0%	4	50.0%	4	50.0%	8
TOTAL BANKIA	**38**	**0.2%**	**11,707**	**75.6%**	**3,741**	**24.2%**	**15,486**

Other highlights related to diversity and equality in 2018:

- The signing in April 2017 of the Diversity Charter spearheaded by Fundación Diversidad (Alares), valid until early 2020. The Diversity Charter is a letter of commitment whereby companies that sign it express an active commitment to adopt fundamental principles of equality, awareness-raising, communication and advancement in building a diverse company. Voluntary signatories of the Diversity Charity respect prevailing regulations on equal opportunities and anti-discrimination, and undertake to abide by the following basic principles:

  - Raise awareness: principles of equal opportunity must be enshrined in the company's values and disseminated among employees.

  - Contribute to building a diverse workforce: the company must encourage the integration of people with diverse profiles (e.g. irrespective of gender, sexual orientation, race, nationality, ethnic origin, religion, beliefs, age, disability).

- Promote inclusion: integration must be effective, avoiding any type of (direct or indirect) discrimination in the workplace.

- Consider diversity in all people management policies: diversity management must not be just another human resources practice, but rather a cross-organisational factor underlying all related decision-making.

- Promote work-life balance through a balance of work, family and leisure time: organisations must put mechanisms in place to achieve to balance between work of all employees and their family and personal lives.

- Recognise diversity of customers: organisations must know their customers, recognising that their diversity is also a source of innovation and development.

- Spread and communicate the commitment among employees: the commitment acquired by the organisation on signing the Diversity Charter must be shared throughout the company.

- Spread and communicate the commitment among suppliers: invite them to join the companies in Spain that adhere voluntarily to the commitment promoted by the Charter.

- Spread and communicate the commitment to administrations, business organisations, trade unions and other social agents.

- Reflect anti-discrimination support activities and results obtained from implementation of diversity policies in the company's annual report.

Protocols against sexual and gender harassment

On 19 July 2016, the Protocol against Sexual and Gender Harassment in the Workplace, attached as an appendix to the Bankia Equal Opportunities Plan, was signed by the majority of worker representatives, undertaking to spread and raise awareness among employees, particularly those who manage and oversee work teams.

This protocol applies to all Bankia employees, at both its offices and wherever employees provide their services. It also applies to employees of external companies subcontracted by Bankia and temporary employment agencies that provide services at the Bank's facilities.

Measures for the integration and universal access of people with disabilities

At 31 December 2018, Bankia had 180 employees with disabilities working. It provided them with all the necessary technical and/or material resources so they could perform their jobs.

EMPLOYEES WITH DISABILITIES	HEADCOUNT AT 31.12.18
Disability ≥33% and <65% with reduced mobility	7
Disability ≥33% and <65%	156
Discability ≥65%	17
TOTAL BANKIA	**180**

Bankia's public employment service certificate of exceptionality awarded by the Spanish Labour Ministry is still valid, accrediting that the Bank complies with the "alternative measures" provided for in article 2.1 sections a) and b) of Royal Decree 364/2005, of 8 April, regulating alternative compliance with the exceptional nature of the reserve quota for disabled employees.

Bankia offers the 'Family plan" for all employees with descendants with disability under their care, offering training, rehabilitation or medical services for their children. In 2018, employees with disabled children received training assistance of EUR 4,080 for each child up to the age of 23 and EUR 3,740 for children over 23.

Bankia is also acutely aware of the integration and accessibility of people with disabilities, engaging special employment centres to provide a variety of services.

For its part, in its branch network and other public service centres, Bankia has provided material, technological and assistive devices so that people with disabilities can access the Bank's services.

Measures to promote employment

In 2018, since the restructuring process arising from the merger with BMN was underway, there were only 30 new hires, with specialised profiles, mostly in technology, big data, risks and regulatory compliance. Several recruitment processes were being conducted at the end of the year, including one for 150 salespeople in the branch network.

4. COMPLIANCE AND CONTROL SYSTEMS

With regulatory pressures mounting, internal control and compliance activities have becoming increasingly important for Europe's financial institutions in recent years due. Several decisive regulations for the banking industry became effective in 2018, such as the new European payment services directive (PSD2), the Markets in Financial Instruments Directive (MiFID II), the General Data Protection Regulation (GDPR) and the new international accounting standard (IFRS 9).

To address this wave of changes in regulations, Bankia has an effective internal control and risk management organisation and effective systems to ensure compliance with the rules to which its actions are subject and with good banking practices.

- **Criminal risk prevention**

Bankia has a criminal risk prevention model that identifies the activities that must be prevented and the necessary protocols and procedures to avoid any behaviour that could give rise to criminal liability and ensure compliance with the rules of its Code of Ethics and Conduct.

The model is based on the periodic implementation and execution of both general and specific controls to systematise the related risks and controls, so that any circumstance that increases the threat of committing criminal offences is detected.

During 2018, Bankia adapted its crime prevention model to its new situation after the addition of BMN, updating the risk map and controls.

92 employees were trained in criminal risk prevention.

- **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, the entity 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.

On 4 September 2018, the Royal Decree-Law amending Law 10/2010 on the prevention of money laundering and the financing of terrorism was published. One of the main differences is the sharp increase in sanctions for serious and severe infringements by both the obliged subject and the managers or officers responsible for the offence.

Although the Fourth Directive has yet to be fully transposed in Spain, on 19 June 2018, the EU Council approved by the Fifth EU Anti-Money Laundering Directive after the terrorist attacks in Paris and Brussels. It calls for closer monitoring of exchange services between virtual currencies and fiat currencies, custodian wallet providers and the restriction on the use of prepaid cards, which have proved to be highly attractive for financing terrorist activities. Member States have until 10 January 2020 to transpose this Directive.

- **Prevention of market abuse**

With the entry into force of the European market abuse regulation in the summer of 2016, Regulation (EU) No 596/2014, of 16 April 2014 and implementing regulations, introduced changes to the obligations and requirements prompting the entity to adapt to the regulation correctly in order to strengthen market integrity and comply with the implementing and oversight mechanisms at European level.

Particularly important requirements in areas such as: indicators of market manipulation, reporting of abusive practices and suspicious transactions, accepted market practices, market sounding, managers' transactions, insider lists, buy-back programmes and stabilisation, investment recommendations, particular interests and conflicts of interest.

Advanced technologies in the prevention of market abuse were rolled out in 2018, integrated with existing technologies in other areas, to provide a holistic and unified vision for analysing behaviour, and to increase the compliance culture around the detection and prevention of activities that are suspicious of market abuse and favour the transparency and proper functioning of markets. This also comes via scheduled training of employees on the development of the related internal policies, manuals and procedures.

- **<u>Consolidation of MIFID II</u>**

The entry into force in 2018 of the Second Markets in Financial Instruments Directors (MiFID) and implementing regulations, which is currently being transposed into Spanish law, has posed a major challenge for the Bank. Bankia has had to complete the adaptation of its processes and procedures, and its business model. The objective of the directive is to enhance quality in the distribution of the various investment services, offer greater investor protection and obtain a competitive advantage from its development.

Among the matters regulated, noteworthy is the reinforcement and strengthening of the rules of conducts, above all in the provision of investment services to better protect investors.

The main actions carried out in 2018 to adapt to MiFID II, and which must be strengthened in 2019, are:

- **Continuous training of employees**. Bankia has started up training plans for virtually all retail staff to ensure that the information they provide to customers on financial instruments and the related advice result in a service that goes beyond the regulatory standards.

- **Product governance**. Work has been done on restructuring the design and distribution of investment services to align them with best practices.

- **New models for assessing suitability and appropriateness**. Efforts were made in 2018 to strengthen the suitability and appropriateness assessments, tailoring the assessment processes to the various market segments and products sold, so that they match customers' risk profile, knowledge and needs correctly.

- **Greater transparency in reporting**. While maintaining the objectives and adapting to the financial sector's ongoing digitalisation, the procedures for communicating with customers have been bolstered. The aim is to take another step towards better and stronger decision-making by our customers. Work was also carried out on reinforcing information systems for registering communications related to transactions or the provision of investment services. This has resulted in mechanisms that ensure relevant information in all phases (pre-contractual, contractual and post-contractual) on investment strategies and financial instruments, as well as increased disclosures and transparency on the costs and associated charges and communications with our customers.

A total of 3,964 employees received MiFID training in 2018.

- **Internal audit and control**

The Corporate Internal Audit Directorate oversees and assesses the effectiveness of the Bank's corporate governance, risk management, internal control and information systems and also verifies compliance with internal and external regulations.
This Directorate covers the following areas:

- Audit of the branch network
- Audit of markets and structural risks
- Audit of Central Services
- Audit of processes
- Audit of systems

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.

The Internal Audit function covers all the activities carried out in the Group and has unlimited access to the information it needs for the performance of its tasks. In performing its work, it may contact and gather information from any senior manager or employee of the organisation.

The Internal Audit function has established seven processes, which summarise the work it does: preparation of the Audit Plan; execution of business centre audits; execution of process, centre and system audits; follow-up of audit recommendations; development and maintenance of audit function support applications; internal audit communication and reporting; and collaboration with and coordination of external audits.

In recent years, the Corporate Internal Audit Directorate has also developed various web applications designed to optimise its operations and allow for smoother communications between auditors and auditees.

No. of audits of processes, products and centres	280
No. of branch audits per audit plan	1,126
No. of fraud prevention alerts	1,289

5. CORPORATE INTEGRITY

Bankia has a Code of Ethics and Conduct that sets out the rules and guidelines of professional conduct that must be adhered to and applied by all the entity staff and officers and across all the Group's activities and businesses. Enforcement of ethical standards of behaviour and corporate integrity is essential in order to preserve trust in, and respect for, the entity.

The objectives of the code are to specify the conduct that is permitted and the conduct that is prohibited by the entity, and to establish the ethical principles and general rules that must govern the behaviour of the Group and its professionals towards one another and towards customers, shareholders, suppliers and all the individuals and institutions with which the entity, directly or indirectly, has relations.

The Code that is available in Bankia's corporate web and the employee intranet, revolves around the entity's principles and values: commitment, integrity, professionalism, closeness and achievement orientation. This principles are implemented in several ways:

- **Corporate**. 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 barriers which aim to avoid non-public information on its investment decisions and other activities from being used abusively or unlawfully.

- **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 crime. Bankia has various control mechanisms for this purposes and training plans for managers and other staff. There are also specific recommendations to prevent corruption in supplier contracting, incentives and credit risk.

- **Personal**. 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.

The Group's professionals have an obligation to know, comply with and help to enforce the Code of Ethics and Conduct. Bankia is committed to disseminating the code and sends regular reminders to employees to raise awareness and facilitate compliance. In addition, the entity has channels available through which they can report any evidence or proof of infringement of the code.

Bankia's Ethics and Conduct Committee is in charge of overseeing compliance with the Code, and promoting ethical behaviour within the entity. To that end, it carries out cross-organisational actions to raise employee awareness of the need to prevent situations that could potentially lead to breaches of the code.

The duties of the Ethics and Conduct Committee include: taking the necessary measures to address ethically questionable conduct, processing reports received through the whistle-blowing channel and situations of conflict of interest, and communicating the circumstances that may give rise to material risks.

It also handles queries, concerns and suggestions that may arise regarding compliance with the code, performs an annual assessment of the level of compliance, reports to senior management and proposes changes to the content of the code to adapt to the performance of the business.

In terms of disciplinary action, it takes decisions based on the powers and authorisations conferred in terms of human resources and organisation, especially where the proposal or resolution entails dismissal for disciplinary reasons.

This committee, without prejudice to the responsibilities attributed to the Audit and Compliance Committee, submits to the Appointments and Responsible Management Committee periodically, and at least at the end of each year, a report of activities regarding the performance of the duties assigned to it.

Percentage of employees who have an obligation to know and comply with the Code of Ethics and Conduct	100%
Percentage of staff trained on the Code of Ethics and Conduct (cumulative historical)	92%
No. of employees trained on the Code of Ethics and Conduct in 2018	2,543
Percentage of new hires trained on the Code of Ethics and Conduct (cumulative historical)	35%
Number of sanctions imposed for breach of the Code of Ethics and Conduct	29 severe and 110 serious and minor

- **Confidential Whistleblowing Channel**

To help enforce the Code and Ethics and Conduct, Bankia has a Confidential Whistleblowing Channel, which facilities the internal flow of reports and detection of bad practices through a specific digital platform or by email. It is available on the Bankia corporate website and employee intranet.

The channel has its own regulations, approved by the Audit and Compliance Committee, which establish mechanisms for the reception, filtering, classification and resolution of reports in accordance with Spanish Data Protection Agency standards.

The channel is managed externally by a specialised company (currently PwC), under the oversight of the Ethics and Conduct Committee, which guarantees that all reports received are assessed independently and that the information is shared only with people whose collaboration is strictly necessary to research and resolve the matter.

The reporting procedure is completely confidential and preserves the anonymity of the whistleblower, except for the persons directly involved in responding to the report and checking the facts. For reports of breaches of the Anti-Money Laundering and Terrorist Financing Law, the anonymity of the whistleblower has been fully guaranteed since November 2018.

A total of 11 reports were received through the Confidential Whistleblowing Channel in 2018, four more than in 2017.

As with the Code of Ethics and Conduct, the Confidential Whistleblowing Channel is available on the Bankia corporate website and employee intranet.

Reports received through the Confidential Whistleblowing Channel since its creation in 2013	62
Meetings held by the Ethics and Conduct Committee	11

Type of reports received via the Confidential Whistleblowing Channel in 2018	
Market abuse	0
Workplace bullying	2
Irregular conduct with suppliers	0
Misappropriation or syphoning off of resources	2
Accounting and auditing aspects	3
Confidentiality or use of insider information	0
Conflicts of interest	0
Question/Suggestion	1
Falsification of contracts, reports or records	0
Infringements regarding securities or equities trading	0
Environmental protection	0
Information security	0
Physical security	0
Bribery or corruption	0
Infringement of employee rights	0
Other	3

6. QUALITY AND CUSTOMER SERVICE

Bankia aspires to offer the service the best suits the needs of each type of customer so it can be the best retail bank in Spain. To achieve this, it has specialist advisors (private banking, personal banking, SMEs and micro-enterprises), which help raise satisfaction and open up new sources of business.

Customer satisfaction is a key pillar of the 2018-2020 Strategic Plan. So, it is crucial that we know first-hand what customers think about the service they get from Bankia.

Over 262,000 surveys were conducted among customers the last year to enhance their experience in all areas of their relationship with the Bank; e.g. when they start working with Bankia, when they take out a specific product or service, when they use our digital channels, or when they visit our branch offices.

Also, mystery shopping actions were carried out across the network to gauge the quality of the service from the viewpoint of potential customers.

Through these actions, plus the digital tools rolled out by the Bank, offices can learn what their customers think. This enables them to manage information more efficiently and use it in their day-to-day operations.

In 2018, we went a step further, placing the customer at the heart of our strategy with the addition of the Quality Dashboard, a flexible and dynamic tool that facilitates the analysis of the quantitative and qualitative information offered to customers and speeds up the decision-making process.

Retail customer satisfaction index	86.90
No. of customers who responded to the satisfaction survey	262,990
Business customer satisfaction index	94.7
“Connect with your Expert” customer satisfaction index	93.10
Overall mystery shopper rating	7.79
No. of after-sales product surveys	65,388

Key milestones in the Bankia Customer Service Department in 2018: shorter and better response times to comply with regulations; review of procedures for handling customer claims pre- and post-merger with BMN; ongoing communication with internal and external customers to offer resolutions adapted to a simpler, friendlier and more transparent language, and training actions on new regulations and written communication techniques.

Regarding solutions in the areas of innovation and technologies, the computer development to automate and enhance data quality of reporting to supervisors is in the final stages. The area designed and is currently developing a new Services Request (SR) for branches (a functionality for pre-registration of complaints and claims), and working on the design of a new Management Information System (MIS) with information for business banking.

The indicators that best reflect the work done and goals achieved by the Customer Service Department are: 80% resolution rate within a month; decrease in the number of files claimed with supervisors; and a 9.4 point improvement in quality survey results from 2017.

Challenges for 2019 include reducing resolution times to a month in general and to three weeks for files related to payment services; continuing with the 'PST Project' (Proximity, Simplicity and Transparency); and improving the ratio of favourable reports by supervisors to Bankia and the percentage of rectifications of unfavourable reports.

The department will also gear efforts in 2019 towards making technical improvements to the CCS (complaints, claims and suggestions) management tool; submitting proposals to the various units to implement supervisors' recommendations; working with supervisors to remedy the deficiencies uncovered; and continuing to come up with new document custody solutions.

No. of complaints received from customers	54,366
No. of complaints accepted for investigation	51,823
No. of complaints resolved in favour of the customer	15,203
Total amount paid in compensation for customer complaints	EUR 6,337,042.97
Average response time for accepted customer complaints	19.80 days

7. TAX INFORMATION

The Bankia Group has filed consolidated tax returns since 2011 (tax group no. 0559/11) together with all companies in which it holds a stake of over 75% (during year 2018). Therefore, income taxes paid by the consolidated Group were paid by Bankia S.A. as the Group parent.

- **Country-by-country earnings**

Bankia has its organisational structure and conducts all of its businesses in Spain. Therefore, the Group obtains all of its profits here.

- Profit attributable to the Bankia Group EUR 703.21 million.

- **Income tax paid**

Bankia paid EUR 226,054 thousand of income tax in 2018.

However, the figures reported for taxes in this section correspond to the income obtained by the Bankia Group in 2017, since the figures for 2018 will not be available until sometime in the first few months of 2019, after the accounting closes of all the Group companies. In February each year, the Group calculates the total taxes paid the preceding year by all Group companies. The figures are then reported to the tax authorities through the Country-by-Country Reporting form (231).

- **Subsidies and grants**

- See Note 1.2 to the financial statements.

8. RESPONSIBLE PURCHASING

Bankia has a Purchasing Policy, approved by the Board of Directors, inspired by and predicated on a set of values: professionalism, integrity, commitment, closeness and achievement orientation.

Through a global procurement model based on responsible criteria, Bankia can assess and control risks that may arise in its supply chain.

The Purchasing Policy and principles of responsible purchasing apply to all companies and employees of the Bankia Group, especially those involved in the procurement of goods and services.

Bankia also specific rules of conduct for the purchasing function, in addition to its own Code of Ethics and Conduct, based on the rules of the International Federation of Purchasing and Supply Management.

These rules are founded principles such as loyalty and honestly, objectivity in decisions, transparency and equal opportunities, confidentiality, integrity and independence in relations and corporate social responsibility.

- **<u>Supplier selection</u>**

Transparency in supplier selection is implemented through a system of authorisations and delegated powers, so that decisions are escalated as appropriate and are communicated to all levels involved.

Bankia's purchasing policy contains a commitment to diversification of business among suppliers at local, national and international level, so as to foster balanced wealth generation.

To detect potential breaches of the Code of Ethics and Conduct, Bankia provides suppliers with a whistleblowing channel managed by an independent third party.

- **<u>Approval and rating</u>**

The approval process is a compulsory requirement before a business relationship is established with Bankia. This process covers ethical, social and environmental issues, with priority given to working with suppliers that show the best performance in these areas.

Moreover, 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).

In the qualification process, 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.

Under this framework of principles and policies, Bankia reinforced the operation of the Supplier Portal in 2018, establishing a new style of business relations with suppliers that favours transparency, impartiality and equal opportunity. The new Supplier Portal simply and securely hosts online all the information Bankia needs for supplier approval and rating and also facilitates participation in the various negotiation processes.

Total number of approved suppliers	792
Total number of new suppliers	231
Total number of approved suppliers under CSR criteria	1,012
Total number of suppliers with ESG risk	26
Total number of active approved suppliers in Spain (local scope)	2,384
Total number of active approved suppliers outside Spain (outside local scope)	192
Total billing (total volume of purchases)	EUR 1,198 million.
Average supplier payment period	8.88 days

- **Best practices**

In 2018, the Bank renewed its UNE 15896 Value-added Purchasing Management certification, the first supranational standard to encourage best business practices at the European level and to recognise excellence in the purchasing function. Bankia was the first financial institution to obtain this certification, which promotes continuous improvement, minimises risk, and ensures respect for sustainability in purchasing management.

In addition, Bankia held a Suppliers Day for the third year in a row in 2018. At the event, attended by some 300 suppliers, the entity shared its business strategy, discussed its business relationship model and reflected on the outlook for the economy. Through initiatives like this, Bankia aims to convey its commitment to suppliers and forge a relationship built on communication and involvement in their value chain in the entity endeavours.

Elsewhere, Bankia sponsors and collaborates with the Spanish Association of Purchasing, Procurement and Provisioning Professionals (Aerce). The purpose of this professional association is to channel, publish and disseminate purchasing-related knowledge and research.

- **Priority of supplier service**

Bankia goes to great lengths in its relations with suppliers. Through the Supplier Service Department, suppliers can file complaints, claims and suggestions relating to the payment of invoices and the provision of services associated with their contracts, as well as voice disagreement with supplier selection processes. All claims received by the Supplier Service Department are handled directly by the Chairman's office.

The entity is proactive in seeking suppliers' opinions about their dealings with the organisation. Through satisfaction surveys, which are summarised in the Supplier Perception Study, it gathers opinions of both suppliers that have been awarded contracts and those that have not, assessing aspects such as friendliness, the negotiation process, flexibility in ordering and fulfilment of payment obligations. The surveys also help to know the extent to which Bankia is transmitting its values.

9. ENVIRONMENT

Bankia shows its commitment to sustainability in its business model and works to achieve growth with full respect for the environment. To do so, it mainstreams environmental management in the organisation's decision-making, aligning it with the business strategies and including environmental governance in its overall management. It has an environmental policy for this underpinned by the values defined by the Bank:

- Commitment in the fight against climate change
- Professionalism in employee training and awareness-raising
- Achievement orientation, seeking continuous improvement of environmental management and establishing specific targets and systems of indicators.
- Integrity based on transparent action.
- Closeness to suppliers, so as to involve them in joint management of environmental challenges and opportunities.

In line with this commitment to the environment, Bankia's Responsible Management Committee approved the 2017-2010 Eco-efficiency and Climate Change Plan, this programme 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:

1. Increase up to 7 the number of Bankia’s emblematic buildings with certified environmental management systems, according standards of new ISO14001:2015.
2. Decrease a 20% the Bank’s CO2 emissions to offset unavoidable emissions.
3. Achieve a 19% decrease in energy consumption and a 5% reduction in the consumption of water, paper and toner.
4. Reduce waste generation by 5% and search for new alternatives to the main types of waste generated by the Bank within the context of the circular economy.
5. Promote environmental protection and transition towards a low-carbon economy via purchases and contracts that reduce environmental risk and impact.
6. Spread a culture of environmental across the organisation through environmental training and awareness-raising.

The main advances achieved in 2018 under the framework of the Eco-efficiency and Climate Change Plan are discussed below:

- **Environmental management**. The building at calle Triana, 20 (Las Palmas) was certified to the ISO 14001:2015 standard. This certification comes in addition to those already held for the buildings at Pintor Sorolla, 8 in Valencia and at Paseo de la Castellana, 189, and in Las Rozas in Madrid.

- **Climate change**. Bankia was awarded the Ministry for Ecological Transition's Calculo/Compenso seal (for 2016 and 2017) for calculating and offsetting its carbon footprint. In addition, Bankia already voluntarily registered its carbon footprint for 2014 and 2015, which was recognised with the "Calculo" seal. The Bank offset 12% of its CO2 emissions by acquiring carbon credits from the Spanish Refo-resta CO2 project, which is included in the Ministry's Carbon Footprint, Offsetting and Carbon Capture Projects Register, and by 2 international projects with Gold Standard guarantees. These accolades and projects underscore Bankia's commitment in the area of climate change, confirming the effectiveness of the measures taken in recent years to minimise greenhouse gas emissions and help to achieve the UN's Sustainable Development Goals. Another highlight of the year was the membership to the Spanish Climate Action Platform, a public-private initiative spearheaded by the Spanish Climate Change Office. Elsewhere, the terms of the electricity supply contracts for the former BMN offices and buildings that did not use renewable sources were renegotiated. Since March, 100% of electric energy consumed in Bank is green energy with guarantees of origin. Under the specific greenhouse gas reduction plan, over EUR 3.6 million was invested for the renewal of air conditioners. The objectives are to reduce electric consumption and to minimise HCFC fugitive emissions, which were cut by 10.4%. Bankia's efforts have made it into a green company, which were recognised by the analysts of CDP Climate Change 2018.

- <u>**Commitment to sustainable mobility and a low-carbon economy**</u>

The Bank's actions regarding climate change underscore its commitment to sustainable mobility and a low-carbon economy. The main actions are described below.

Sustainable mobility

- 72.5% of the vehicles in Bankia's pool are hybrids with low CO2 emissions.

- A parking area for bicycles was set up at the two buildings with the highest occupancy (Paseo de la Castellana, 189, and Las Rozas).

- Electric vehicle charging stations were placed at several of the Bank's buildings: the Headquarters, Santa Leonor, Torre Europa and C/ Ter 16, San Francisco y C/ London).

- New technologies were extended to more posts, so that employees can communicate by videocall and give presentations online, without having to travel.

- Specific campaigns promoting alternatives to the use of private vehicles as a means of transport were conducted via the intranet.

Financial solutions for the transition to a low-carbon economy

- Crédito Sostenible ("sustainable credit facility"), which finances ecological car purchases or low consumption household appliances, and energy efficiency projects at residential properties.

- The Bankia Futuro Sostenible impact investment fund, which applies socially responsible investment criteria. The objectives of its investment policy include the Sustainable Development Goals (SDGs).

- Préstamo Green (green loan), for funding renewable energy operations. Bankia signed an agreement with GreenB2E to start up a pilot project in Ciudad Real. The agreement entails the change of the conventional pumping facility for a cleaner system, e.g. solar energy, enabling farmers to save costs and help to achieve a more sustainable environment.

- Funding to build, commission and operate a photovoltaic project in Mula (Murcia), with peak capacity of 496 MW. The plant complies with the Equator Principles. Its funding was in line with the Green Loan Eligibility Assessment Protocol.

Eco-efficiency

- The Bank invested over EUR 700,000 to adapt the remote management systems of BMN's buildings and offices. For water, the single handle taps at the Las Rozas and Triana, 20 buildings were replaced with push button taps. Also at the La Rozas building, the standard flush cisterns were placed with dual flush cisterns, requiring an investment of over EUR 200,000. This helped to reduce water consumer lending by 21.2%.

- To reduce paper consumption, paper correspondence with digital customers was eliminated, with efforts going to boost use of the digital signature. Most contracts with customers are now signed in digital format. Also in 2018, Bankia subsidised prices of property development loans with environmental sustainability certification (BREEAM, LEED). Overall, the estimated annual savings from eco-efficiency actions amounts to over 1,500 megawatts.

Waste management

With efforts under way in Europe to promote the circular economy for the reuse of waste, Bankia continued with its furniture, electrical and electronic equipment, and office material donation campaigns. These donations (13 in 2018) represent an important contribution to the charity work of not-for-profit entities and prevent the generation of waste. In November 2018, Bankia started collaborating with the Phelan McDermid Association to collect plastic bottle caps with the dual objective of promoting a social action and an environmental action. The bottle cap drive gives this waste a second lease of life, bringing them back into the economy. It also gives a “voice” to dozens of boys and girls suffering from absent or delayed speech due to Phelan-McDermid syndrome, a rare disease with only 140 diagnosed cases in Spain and 2,000 worldwide.

Sustainable procurement and purchase.

To encourage suppliers with the greatest environmental impacts to collaborate more, Bankia offers them the chance to take part in training and awareness-raising workshops. The sessions cover basic environmental regulations and management information and teach best practices. They also offer a forum for open dialogue that helps to create a circle of continuous improvement and to make Bankia an increasingly committed and sustainable organisation. Four training sessions were given in certified buildings in 2018.

Environmental awareness-raising

In 2018, a total of 17 awareness-raising actions were conducted with a view to spreading the environmental culture among employees. For instance, a section was included in the internal magazine *Somos Bankia* to disseminate practical information on the environment. Other topics addressed related to the circular economy, sustainable homes and green financial products.

Alliances and initiatives

Bankia believes it is vital to become involved in initiatives and forge alliances to raise environmental awareness and share experiences, successes and concerns in the fight against climate change and in biodiversity conservation. In a double scope:

- In Spain. Bankia belongs to the Forética-led Climate Change Cluster and the Spanish Green Growth Group. In 2018, it also became a strategic ally of the Climate Community in 2018, which promotes emergency action against climate change. In this vein, Bankia joined the first Green Friday Challenge, an annual event to showcase the growing supply of responsible goods and services, promote their sale and drive change in consumer behaviour.

- Internationally. Bankia participates in Earth Hour (WWF), and RE100. RE100, created by BDP and The Climate Group that bings together the world's most committed companies to renewable power and have clearly defined and publicly stated renewable energy use targets.

The 2019 **environmental challenges** target: making process on complying with the targets of the Eco-efficiency and Climate Change Plan, including certification of the building at calle Miguel Villanueva, 9, in Logroño to the ISO 14001:2015 standard; expanding the scope 3 categories reported in Bankia's carbon footprint; and offsetting CO2 emissions either via the direct purchase of credits or through cooperation in offsetting projects.

Other actions include awareness-raising and training actions for BMN employees, the design of the internal carbon pricing strategy, and the extension of energy-efficiency measures (e.g. replacement of air conditioners, installation of LED lighting or implementation of remote management systems) to new offices.

- **Sustainable innovation projects**

Bankia, with the help of Conector, presented the third edition of its startup accelerator programme, for startups whose product or service fits the ideas of the circular economy, sustainability or, in general, optimisation of resource management. The accelerator programme provides:

- **Mentoring**: A group of high level mentors, all executives of Bankia and other organisations of different areas, will make up a board of 3-5 mentors for the startups selected.
- **Training**: Weekly workshops on key topics in the development of a startup. Speakers include experts in different fields.
- **Support and monitoring**: Conector's Program Manager and finance specialists help in the development the business plan, the design of the funding round and the preparation of the pitch to investors.
- **Communication**: Help will be given in drawing up a communication plan.
- **Offices**: Access to a working space at one of Bankia's coworking centres for a two-person team.
- **Partners**: Assistance in the form of services and perks worth over EUR 400,000 thanks to participating organisations, such as Amazon and PayPal.
- **Access to investment**: Upon completion of the programme, the projects will be unveiled at a Demo Day to a group of investors and business angels.

The projects that passed the selection and will be mentored are:

- Hoop. Solution for the optimisation of vehicle occupancy. Its platform connects drivers and passengers who share the same destination and/or point of departure.
- Flip&Flip. Brand of sustainable backpacks made from reused materials.
- RecircUP. Software platform installed in conventional waste collection containers providing them with IoT technology, including gamification, information station and containing monitoring in real time.

- Ecodicta. Clothing rental platform by subscription at an affordable price, including companies with sustainable production chains and consolidated brands.
- Rentya. Circular economy platform for the rental of products between individuals and companies that extends the life cycle of these material goods.
- Recyclers. Online platform for direct purchase from upcycling and sustainable items at an affordable price.
- Niimaar: Zero Waste lifestyle & design products online shop.

- **Environmental indicators**

Energy and water consumption [1]

	2016	2017	2018
Total water consumption (cubic metres) [2]	244,516.0	240,537.5	464,393.0
% of electricity acquired from renewable energy sources (green energy)	100%	100%	94,27%
Total primary energy consumption (GJ)	15,550	15,579	19,566
Total natural gas consumption (GJ)[3]	10,841	10,464	15,501
Total liquid fuel (diesel and petrol) consumption (GJ)	4,709	5,115	4,065
Total electricity consumption (GJ)[4]	326,127	312,950	353,651

1. Data for Bankia, S.A.
2. The increase in water usage consumption is the direct result of the addition of BMN's network of offices and buildings to Bankia's scope. Total water supplied by mains networks. Actual consumption for the Las Rozas, P. Castellana, 189 buildings in Madrid, the Pintor Sorolla building in Valencia, the El Cubo building in Granada and the General Salzillo building in Murcia. Other facilities: Consumption estimated based on bills.
3. Figures for gas consumption in 2018 include a new building (El Cubo en Granada) in Bankia's scope following the integration of BMN. Data on this building's gas consumption for November and December are estimated, since actual figures are not available.
4. 100% of the electric energy acquired comes from renewable energy sources (green energy with guarantees of origin). The BMN offices were added to Bankia's green energy supply contract in April 2018. Data on electricity consumption for November and December are estimated, since actual figures are not available.

Emissions (tCO2)[1]

	2016	2017	2018
Scope 1 emissions (Total) [2 3]	**4,448.5**	**4,545.7**	**4,364.0**
Direct CO_2e emissions from natural gas consumption	616.6	595.2	886.2
Direct CO_2e emissions from fuel consumption	316.8	354.3	265.1
Direct CO_2e emissions from refrigerant gas recharging	2,810.1	2,914.5	2,611.8
Direct CO_2e emissions from business travel [4]	705.0	681.7	600.9

	2016	2017	2018
Scope 2 emissions (Total)	**0.0**	**0.0**	**2,418.7**
Indirect CO_2e emissions from electricity consumption [5]	0.0	0.0	2,418.7

	2016	2017	2018
Scope 3 emissions (Total)	**3,866.5**	**4,001.2**	**5,326.0**
Indirect CO_2e emissions from business travel [6]	2,366.5	2,352.0	3,353.7
Indirect CO_2e emissions from commutes (Ofibus shuttle service)	294.4	298.2	300.2
Indirect CO_2e emissions from commutes (shared transport)	8.2	7.9	8.1
Indirect CO_2e emissions from consumption of paper (DIN A4)	1,087.1	1,236.5	1,481.8
Indirect CO^2e emissions from water consumption	84.1	82.7	159.7
Indirect CO_2e emissions from waste management	26.2	23.9	22.5

	2016	2017	2018
Other emissions[7]			
CO emissions	0.19	0.19	0.24
NOx emissions	1.41	1.40	1.82

1. Data for Bankia, S.A. In 2018, Bankia integrated Banco Mare Nostrum. This resulted in a a general increase in CO2 emissions due to the larger number of offices and buildings managed, and in the total number of employees.
2. Sources of emissions factors used: IPCC 2006/2013, CORINAIR 2007, U.S. EPA, Spain – GHG Inventory Report 1990-2015 (2017), DEFRA 2018, Guide for calculating GHG emissions (2018) – Catalan Office for Climate Change, Environmental Paper Network (2012) and Carbon Impact Studies: Toner Refills at Cartridge World – Comparative Carbon Footprints (2008).
3. Figures based on the 100-year global warming potentials published in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) (2013).
4. Includes emissions from employees' business travel in lease vehicles. In 2017, following the criteria laid by MITECO for the registration of Bankia's carbon footprint, these emissions were reclassified from Scope 3 to Scope 1.
5. 100% of the electric energy acquired comes from renewable energy sources (green energy with guarantees of origin). The BMN offices were added to Bankia's green energy supply contract in April 2018. Scope 2 emissions arise from buildings from BMN from January to March. Bankia has prevented the emission of 41,792.8 tonnes of CO_2. Source: Electricity Labelling and Source Guarantee System (2017). National Markets and Competition Commission.
6. This includes emissions from employees' business trips by plane, train, coach and ship, and from employees' travel in their their own vehicle for work purposes.
7. Source: CORINAIR 2007.

Waste management [1]

Non-hazardous waste sent for reuse and/or recycling	2016	2017	2018
Paper waste	688.99	613.93	596.80
Electronic waste	498.32	419.01	370.33
Toner waste	38.39	35.37	51.21
Battery waste	0.21	0.10	0.00
Packaging waste[2]	19.75	26.91	33.17
Glass waste[2]	0.46	0.86	0.89
Vegetable oil waste	0.05	0.06	0.05
NON-HAZARDOUS WASTE SENT TO LANDFILL	**2016**	**2017**	**2018**
Portable electronic device waste	0.06	0.67	0.09

Hazardous waste generated	2016	2017	2018
Hazardous waste handled by an authorised waste management company and recycled	0.65	0.53	0.10
Hazardous waste handled by an authorised waste management company and sent to a secure landfill	0.03	0.04	0.02

1. Data for Bankia, S.A.
2. The increase in packaging and glass waste generated relates directly to improvements in the separate of this type of waste at Bankia.

10. SOCIAL FOOTPRINT

Bankia's goals for its social footprint embrace job creation, training and support for underprivileged groups, in which Group employees play a key role.

- **Social investment**

With the addition of BMN, Bankia widened the scope of its social investment in 2018 by adding three new areas of influence: Andalusia, the Balearic Islands and Murcia. The total amount earmarked for social investment in 2018 was EUR 20.9 million, 7% more than in 2017. It also created a specific line of social investment to support environmental impact projects.

Investment in Solidarity Projects presented by employees (Euros)	2.289.519
Investment in Corporate sponsorships (Euros)	1.520.027
Investment in Net poverty / Housing (Euros)	3.265.356
Investment in Employment (entry to work) (Euros)	938.625
Investment in Education (Euros)	3.039.598
Investment in Rural and local development (Euros)	7.878.409
Investment in Disability (Euros)	1.444.622
Investment in social projects related to the environment (Euros)	507.000

Job creation

Job creation is still the dominant theme of Bankia's calls for proposals. The two most important projects are the programmes partnering the Spanish Red Cross and Caritas. The initiative with the Red Cross involves retraining people who lost their jobs during the economic downturn, and job seeking pathways for over-45s. In 2018, it helped 3,270 beneficiaries in 30 provinces. The programme with Caritas subsidised job creation for 863 beneficiaries.

Bankia also extended support to unemployed customers, whose jobless status is detected through the bank's daily activity analytics. To help them rejoin the working world, there is the Empleo en Red (networked employment) programme in partnership with the Randstad group and its charitable foundation. Throughout 2018, 70 customers signed up to the programme, taking the total number of customers who have taken part so far to 1,408, with 46% having found work. There is also a collaborative CSR program in place, whereby the maintenance service provider ISS and Randstad itself offer vacancies to Bankia customers who are unemployed or in a precarious situation and have the right skills. So far, 35 people have found new jobs through this programme.

The Bank also found that some people are unable to raise credit to start up or expand a small business, because they have no assets to offer as collateral. To provide a solution, while fighting against unemployment and financial exclusion, Bankia helped create the micro-loan company Oportunitas IMF, alongside other private shareholders, such as Mapfre, Momo (Everis) and Qredits.

The micro-lender has extended 39 loans since its creation, for a combined EUR 303,000. Financing is rounded off with training and partnering, together with volunteers and mentors. This programme is reinforced with two entrepreneurship projects with Secot and Acción contra el Hambre (Vives Emprende) in Andalusia and Castilla La Mancha.

Local development

The widening of Bankia's areas of social influence to Andalusia, Murcia and the Balearic Islands after the integration of BMN led to partnership deals with the charitable foundations attached to Caja Granada, Caja Murcia and Sa Nostra, respectively. Bankia ran 11 calls for proposals with the local foundations, in which 825 NGOs, foundations and associations participated. 377 projects were selected, benefiting more than 230,000 people who are unemployed, in need of special care, or at risk of poverty and inequality. EUR 1.84 million was invested in these calls.

To help develop the voluntary sector, Bankia launched Indicex Social, together with Fundación Lealtad and Asociación Española de Fundaciones. Indicex Social is a free, self-diagnostic tool that measures an organisation's level of communication and digitalisation, the transparency of its reporting and its Internet presence, with a view to more effective fundraising. This tool was used by 382 entities in 2018.

Bankia also supported a new local and rural development initiative, Pressura (Fair for the Repopulation of Empty Spain), and the El Hueco Starter entrepreneur competition.

Disability

The Bank’s main objective in this area is to support job creation by engaging suppliers that employ people with disabilities. Konecta is one such supplier, working for Bankia's Customer Service Department (CSD) and Digital Contact Centre (DCC).

In a bid to gear supply policies towards a model that fosters relationships with diversity-supporting companies, Bankia also engages special employment centres, e.g., certain catering services. Traditional approaches are also taken, such as support for 36 NGOs that run programmes for the labour market inclusion of people with disabilities: the Bank spent EUR 1.4 million in 2018, reaching more than 20,800 beneficiaries.

Environment

Bankia started a new line of social investment in 2018 aimed at supporting environmental projects, in particular, improving biodiversity and combating climate change. It set up a task force to assess actions throughout Spain, covering 13 provinces in the year. Key initiatives included restoration of 60 hectares of open woodland in Tablas de Daimiel National Park (Ciudad Real), alongside WWF Spain, and the Reforesta programme, in partnership with the regional government of the Canary Islands.

Several restoration and reforestation projects were carried out in the fourth quarter of 2018 and first quarter of 2019 at the mouth of the Mijares River (Castellón) and in damaged areas of the Cuatro Calas de Águilas Protected Landscape (Murcia). On the Maresme beaches (Barcelona), the Bank funded a project to support maritime and coastal clean-up activities, in addition to educational workshops for children based on case studies.

Volunteers from both Bankia and local associations took part in these environmental projects, among others.

Projects with employees

In 2018, Bankia continued to encourage the involvement of its employees in the programmes supported by the Bank. It requested participants for local initiatives that need financial support. 275 representatives from all business units and areas of Spain were selected in 2018. The total endowment was EUR 1.9 million.

Another of Bankia's traditional programmes, which reflects employees' commitment, is *Planta tu Proyecto*, aimed at NGOs where bank employees are long-term volunteers. Six projects were selected in 2018, receiving a total of EUR 56,084, plus an additional EUR 3,000 for the Fundación Luchadores AVA project aimed at improving the quality of life of people with multiple disabilities, which was the finalist that polled highest among employees.

Bankia also offers a line of support for a wide range of charity projects in which employees are involved as volunteers. The programme is called Voluntariado en Red (networked volunteering) and, through it, the Bank contributes EUR 500 to a specific action involving at least five bank employees acting as volunteers.

In the area of professional volunteering, which promotes financial mentoring and education among vulnerable groups, 104 events were held last year, with 246 hours of training provided by 53 volunteers.

Homes and new poverty

The number of homes made available to vulnerable persons under special conditions in accordance with their circumstances came to 3,194 in 2018. Families pay a social rent, while Bankia pays for the necessary maintenance and repairs. The Bank spent EUR 3.04 million in this respect in 2018. 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.

Under the Nueva Pobreza programme, Bankia supported the Spanish Food Bank donation campaign, doubling the amount donated by employees. Specifically, it raised EUR 36,092 to buy: 892 litres of oil, 1,760 litres of milk, 1,140 kilos of legumes, 691 units of generic food and 936 child hygiene kits.

Two other highlights of 2018 were:

- The Madrid South district HQ distributed more than a thousand kilos of donated products in the form of Christmas hampers to six local associations - nominated by local branch staff - that provide support to families undergoing hardship.

- Bankia volunteers collected food donations in the lead-up to the Fifth Annual Football Match Against Poverty, hosted jointly by the Las Palmas food bank and Herbalife Gran Canaria CB.

Bankia's challenges in social investment for 2019 are: to multiply its effect by partnering with stakeholders, increase aid through employment and environmental grant programmes, and digitalise processes via projects involving mass participation through IT platforms

Dual Occupational Training

In 2018, Fundación Bankia por la Formación Dual (Bankia Foundation for Dual Training) backed more activities and strengthened its brand (Dualiza Bankia) in the education sector. The Bank contributed EUR 2 million to continue working towards the priority goals set six years ago.

The Dualiza grants programme, ran in partnership with FPempresa, paid out EUR 400,000 for 36 projects proposed by 40 occupational training schools in 13 Autonomous Communities. All these supported projects that encourage sharing experiences and cooperation between schools and companies. They give participating students the chance to have their first work experience and some were even hired.

In 2018, the first edition of Reto (the Challenge) took place. The two-day event brought together multi-disciplinary teams of dual occupational training students, teachers and practising professionals to identify possibilities for improving a given business. 16 teams were involved and many of their ideas were later applied to actual production processes.

Convinced that only education and training can increase the employability of young people, Bankia continues its programme of “dual training” and additional courses. Many programme alumni, trained in the Bank's procedures and values, have already joined the branch office network as customer managers. The third class will graduate in 2019.

Programmes specialising in the sectors offering the most jobs are gaining wide acceptance among occupational training schools and local and regional governments. There are three programmes: Comex, Ditec and Sanec, dedicated to foreign trade, digital skills and biomedical research, respectively.

Bankia takes part in the main events related to occupational training and its dual modality. It attended, sponsored or hosted events such as FPempresa, in Barcelona; CEFIRE, in Valencia; Formación Profesional y Empresa: Pasión Dual, in Cartagena; IV Foro de la Alianza para la FP Dual, in Malaga, and VI Jornada de Colaboración Público-Privada en Educación, in Madrid. All these events will be reported and discussed on the Foundation's new website, www.dualizabankia.com, set up to raise awareness about occupational training and enable students, teachers and professionals to voice their opinions and concerns.

Dualiza Bankia aims to address one of the key shortcomings of the world of occupational training: the historical lack of comparable data and models to provide a detailed, well-founded and critical analysis of the current situation, and possible solutions to challenges. In partnership with government bodies, companies and universities, the Bankia Foundation for Dual Training's Knowledge and Innovation Centre is working to produce and publish reports on various aspects of the education system. The biggest challenge is to create a register reporting the research conducted recently in Spain on occupational training, which will be the first of its kind in Europe.

Bankademia: committed to financial literacy

Bankia has a firm commitment to enhancing the financial literacy of Spanish society by using its expertise and skills to help people understand financial products and the way they are managed. That is why it decided to launch Bankademia, Bankia's financial literacy ecosystem, which comprises ten courses on finance, housing, savings and investment, aid and subsidies, taxes, employment, household budgeting, SMEs and the agricultural sector. Each course consists of teaching units in user-friendly formats (e.g. infographics, videos, podcasts).

Bankademia aims to improve financial literacy to, on a rigorous basis, help the development and welfare of people and society as a whole. The initiative is part of the Funcas Financial Literacy Stimulus Programme, launched in 2018 by Funcas and CECA with a total endowment of EUR 3 million. The communication strategy is based on a microsite hosted on Bankia.es and social media profiles that help attract interest from the public. The programme is guided by the "Economics to go" concept: Bankademia training is easy to use and available anytime, anywhere.

APPENDIX

Table of contents required under Law 11/2018, of 28 December, amending Spain's Code of Commerce, the consolidated text of the Corporate Enterprises Act, enacted by Legislative Royal Decree 1/2010, of 2 July, and Spain's Audit Law (Law 22/2015), regarding the disclosure of non-financial and diversity information.

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ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

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

ISSUER IDENTIFICATION:

Year-end Date: 12/31/2018

CIF: A-14010342

Corporate Name:

BANKIA, S.A

Registered office:

PINTOR SOROLLA Nº 8, 46002, VALENCIA

A. Ownership structure

A.1. Complete the table below with details of the share capital of the company:

Date of last change	Share Capital (€)	Number of shares	Number of voting rights
09/14/2017	3,084,962,950.00	3,084,962,950	3,084,962,950

Please state whether there are different classes of shares with different associated rights:

[ ] Yes
[√] No

A.2. Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Personal or corporate name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
FROB	0.00	61.38	0.00	0.00	61.38
ARTISAN PARTNERS ASSET MANAGEMENT INC.	0.00	3.07	0.00	0.00	3.07

INVESCO LIMITED	0.00	1.04	0.00	0.00	1.04

Breakdown of the indirect holding:

Personal or corporate name of indirect shareholder	Personal or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
INVESCO LIMITED	INVESCO ASSET MANAGEMENT LTD	1.04	0.00	1.04
INVESCO LIMITED	INVESCO POWERSHARES CAPITAL MANAGEMENT LLC	0.00	0.00	0.00
INVESCO LIMITED	INVESCO HONG KONG LIMITED	0.00	0.00	0.00
ARTISAN PARTNERS ASSET MANAGEMENT INC.	ARTISAN PARTNERS LIMITED PARTNERSHIP	3.07	0.00	3.07
FROB	BFA, TENEDORA DE ACCIONES, S.A.U.	61.38	0.00	61.38

State the most significant shareholder structure changes during the year:

Most significant movements

BFA, TENEDORA DE ACCIONES, S.A.U.:

01/12/18 - Decrease of 3.57% of the holding of BFA, TENEDORA DE ACCIONES, S.A.U. in the Equity of Bankia, as a result of the increase in capital of 205,630,814 issued ordinary shares to attend the share exchange of the merger through absorption of Banco Mare Nostrum, S.A. (BMN).

01/16/18 - Increase of a 4.34% of the holding of BFA, TENEDORA DE ACCIONES, S.A.U. in the Equity of Bankia as a result of the contribution for the increase in capital of BFA of issued ordinary shares of Bankia, ownership of FROB, and purchased pursuant to the share exchange of the merger between Bankia (absorbing company) y BMN (absorbed company).

ARTISAN PARTNERS ASSET MANAGEMENT INC:

05/25/18 ARTISAN PARTNERS ASSET MANAGEMENT INC reports to the CNMV that the share capital has exceeded the 3% the share capital (3.070%).

NORGES BANK:

01/12/18 NORGES BANK reports to the CNMV that after the capital increase of 205,630,814 issued ordinary shares to attend the share exchange of the merger through absorption of BMN, the equity holding decrease 3.833% to 3.013%.

02/01/18 NORGES BANK reports to the CNMV that the share capital has fallen below the 3% of the share capital (2.958%).

05/30/18 NORGES BANK reports to the CNMV that the share capital has risen 3% of the share capital (3.003%).

08/16/18 NORGES BANK reports to the CNMV that the share capital has fallen below the 3% of the share (2.920%).

INVESCO LIMITED:

12/11/17 INVESCO LIMITED (offshore) reported that it had exceeded 1% of share capital (1.046%). However, with the number of shares reported, his its stake would be 0.976% after the capital increase entailing the issuance of 205,630,814 new ordinary shares (01/12/2018) to carry out the exchange arising from the merger by absorption of BMN.

Also reported is that State Street Bank and Trust and Chase Nominees Ltd., as international custodian/depositary banks, appear in the Company's shareholder registry by 31 December 2018, with shareholdings of 5.70% and 5.68%, respectively, in Bankia's share capital. Nevertheless, the Company understands that these shareholdings are held on behalf of third parties, none of which, to the best of the Company's knowledge, has a shareholding equal to or greater than 3% of the share capital or voting rights.

A.3. In the following tables, list the members of the Board of Directors with voting rights in the company:

Personal or corporate name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	0.01	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOSÉ SEVILLA ÁLVAREZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOAQUÍN AYUSO GARCÍA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. FRANCISCO JAVIER CAMPO GARCÍA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MRS. EVA CASTILLO SANZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. CARLOS EGEA KRAUEL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOSÉ LUIS FEITO HIGUERUELA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. ANTONIO GREÑO HIDALGO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. ANTONIO ORTEGA PARRA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total percentage of voting rights held by the Board of Directors							0.01

Breakdown of the indirect holding:

Personal or corporate name of Director	Personal or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	QUINTORGE, S.L.	0.00	0.00	0.00	0.00

By 31 of December 2018 the directors of Bankia held the following shares of the Entity:

Mr. José Ignacio Goirigolzarri direct owner of 259,170 shares of the Company (representative of a 0.008% of the share capital);
Mr. José Sevilla Álvarez direct owner of 55,012 shares of the Company (representative of a 0.002% of the share capital);
Mr. Antonio Ortega Parra direct owner of 75,000 shares of the Company (representative of a 0.002% of the share capital);
Mr. Carlos Egea Krauel direct owner of 15,595 shares of the Company (representative of a 0.001% of the share capital);
Mr. Joaquín Ayuso García direct owner of 55,015 shares of the Company (representative of a 0.002% of the share capital);
Mr. Francisco Javier Campo García direct owner of 50,315 shares of the Company (representative of a 0.002% of the share capital);
Mrs. Eva Castillo Sanz direct owner of 25,000 shares of the Company (representative of a 0.001% of the share capital);
Mr. Jorge Cosmen Menéndez-Castañedo direct owner of 21 shares and indirect owner of (through Quintorge, S.L.) of 30,268 shares of the Company (representative of the 0.001% of the share capital);
Mr. José Luis Feito Higueruela direct owner of 49,452 shares of the Company (representative of a 0.002% of the share capital);
Mr. Fernando Fernández Méndez de Andés direct owner of 16,358 shares of the Company (representative of a 0.001% of the share capital);
Mr. Antonio Greño Hidalgo direct owner of 20,750 shares of the Company (representative of a 0.001% of the share capital);

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Personal or corporate name of related Party	Nature of relationship	Brief description
Without data		

A.5. If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Personal or corporate name of related Party	Nature of relationship	Brief description
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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 minimize 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.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	Cost-sharing agreement for lawsuits related to preferred participating securities and subordinated bonds
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	Cost-sharing agreement for lawsuits related to the IPO.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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) number 575/2013 and, in particular, verify that BFA complies with the capital

		requirements imposed in applicable legislation.

A.6. Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders:

Personal or corporate name of related director or representative	Personal or corporate name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	BFA, TENEDORA DE ACCIONES, S.A.U.	BANKIA, S.A.	REPRESENTATIVE PHYSICAL PERSON-PRESIDENT (FROB)
MR. ANTONIO ORTEGA PARRA	BFA, TENEDORA DE ACCIONES, S.A.U.	BANKIA, S.A.	DIRECTOR
MR. JOSÉ SEVILLA ÁLVAREZ	BFA, TENEDORA DE ACCIONES, S.A.U.	BANKIA, S.A.	DIRECTOR

There are no proprietary directors on Bankia S.A.’s Board of Directors. The Board of Directors was made up of 12 directors at 31 December 2018, 4 executive and 8 independent.

BFA, Tenedora de Acciones S.A.U. held shares representing 61.38 % of Bankia's share capital at 31 December 2018.

Since 27 June 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 29 June 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 Meeting of Shareholders held on 15 March 2016, resolutions were adopted to appoint a new independent director and to re-elect 4 directors: 3 independent and 1 executive.

In addition, at the General Meeting of Shareholders held on 24 March 2017, to continue with the partial renovation of members of the Board of Directors during the year before, resolutions were adopted to re-elect 6 directors: 2 executive and 4 independent.

In addition, at the Extraordinary General Meeting of Shareholders held on 14 September 17, pursuant to the Common Terms of Merger between Bankia, S.A. and Banco Mare Nostrum, S.A., a resolution was adopted to appoint a new external director, Mr. Carlos Egea Krauel. He was included in the Bank of Spain's Register of Senior Offices (Registro de Altos Cargos or RAC) on 12 January 2018. On 25 January 2018, this director changed category after being designated executive director, as explained in section C.1.3 of this report.

Finally, to fill the vacancy arising in October 2017 from the departure of an independent director, on 25 October 2018, the Board of Directors, after obtaining the pertinent regulatory authorisations, agreed to appoint, by the co-option, Mrs. Laura González Molero as independent director.

A.7. State whether the company has been notified of any shareholders’ agreements that may affect it, in accordance with Articles 530 and 531 of the *“Ley de Sociedades de Capital”* (“Corporate Enterprise Act” or “LSC”). If so, describe these agreements and list the party shareholders:

[ ] Yes
[√] No

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

[ ] Yes
[√] No

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

Not applicable.

A.8. State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

[√] Yes
[ ] No

Name of individual or company
BFA, TENEDORA DE ACCIONES, S.A.U.

BFA, Tenedora de Acciones, S.A.U held shares representing 61.38% of Bankia, S.A.'s share capital by 31 December 2018.

The FROB held 100% of BFA, Tenedora de Acciones, S.A.U's shares by 31 December 2018.

A.9. Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
29,543,839		0.96

(*)Through:

Personal or corporate name of direct shareholder	Number of direct shares
Without data	

Explain any significant changes during the year:

Explain significant changes

Notification to the CNMV dated 11/26/2018: regarding the fact that acquisitions made using treasury shares totaled the 1% threshold at 11/22/2018. At said date, the total position of treasury shares totaled 0.779% of share capital.

Notification to the CNMV dated 04/09/2018: Modification of the number of voting rights of the issuer dated 01/07/2018. At that date, the total position in treasury shares amounted to 0.647% of share capital.

Notification to the CNMV dated 04/06/2018: Modification of the number of voting rights of the issuer dated 06/01/2017. At that date, the total position in treasury shares amounted to 0.536% of share capital.

A.10. Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares:

On 10 April 2018, a resolution was adopted at the General Shareholders' Meeting of Bankia, S.A. to grant "Authorisation to the Board of Directors for the derivative acquisition of treasury stock in accordance with the limits and requirements established in the Corporate Enterprises Act. Delegation of authority to the Board of Directors to implement this resolution, rendering without effect the delegation granted by the previous General Meeting":

Authorisation for the Board of Directors, in the broadest terms, 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 "inter vivos" act for consideration or any other transaction permitted by law, including out of profits for the fiscal 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 countervalue 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 Bankia's Internal Rules of Conduct for Securities Markets.

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 Corporate Enterprises 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 24 March 2017, which will therefore be rendered void.

The Board of Directors is authorised, in 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 Secretary or any other person the Board expressly authorises for this purpose, with such breadth as it deems to be appropriate.

A.11. Estimated working capital:

	%
Estimated working capital	37.65

The percentage free float reported was calculated after subtracting the percentage of capital at 31 December 2018 held by BFA (61.38%), as controlling shareholder, by members of the Board of Directors (0.01%) and held in treasury shares (0.96%).

Free float after also subtracting the percentage of capital held by the two other shareholders who disclosed to the CNMV registry their ownership of a significant shareholding, Artisan Partners Asset Management Inc. (3.07%) and Invesco Limited (1.05%), would be 33.53%.

A.12. State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

[√] Yes

[ ] No

Description of 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.13. State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

[ ] Yes
[√] No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.14. State if the company has issued shares that are not traded on a regulated EU market.

[ ] Yes
[√] No

If so, please list each type of share and the rights and obligations conferred on each.

B. GENERAL SHAREHOLDER'S MEETING

B.1. State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail.

[ ] Yes
[√] No

B.2. State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

[ ] Yes
[√] No

B.3. State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The rules governing amendments to the Company's Bylaws are those set forth in the Corporate Enterprise 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.

In particular, adoption of resolutions to amend by the Bylaws requires an absolute majority if over fifty percent of the share capital is present or represented by proxy at the General Meeting. However, a favourable vote of a two-thirds majority of the share capital present or represented at the meeting is required when, at second call, at least twenty-five percent but less than fifty percent of the subscribed capital with voting rights is in attendance.

In addition, according to 31.1 of the Bylaws, in line with article 197 bis of the Corporate Enterprises Act, that separate votes must be held on matters regarding amendment of the Bylaws, that of each article or group of articles that are independent of each other, even if they appear in the same agenda item.

Moreover, article 3.1 of the Bylaws states that the Board of Directors has authority to resolve to change the registered address within the same municipality.

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

	Attendance data				
Date of General Meeting	% physically present	% Present By Proxy	% Electronic Voting	Other Voting	Total
03/15/2016	65.18	10.60	0.00	0.92	76.70
Of which, free float	0.06	10.60	0.00	0.92	11.58
03/24/2017	66.97	12.21	0.00	0.61	79.79
Of which, free float	0.06	12.21	0.00	0.61	12.88
09/14/2017	67.81	14.25	0.01	0.41	82.48
Of which, free float	0.04	14.25	0.01	0.41	14.71
04/10/2018	61.84	16.07	0.01	0.38	78.30
Of which, free float	0.04	16.07	0.01	0.38	16.50

The percentage free float reported was calculated after subtracting the percentage of capital held by BFA, as controlling shareholder, that held by members of the Board of Directors, and that held in treasury shares, at the date of the General Meetings indicated in the heading.

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason:

[ ] Yes
[√] No

B.6. Indicate whether there are any restrictions in the Bylaws establishing a minimum number of shares needed to attend the General Shareholders' Meetings, or to vote absentee:

[√] Yes
[ ] No

Number of shares required to attend General Meetings	500
Number of shares required for distance voting	1

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

[ ] Yes
[√] No

B.8. State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

The Company´s website address is: www.bankia.com, the domain name of which is entered at the Mercantile 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. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	15
Minimum number of directors	5
Number of directors set by the general meeting	12

C.1.2 Please complete the following table on directors

Personal or corporate name of director	Natural person	Director Category	Position on the board	Date first Appointed to Board	Las re-election date	Method of selection to Board
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	-	EXECUTIVE	CHAIRMAN	05/09/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MR. JOSÉ SEVILLA ÁLVAREZ	-	EXECUTIVE	CHIEF EXECUTIVE OFFICER	05/25/2012	03/15/2016	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 MENÉNDEZ-CASTAÑEDO	-	INDEPENDENT	DIRECTOR	05/25/2012	03/24/2012	SHAREHOLDER MEETING AGREEMENT

Personal or corporate name of director	Natural person	Director Category	Position on the board	Date first Appointed to Board	Las re-election date	Method of selection to Board
MR. CARLOS EGEA KRAUEL	-	EXECUTIVE	DIRECTOR	09/14/2017	09/14/2017	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	05/25/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MRS. LAURA GONZÁLEZ MOLERO	-	INDEPENDENT	DIRECTOR	10/25/2018	10/25/2018	CO-OPTION
MR. ANTONIO GREÑO HIDALGO	-	INDEPENDENT	DIRECTOR	03/15/2016	03/15/2016	SHAREHOLDER MEETING AGREEMENT
MR. ANTONIO ORTEGA PARRA	-	EXECUTIVE	DIRECTOR	06/25/2014	03/24/2017	SHAREHOLDER MEETING AGREEMENT

Total number of directors	12

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Personal or corporate name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
Without data		//	//		

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Personal or corporate name of director	Post in organisational chart of the company	Profile
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	EXECUTIVE CHAIRMAN	Born in 1954, Mr. Goirigolzarri holds a degree in Economics and Business Studies from the Universidad Comercial de Deusto (Bilbao). Finance and Strategic Planning from the University of Leeds (United Kingdom). He is Chairman of Bankia and of BFA, Tenedora de Acciones, S.A.U. since 9 May 2012. He is Vice Chairman of CECA, trustee of CEDE, COTEC Foundation, Pro Real Academia Española Foundation and honorary trustee of the Spain-USA Board Foundation, Chairman of the Deusto Business School, Chairman of the Advisory Board of the Instituto Americano de Investigación Benjamin Franklin and Chairman of Garum Foundation. He is also Chairman of the Fundación Bankia por la Formación Dual. He began his professional career in Banco de Bilbao in 1977, where he served as general director of BBV and member of the Management Committee, with responsibilities in commercial banking in Spain and operations in Latin America. Mr. Goirigolzarri was responsible for Retail Banking at BBVA and served as Chief Executive Officer there until 2009. During that period he also held directorships in BBVA-Bancomer (Mexico), Citic Bank (China) and CIFH (Hong Kong). He furthermore served as Vice Chairman at Telefónica and Repsol and Spanish Chairman of the Spain-USA Foundation.
MR. CARLOS EGEA KRAUEL	EXECUTIVE DIRECTOR	Born in 1947, he has an Industrial Engineering degree from Escuela Técnica Superior de Ingenieros Industriales de Madrid and a PhD in Economics and Business from Universidad Autónoma de Madrid. He has been Vice-Chairman of Ahorro Corporación, S.A., member of the boards of directors of CASER, Enagás, S.A. and Iberdrola Renovables, S.A. and Secretary of the Board of Directors of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros, CECA). He started his career in the industrial sector, with the company Fraymon. From there, he joined the financial sector through Banco Atlántico. In 1976 he joined Caja de Ahorros de Murcia, where he was appointed General Manager in 1983 and Chairman in 2008. Since June 2008, he has been Chairman of Fundación Caja Murcia, of which he had previously (since its creation in 2001) been Vice- Chairman. Since 2010 and until its merger with Bankia, he has been Chairman of the Board of Directors of Banco Mare Nostrum, S.A.

MR. ANTONIO ORTEGA PARRA	EXCUTIVE DIRECTOR, AND GENERAL MANAGER OF PEOPLE, RESOURCES AND TECHNOLOGY	Born in 1947, Mr. Ortega has a PhD in Business Studies from the Antonio de Nebrija University and holds a degree in Law from the Universidad Nacional de Educación a Distancia. He is general director of People, Resources and Technology at Bankia since 16 May 2012. He is a member of the Board of Directors of BFA, Tenedora de Acciones, S.A.U. since June 2012. Before joining the bank, he was director of the Master's Degree in Human Resources at Centro de Estudios Garrigues and a member of its academic council. At the same time, he provided business consultancy services and was director of the School of Banking at the Universidad Virtual of the Instituto Tecnológico de Monterrey (Mexico). A large part of his career has been spent at the BBVA Group, where he held various management positions. He has been a director of BBVA Bancomer and BBVA Continental, Vice Chairman of Banca Nazionale del Lavoro, general director of Human Resources and Quality at BBVA and a member of the Group's Management Committee. He is a trustee of the Fundación Bankia por la Formación Dual. He is also a director of Cecabank, S.A.
MR. JOSÉ SEVILLA ÁLVAREZ	CHIEF EXECUTIVE OFFICER	Born in 1964, Mr. Sevilla holds a degree in Economics and Business Studies from CUNEF. He is Chief Executive Officer of Bankia and Chairman of the Board Risk Committee. He is also a member of the Board of Directors of BFA, Tenedora de Acciones, S.A.U. Before joining Bankia he held various management positions in BBVA, where he served as general manager of Risks and member of the Management Committee, head of the Office of the Chairman and of the Division of Strategy and Finance for the Americas in BBVA and a directorship in BBVA Bancomer. He is a director of the Asociación para el Progreso de la Dirección (APD). He began his professional career in the investment banking field, working in Merrill Lynch and FG Inversiones Bursátiles.

Total number of executive directors	4
Percentage of Board	33.33

PROPIETARY DIRECTORS

Personal or corporate name of Director	Company, director or shareholder to whom the director is related	Profile
Without data		

INDEPENDENT DIRECTORS	
Name of the director	Profile
MR. JOAQUÍN AYUSO GARCÍA	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 was 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.
MR. FRANCISCO JAVIER CAMPO GARCÍA	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 was 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 director 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, and Azcoyen. 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.
MRS. EVA CASTILLO SANZ	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 has been also a member of the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process. She has been a director of Telefónica, S.A., and 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.
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	He was born in 1968, he holds a degree in Business Administration and a 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.

MR. JOSÉ LUIS FEITO HIGUERUELA	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.
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	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 economic at the IE Business School specialized in Macroeconomics, International Economics and Financial Stability. 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 and Director of Red Eléctrica.
MRS. LAURA GONZÁLEZ MOLERO	Born in 1965, she holds a degree in Pharmacy, specializing in Industrial Pharmacy, from the Complutense University in Madrid, an Executive MBA from the IE Business School, and higher Course in Marketing from the CECO and in innovation in IMD Lousanne. She has spent her career in major international corporations in the health and chemical sectors; she was Chairwoman of Bayer HealthCare Latin America, Chairwoman of Merck Serono Latin America, Chief Executive Officer of Merck Group Spain, and Vice-Chairwoman of Serono Iberia & Scandinavia. She is currently an independent director of Acerinox, Grupo Ezentis and Viscofan. She is also a Trustee of the Adecco Foundation and a member of the Advisory Board of ISS in Spain.
MR. ANTONIO GREÑO HIDALGO	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 was 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 other external directors	8
Percentage of the Board	66.67

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director r senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Personal or corporate name of the director	Description of the relationship	Statement of the Board
MR. JOAQUÍN AYUSO GARCÍA	Financing agreements between Bankia and the Ferrovial Group and Service agreements between Bankia and the Group Alsa (Group National Express) Financial Agreements between Bankia and Fundación Créate and the Real Sociedad Hípica Española Club de Campo.	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, member of the Trustee of Fundación Créate, 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), Fundación Créate 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 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 the director	Description of the relationship	Statement of the Board
MR. FRANCISCO JAVIER CAMPO GARCÍA	Financing agreements between Bankia and the Group Meliá Hotels International, Group Empresarial Palacios Alimentación and guarantee agreement between Bankia and AECOC.	The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee, considers that Francisco Javier Campo García, a member of the Board of Directors of Meliá Hotels International y del Grupo Empresarial Palacios Alimentación (until June 2014, and currently member of its advisory board) 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, S.A. and Meliá Hotels International, Grupo Empresarial Palacios Alimentación and AECOC, and/or their 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 non-intervention by this director in the negotiations and decision-making processes of either party; and (iv) the express intervention of the Board of Directors and the Audit and Compliance Committee given the related-party nature of the relationship.
MRS. EVA CASTILLO SANZ	Financing and services agreements between Bankia and Telefonica Group.	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. (until April 25th, 2018), 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 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.
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	Financing and services agreements between Bankia and Grupo Alsa (Grupo National Express).	The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee, considers that 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 (National Express 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 non-intervention by this director in the negotiations and decision-making processes of either party; and (iv) the express intervention of the Board of Directors and the Audit and Compliance Committee given the related-party nature of the relationship.
MR. JOSÉ LUIS FEITO HIGUERUELA	Financing and service agreements between Bankia and Mundigestión. And financing agreements between Bankia and Fundación Ortega y Gasset.	The Board of Directors of Bankia, S.A., based on a report by the Appointment and Responsible Management Committee considers that Mr. José Luis Feito Higueruela, significant shareholder of Mundigestión (during part of 2018) and Member of the Trustee on Fundación Ortega y Gasset, can continue to be classified as an independent director of Bankia, S.A. despite the commercial relations between Bankia, S.A. and Mundigestión and between Bankia, S.A. and Fundación Ortega y Gasset, 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; and (iii) the non-intervention by this director in the negotiations and decision-making processes of either party.

Personal or corporate name of the director	Description of the relationship	Statement of the Board
MRS LAURA GONZÁLEZ MOLERO	Financing agreements between Bankia and the Group Acerinox and between Bankia and the Group Ezentis, and service agreements between Bankia and the group Integrated Service Solutions (ISS).	The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee, considers that Laura González Molero, member of the boards of directors of Acerinox, S.A. and Exentis, S.A. and of the advisory board of Integrated Service Solutions, S.L. (ISS), 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) Bankia, S.A.'s generally rigorous procedures for engaging construction and services, which were applied in this case; and (iv) the non-intervention by this director in the negotiations and decision-making processes of either party.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

Personal or corporate name of the director	Reason	Company, director or shareholder to whom the director is related	Profile
Not applicable			

Total number of other external directors	N.A.
% Percentage of the Board	N.A.

State any changes in status that has occurred during the period for each director:

Personal or corporate name of the director	Date of change	Previous status	Current status
MR. CARLOS EGEA KRAUEL	01/25/2018	OTHER EXTERNAL DIRECTOR	EXECUTIVE

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	Year 2018	Year 2017	Year 2016	Year 2015	Year 2018	Year 2017	Year 2016	Year 2015
Executive					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	1	1	1	25.00	14.29	12.50	12.50
Other external					0.00	0.00	0.00	0.00
Total:	2	1	1	1	16.67	10.00	9.09	9.09

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

[√] Yes
[ ] No
[ ] Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

In 2018, Bankia's Board of Directors approved the Selection, Diversity, Suitability, Integration and Training Policy for Directors, which brings together the various policies in place at the Bank until then.

With this policy, Bankia ensures that the members of its Board of Directors are suitable and have the right knowledge, skills and experience necessary to carry out their duties. It also promotes diversity in nationality, gender, knowledge and experience to enrich decisions and provide a broad range of viewpoints. Moreover, it seeks a diversity of profiles in the Board of Directors.

Therefore, the Board of Directors and the Appointments and Responsible Management Committee have set an objective of ensuring that the following areas of diversity are upheld at all times:

a) Academic and profesional profile.
b) Gender.
c) Age.
d) Geographical origin.
e) Non-discrimination.

In addition, to achieve the gender diversity target Bankia has established (i.e. having at least 30% of total board places occupied by women directors before the year 2020) the Board of Directors and the Appointments and Responsible Management Committee shall ensure, when new vacancies arise, that the selection procedures do not interfere with the selection of persons of the least represented gender. 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.

C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of means

Article 15 of the Board of Directors Regulations of Bankia stipulates that the Appointments and Responsible Management Committee is responsible for setting a goal of representation for the gender under-represented on the Board of Directors and develop guidance on how to increase the number of the under-represented gender to achieve this objective.

In this respect, the Board of Directors, on a proposal by the Appointments and Responsible Management Committee, has approved the Selection, Diversity, Suitability, Integration and Training Policy for Directors to ensure that the Bankia director selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and, in general, does not have implicit biases that could imply any discrimination, seeking a diversity of profiles in the Board of Directors.

In 2017, a vacancy became available on the Board of Directors as a result of the resignation tendered by Mr. Alvaro Rengifo Abbad. A selection process was initiated from then to fill this vacancy, giving priority to complying with the principle of gender diversity.

Finally, after the selection process, Mrs. Laura Gonzalez Molero was appointed as independent director to fill the vacancy, thereby increasing the level of the least represented gender on the Board of Directors of Bankia and moving forward towards achieving the objective outlined in the policy regarding gender diversity.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of means

This year, the number of women directors on the Board of Directors of Bankia increased, as the vacancy left by the departure of Mr. Alvaro Rengifo Abbad was filled by Mrs. Laura Gonzalez Molero.

This new appointment increased the percentage of women on the Board of Directors of Bankia by 7 percentage points (from 9.1% to 16.7%), bringing it closer to the 30% diversity objective by 2020.

At year-end 2018, the Board of Directors of Bankia was composed of 4 executive directors and 8 independent directors, of which 2 were women. Therefore, women occupied 16.7% of board seats and represented 25% of independent directors. A woman was chair of one of the five Board of Directors' committees and there were women members of 4 of the committees. The presence of women in the Board of Directors' delegate bodies stood at 25% of the Appointments and Responsible Management Committee, 25% of the Remuneration Committee, 33% of the Risk Advisory Committee, and 25% of the Board Risk Committee.

Over the coming years, efforts will be made to include a candidate of the least represented gender in director selection processes to fill vacancies on the Board of Directors in order to comply with the proposed diversity objective.

C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

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 Department, on compliance with the Policy.

As a result, in 2017, the Board of Directors approved an amendment to Bankia, S.A.'s Director Selection Policy which, at the request of the Appointments and Responsible Management Committee, was expanded in 2018. At the meeting held on 20 December 2018, the Selection, Diversity, Suitability, Integration and Training Policy for Directors was approved. It guarantees that the bodies overseeing the director selection process at Bankia must ensure that the selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and promoting a diversity of profiles.

This ensures a diverse composition of directors with varying professional and personal profiles (e.g. age, gender, nationality) that enriches and provides different viewpoints to the debates and decision-making.

It has maintained the diversity objective pursued by the previous selection policy of having at least 30% of total board places occupied by women directors before the year 2020.

In this respect, in the process for seeking candidates to fill the vacancy on the Board of Directors following the departure on 2017 of an independent director, which was occupied recently by Mrs. Laura Gonzalez Molero, compliance with the diversity principle played a priority.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Personal or corporate name of the director	Reason
Not applicable	

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

[ ] Yes
[√] No

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Personal or corporate name of the director	Brief explanation
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	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 Company, with all authority vested in him except for those that cannot be delegated by law or the Bylaws.
MR. JOSÉ SEVILLA ÁLVAREZ	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, tax and regulatory compliance advice. The Company also granted Mr. Sevilla general powers of attorney, subject in any event, to the Bankia Group's Catalogue of General Powers, which shall be discharged exercised in accordance with the system in place for each class of legal representative approved by the Board of Directors.

MR. ANTONIO ORTEGA PARRA	The Company also granted Mr. Ortega general powers of attorney, subject in any event, to the Bankia Group's Catalogue of General Powers, which shall be exercised in accordance with the system in place for each class of legal representative approved by the Board of Directors.
MR. CARLOS EGEA KRAUEL	The resolution to appoint Mr. Egea as executive director stipulated that the main executive duties to be carried out include, but are not limited to, the following: -Representing and defending the interests of the Bank before public and private institutions and public administrations. -Representing and liaising with customers and stakeholders within the scope determined or attributed to him by the competent bodies. -Monitoring, promoting and developing the matters that may be mandated by the chief executive of the Bank. The Company also granted Mr. Egea general powers of attorney, subject in any event, to the Bankia Group's Catalogue of General Powers, which shall be discharged exercised in accordance with the system in place for each class of legal representative approved by the Board of Directors.
BOARD RISK COMMITTE	The Board Risk Committee has operational authority and, therefore, may adopt the corresponding decisions within the scope of authority delegated by the Board of Directors. The Board Risk Committee has the following functions: - Make decisions within the scope of the authority delegated by the Board of Directors in risk matters specifically provided for in the Board's current delegation resolution. - Within its scope of authority, set the overall preclassification limits for account holders or customer groups in relation to exposures by risk class. - Report to the Board of Directors on risks that may affect the Company's capital adequacy, recurring results, operations or reputation. - With respect to the approval of risk types other than credit risk, the authorities of the Board Risk Committee will be those delegated by the Board of Directors at any given time. - Pursuant to the resolution for the delegation of authorities to the Board Risk Committee adopted on 29 June 2012, the Board Risk Committee has authority to rule on credit risk proposals within its remit and authorities. This delegation is for amounts between EUR 300 million, for transactions with the lowest rating level, and EUR 1,300 million for those with the highest, above which approval by the Board of Directors is required in all cases. There is a specific rule for major borrowers with reputational risk, in which the maximum amount authorised is EUR 10 million

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Personal or corporate name of director	Personal or corporate name of Group member	Position	Does the director have executive powers?
Not applicable			

C.1.11 List any legal-person directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company

Personal or corporate name of director	Personal or corporate name of listed Company	Position
MR. JOAQUÍN AYUSO GARCÍA	FERROVIAL, S.A.	VICE-CHAIRMAN
MR. JOAQUÍN AYUSO GARCÍA	NATIONAL EXPRESS GROUP, PLC.	DIRECTOR
MR. FRANCISCO JAVIER CAMPO GARCÍA	MELIÁ HOTELS INTERNATIONAL, S.A.	DIRECTOR
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	NATIONAL EXPRESS GROUP, PLC.	VICE-CHAIRMAN
MR. JOSÉ LUIS FEITO HIGUERUELA	RED ELECTRICA CORPORACION,S.A.	DIRECTOR
MRS. LAURA GONZÁLEZ MOLERO	GRUPO EZENTIS, S.A.	DIRECTOR
MRS. LAURA GONZÁLEZ MOLERO	ACERINOX, S.A.	DIRECTOR
MRS. LAURA GONZÁLEZ MOLERO	VISCOFAN, S.A.	DIRECTOR

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

[√] Yes
[ ] No

Explanation of the rules and identification of the document where this is regulated

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.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	3,347
Amount of vested pension interests for current members (thousand euros)	
Amount of vested pension interests for former members (thousand euros)	1,508

Regarding the line item "Board remuneration in financial year":

Includes remuneration of executive and non-executive directors.

Mr. Egea was appointed director of Bankia, in the category of "other external director", via a resolution passed at the General Meeting of Shareholders held on 14/09/2017. He was included in the Bank of Spain's Register of Senior Officers on 12/01/2018. The category of other external director carries annual remuneration for all items of EUR 100,000. Subsequently, he was appointed executive director, and on 27 April 2018, his executive director contract became effective, with total annual remuneration for all items of EUR 300,000. The amounts show are for the period from 1 January to 26 April 2018 as external director and from 27 April to 31 December 2018 as executive director.

On 6 November 2018, Mrs. González was appointed director, which carries annual remuneration for all items of EUR 100,000. The amounts shown correspond to the period from 6 November to 31 December 2018.

The data corresponding to the annual bonuses accrued by Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega in 2018 is pending the permits and approvals contemplated in prevailing legislation.

The data corresponding to the long-term bonuses accrued by Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega in 2018 is pending the definitive assessment and the permits and approvals contemplated in prevailing legislation.

The line item "Amount of vested pension interests for former members":

The total amount related to accumulated and updated pensions entitlements as at 31 December 2018 of Rodrigo de Rato Figaredo, Francisco Verdú Pons, José Luis Olivas Martínez and José Manuel Fernández Norniella. The latest contribution by Bankia was in 2012.

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position
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. JOAQUÍN CÁNOVAS PÁEZ	DEPUTY GENERAL MANAGER ATTACHED TO SUBSIDIARIES AND OTHER GROUP COMPANIES
MR. MIGUEL CRESPO RODRÍGUEZ	DEPUTY GENERAL MANAGER ATTACHED TO GENERAL SECRETARY
MR. IÑAKI AZAOLA ONAINDIA	CORPORATE DIRECTOR OF INTERNAL AUDIT

Total senior manager remuneration (thousand euros)	3,386

In relation to the caption "total senior management remuneration":

- The remuneration of Mr. Cánovas corresponds to the period from 05.07.2018, date of inscription in the Bank of Spain Register of Senior Officers, until 12.31.2018.
- It includes the target amount of variable and pluri-annual remuneration for the year 2018, which amounts to EUR 1,151 thousand, even though it is pending of a definitive valuation and approval.

Clarification about "senior managers":

- Mr. Iñaki Azaola Onaindia, Corporate Director of Internal Audit, is included in this group following the instructions to fill in this document.

C.1.15 State whether the Board rules were amended during the year:

[√] Yes
[ ] No

Description of amendment

In 2018, the Board of Directors, based on a favourable report by the Audit and Compliance Committee, agreed to the following amendments to the Regulations of the Board of Directors:

- On 25 January, once the deed of merger by absorption of Banco Mare Nostrum, S.A. by Bankia, S.A. was filed at the Mercantile Registry, marking the end of the companies' merger process, a resolution was passed to remove the Final Provision of the Regulations of the Board of Directors governing the Monitoring and Supervision Committee for the Process of Merger between Banco Mare Nostrum and Bankia.

- On 26 April 2018, a resolution was passed to amend article 14 governing the Audit and Compliance Committee in order to include the recommendations and guidelines of Technical Guide 3/2017, of the Spanish National Securities Market Commission (CNMV) on audit committees at public interest entities. Accordingly, on the same date, the Board of Directors approved the Regulations of the Audit and Compliance Committee.

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in 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 and applying the policy of Selection, Diversity, Suitability, Integration and Training of Directors of the Entity.

In particular, the Board of Directors may appoint directors by the cooption system 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 submit to 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.

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.

In the event that the Board of Directors proposes the removal of any external director before the end of the bylaws term for which the director was appointed, the proposal must be motivated and have the corresponding report of the Appointments and Responsible Management Committee. The Board of Directors will not propose the removal of any independent director before the expiry of that director's tenure as mandated by the bylaws, except where just cause is found much appreciated by the Board of Directors, after a report 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 produces changes in the capital structure of the Company, in order to meet the proportionality criterion referred to in the good corporate governance recommendations.

Without prejudice to the foregoing, directors must place their directorships at the Board of Directors’ disposal and, if the board deems it appropriate, tender their resignation in the cases stated in article 23.4 of the Regulations of the Board of Directors, as described in section C.1.19 of this report.

C.1.17 Explain how the annual evaluation of the board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of changes

It has not given rise to any relevant change.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

In 2018, as the year before, an internal evaluation was carried out based mainly on questionnaires sent to members of the Board of Directors regarding the performance of the Chairman, the Chief Executive Officer, the Lead Director, and the operation of the board and the individual performances of board members. The internal evaluation is related to and complements the previous external evaluations -the external evaluation is mandatory every three years as established in Bankia's Bylaws- and helps to provide a framework for the evaluation of the Board and its main positions, focusing on the following aspects:

Chairman:

- The Chairman's performance in 2018.
- Degree of fulfilment of the objectives established in the previous evaluation.
- Establishment of objectives for the next evaluation.

Chief Executive Officer:

- The Chief Executive Officer's performance in 2018: strategy and management style.
- Overall assessment.
- Degree of fulfilment of the objectives established in the previous evaluation
- Establishment of objectives for the next evaluation.

Evaluation of the chairmen of Board Committees:

- Performance and 2018 objectives.

Evaluation of the Lead Director:

- Performance.

Operation of the Board and individual performances of board members:

- Evaluation of the Board's operation: overall assessment. - Individual evaluation of directors]

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

An internal evaluation was carried out without the assistance of an external facilitator.

C.1.19 State the situations in which directors are required to 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.

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 report to 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.1.20 Are qualified majorities other than those established by law required for any specific decision?

[ ] Yes
[√] No

If so, please describe any differences.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as Chairman of the Board of Directors.

[ ] Yes
[√] No

C.1.22 State whether the articles of association or the board rules establish any limit as to the age of directors:

[ ] Yes
[√] No

C.1.23 State whether the articles of association or the board rules establish any term limits or other stricter limits for independent directors other than those required by law:

[ ] Yes
[√] No

C.1.24 State whether the articles of association or board rules establish specific proxy rules for votes at board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

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.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the Chairman present. Meetings where the Chairman sent specific proxy instructions are to be counted as attended

Number of Board meetings	15
Number of Board meetings without the Chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	0

Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the RISK ADVISORY COMMITTEE	37
Number of meetings held by the APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE	14
Number of meetings held by the APPOINTMENTS AND REMUNERATION COMMITTEE	9
Number of meetings held by the BOARD RISK COMMITTEE	35
Number of meetings held by the AUDIT AND COMPLIANCE COMMITTEE	17

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present:

Number of Board meetings attended by at least 80% of the board members	15
% of attendance over total votes during the year	95.21
Number of meetings in situ or representations made with specific instructions of all directors	15
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

[√] 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	Position
MR. SERGIO DURÁ MAÑAS	CORPORATE FINANCIAL CONTROLLER MANAGER

During the year 2018 Mr. Sergio Durá served as Corporate Financial Controller Manager. On 24 January 2018, he was appointed Risk Corporate Director by the Board of Directors of the Entity. The effectiveness of the appointment is subject to the corresponding registry and regulatory authorization.

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

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:

- Review the Company's accounts to ensure compliance with legal requirements and proper application of generally accepted accounting principles and report on any proposals for changes to accounting standards and principles put forward by management, basing its opinion on internal audit reports, other expert reports, and management analysis and opinion, as well as information about the results of the statutory audit, although the Committee must use its judgement to draw its own conclusions. The committee must also consider in what cases it makes sense and is feasible to involve the statutory auditors in the review of reports other than the financial statements.

Additionally, in the interests of effective supervision the Committee must hold individual meetings with management and internal audit and maintain fluid communication with the statutory auditor for the purpose of analysing the following matters:

(i) The appropriateness of the scope of consolidation.

(ii) Any judgements, criteria, valuations or estimates that have a material impact on the financial statements and related non-financial reports.

(iii) Any changes in the significant criteria applied.

(iv) Where applicable, the reasons why in its public reports the Company uses certain alternative performance measures (APMs) instead of the measures defined directly by the accounting standards, the extent to which those APMs provide useful information to investors and the extent to which the Company complies with international recommendations and best practice in this regard.

(v) Any material weaknesses in internal control.

(vi) Any material adjustments identified by the statutory auditor or resulting from reviews performed by internal audit, and management's position on such adjustments, taking into account any demands sent in the current or a previous period by the Comisión Nacional del Mercado de Valores (CNMV), in order to ensure that the same incidents identified in those demands are not repeated in future financial statements.

The Committee's independence must be respected in all meetings and communications. In particular, the statutory auditor must not be invited to take part in the decision-making part of Committee meetings.

The Committee must carry out this supervisory task continuously but also on an ad hoc basis at the request of the Board of Directors.

- 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; 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. In particular, the committee must ensure that the statutory auditor holds at least one meeting each year with the full board of directors to report on the work carried out and any changes in the Company's accounting situation and risks.

• 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 .30 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.1.29 Is the secretary of the Board also a director?

[ ] Yes
[√] No

If the secretary is not a director, please complete the following table:

Personal or corporate name of the secretary	Representative
MR. MIGUEL CRESPO RODRÍGUEZ	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

As stipulated in article 14 of the Board of Directors Regulations, and in article 13 of the Audit and Compliance Committee Regulation, the Audit and Compliance Committee of Bankia S.A. has among other competencies to ensure the independence of the external auditor and therefore:

- Make recommendations to the Board of Directors for the selection, appointment, reelection and removal of the external 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 takes into account 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.

- Request and 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.

- 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.

- Conduct relations with the statutory auditor in order to receive information about any matters that might jeopardise the auditor’s independence and assess the effectiveness of the safeguards put in place. Also, understand and assess, in aggregate, all the relationships between the Company and its related entities, on the one hand, and the statutory auditor and its network, on the other, that involve the provision of non-audit services or any other type of relationship.

- 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.

- Ensure that the remuneration of the statutory auditor for its work does not compromise its quality or independence, taking into account the rules on fees set out in auditing standards.

- In the event of resignation of the external auditor, investigate the reasons for the resignation.

- 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.

- Establish internal sources, within the Company, to obtain relevant information on the independence of the statutory auditor, from financial management, other executive functions, internal audit, or other assurance functions such as regulatory compliance or risks, or external sources such as information supplied by the statutory auditor itself.

- Seek explanations from the statutory auditor about the internal quality control system it has in place to safeguard its independence, as well as information on internal practices regarding the rotation of the audit partner and audit team and whether those practices comply with applicable Spanish and EU regulations in this respect.

- Analyse any changes in the overall remuneration of the statutory auditor.

Relations and communication with the external auditors was a recurring activity of the Committee, of the Corporate Internal Audit Department and of the Corporate Financial Controller's Department. In 2018, the external auditors were called on and attended 6 Committee meetings to report on matters under their remit.

The Committee meetings at which the statutory auditors were called on and attended were held without the presence of the executive directors or management of the entity.

Attendance by the external auditors at the Committee meetings held in 2018 were mainly to:

• Issue confirmation of their independence, confirming that they have not identified any situation of risk compromising their independence as auditors of the BFA-Bankia Group according to the rules provided for in the Audit Law and that they have received appropriate responses to the matters brought before Management during the course of the audit and that they were given access to all documentation requested.

• Present the audit conclusions of the financial statements audit, individual and consolidated, corresponding to year 2017.

• Present the planning, scope and follow-up of the semi-annual financial statements of 30 of June 2018.

• Present the planning, scope and follow-up of the semi-annual individual and consolidated financial statements of the year 2018.

In this respect, the external auditor provided the Committee with detailed information on the planning and progress of the engagements carried out, highlighting the main aspects and stages in the review of the financial statements, the expected timeline and the specific key matters of the year. The Committee analysed the information provided at length throughout its meetings.

The Audit and Compliance Committee verified the fees paid by the various Bankia Group companies to the external auditor, Ernst & Young, S.L., in 2018.

The services engaged by the Bankia Group meet the requirements of independence stipulated in the rules governing statutory audits and do not include any work that is incompatible with the auditing function.

The statutory auditor provided the Committee with written confirmation of its independence from the Bankia Group and the companies related to it, directly or indirectly, in accordance with the requirements in the Audit Law regarding independence. The external auditor confirmed to the Committee that Ernst & Young, S.L., as the auditor of Bankia's financial statements, is independent from the Company and its direct and indirect related parties under the terms provided in legislation on the auditing of accounts and the Corporate Head of Internal Audit submitted to the Committee the regular reports regarding the control of independence.

(Keep in Note H)

C.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

[ ] Yes
[√] No

If there were any disagreements with the outgoing auditor, please provide an explanation.

[ ] Yes
[√] No

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

[√] Yes
[ ] No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	892		892
	Company	Grouo Companies	Total
Amount invoiced for non-audit services/Amount for audit work (in %)	30.74	0.00	28.49

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the Chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

[ ] Yes
[√] No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidaded
Number of consecutive years	6	6
	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	26.09	75.00

The separate financial statements, considering that Bankia, S.A., as a business enterprise started in 1995 under the name Altae Banco, S.A., have been audited for 23 years. Banco Altae, S.A. is not considered to have come from the former Banco de Crédito y Ahorro, S.A.

Respect to the Consolidated Financial Statements 8 years have been taken into account.

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

[√] Yes
[ ] No

Explanation procedure
The procedure for the Directors of Bankia, S.A. to count with the necessary information to prepare the meetings of the governing bodies with sufficient time is governed in Article 17.2 of the Regulation of the Board of Directors. This Regulation establishes 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 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, e-mail or any other remote means, sufficiently in advance to allow the directors to fulfil their duty to attend. Agendas for meetings will clearly indicate those points in respect of which the Board of Directors must adopt a decision or resolution, so that the directors may, in advance, study or collect the information necessary for adoption thereof, in accordance to the Regualtions of the Board of Directors. When, exceptionally, by reason of urgency, the Chairman wishes to submit decisions or resolutions not appearing on the agenda for approval of the Board of Directors, express prior consent of the majority of the directors present will be required, with that consent to be reflected in the minutes. The directors can gather all the additional information they consider necesary for the matters which compete the Board of Directors. Under the duty of directors to demand, and a right to request, from the Company all the information they need in order to perform their obligations, article 26 of the Regulations of the Board of Directors states that directors 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. In order not to interfere with ordinary management of the Company, 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.

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company’s standing and reputation. If so, provide details:

[√] Yes

[ ] No

Explain the rules

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 inform 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 "Ley de Sociedades de Capital", 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.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

[ ] Yes
[√] No

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Not applicable.

C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	20
Type of beneficiary	Description of agreement
EXECUTIVE DIRECTORS, MEMBERS OF THE MANAGEMENT COMMITTEE AND OTHER DIRECTORS.	EXECUTIVE DIRECTORS: The contracts of Mr. Goirigolzarri, Mr. Sevilla y Mr. Ortega 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. In the case of Mr. Egea, the maximum remuneration is of two years of fixed remuneration, which will decrease proportionally to the time of the services provided. 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. MEMBERS OF THE MANAGEMENT COMMITTEE: The contracts of five 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. OTHER DIRECTORS: It states that in no circumstances may the maximum severance recognised in the case of dismissal for legal reasons, except for disciplinary reasons considered legally valid, exceed two years’ fixed compensation.

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders’ Meeting
Body authorising the severance clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders’ Meeting?	√	

C.2.Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

RISK ADVISORY COMMITTEE		
Name	Post	Category
MR. FRANCISCO JAVIER CAMPO GARCÍA	CHAIRMAN	Independent
MRS. EVA CASTILLO SANZ	COMMITTE MEMBER	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITTE MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 máximum.

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.

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.

Regarding the main actions carried out in 2018, 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)

APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE

Name	Post	Category
MR. JOAQUÍN AYUSO GARCÍA	CHAIRMAN	INDEPENDENT
MR. FRANCISCO JAVIER CAMPO GARCÍA	COMMITTE MEMBER	INDEPENDENT
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITTE MEMBER	INDEPENDENT
MRS. LAURA GONZÁLEZ MOLERO	COMMITTE MEMBER	INDEPENDENT

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Mrs.Laura González Molero was appointed member of the Appointments and Responsible Management Committee by agreement of the Board of Directors on 20 December 2018.

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 47 of the Bylaws and article 15 of the Board of Directors Regulations states that the Appointments and Responsible Management Committee will have no fewer than 3 and no more than 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 Committee must be appointed by the Board of Directors having regard to their knowledge, aptitudes and experience and the Committee's duties. Between them, the members of the committee must have the abovementioned knowledge and experience. The Committee must be chaired by an independent director, who must also have the necessary knowledge, aptitudes and experience in accounting, auditing, risk management and the committee's tasks in general. A new Committee Chairman must be elected every four years and a person 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.

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 and Responsible Management 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.

Regarding the main actions carried out in 2018, the Appointments and Responsible Management Committee focused its efforts primarily on the following areas, being those:

- The assessment of the Board and its Committees, the performance assessment on the Chairman, Chief Executive Officer, 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.

-Policies of Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers or Similar, and incumbents of other key post holders of Bankia S.A.

-Review, monitoring and evaluation of the Policy and Responsible Management 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	Category
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 executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 the rules on functioning and organization in the article 47 of the Bylaws and , article 15 bis of the Board of Directors Regulations states that the Remuneration Committee will have no fewer than 3 and no more than 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.

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.

Regarding the main actions carried out in 2018, the Remuneration Committee focused its efforts primarily on the following areas:

-The remuneration policy for directors and senior managers.
-The Annual Report on Directors 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)

BOARD RISKS COMMITEE		
Name	Post	Category
MR. JOSE SEVILLA ALVAREZ	CHAIRMAN	Executive
MR. FRANCISCO JAVIER CAMPO GARCÍA	COMITTEE MEMBER	Executive
MRS. EVA CASTILLO SANZ	COMITTEE MEMBER	Executive
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMITTEE MEMBER	Executive

% of executive directors	25.00
% of proprietary directors	0.00
% of independent directors	75.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Board Risk Committee is governed by article 48 of the Bylaws and 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 3 and no more than 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 2018, 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)

AUDIT AND COMPLIANCE COMMITTEE

Name	Post	Category
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 executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

All the members of the Audit and Compliance Committee were appointed by the Board of Directors with regard to their knowledge and experience in accounting, auditing, or both, and the duties of the Committee.

Therefore, overall, the members of the Committee have the appropriate knowledge and experience, and the technical expertise regarding the banking industry.

According to the Regulations of the Audit and Compliance Committee, a member of the Committee is considered to have knowledge and experience in accounting, auditing or both, when he or she has.

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

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

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

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

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Audit and Compliance Committee of Bankia has attributed to it all the duties required in company law and banking regulations, and in the technical Guide 3/2017 of the CNVM, on 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 and, in general, any tasks of the committee. 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 must meet as many times as it is convened by resolution of the committee itself or its Chairman and no less than four times per year. The members of the committee have an obligation to be properly informed and prepared for meetings. . Any members of the Company's management team or staff who are called upon to do so are obliged to attend the meetings of the committee and to cooperate with it and make available any information they may have at their disposal. The committee may also call upon the statutory auditor to attend, but he must not be invited to take part in the decision-making part of Committee meetings. always in accordance with the provisions of these Regulations. The committee must always meet on the occasion of the publication of annual or interim financial information and in these cases may request the presence of the internal auditor and, if it has issued any review report, the statutory auditor to provide input on any agenda item for which they have been invited to attend. At least part of these meetings with the internal or statutory auditor must take place without the management team being present, so that any specific issues arising from the audit reviews can be discussed exclusively with the auditor.

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

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

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.

Before they attend their first meeting, new members of the audit committee must complete an orientation programme that will quickly equip them with sufficient knowledge of the Company to be able to participate actively from the outset.

(Keep in Note H)

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	MR. ANTONIO GREÑO HIDALGO / MR. JOAQUÍN AYUSO GARCÍA / MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO/ MR. JOSÉ LUIS FEITO HIGUERUELA
Date of appointment of the chairperson	03/31/2016

C.2.2 Complete the following table with information regarding the number of female directors who were members of board committees at the close of the past four years:

	Number of female directors							
	Year 2018		Year 2017		Year 2016		Year 2015	
	Number	%	Number	%	Number	%	Number	%
RISK ADVISORY COMMITTEE	1	33.33	1	33.33	1	33.33	1	33.33

APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE	1	25.00		0.00		0.00		0.00
REMUNERATION COMMITTEE	1	25.00	1	25.00	1	25.00	1	25.00
BOARD RISK COMMITTEE	1	25.00	1	25.00	1	25.00	1	25.00
AUDIT AND COMPLIANCE COMMITTEE		0.00		0.00		0.00		0.00

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

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 2018, article 14 of the Regulations of the Board of Directors was amended via a resolution passed by the Board on 26 April 2018 in order to include the recommendations and guidelines of Technical Guide 3/2017, of the Spanish National Securities Market Commission (CNMV) on audit committees at public interest entities and, among them, state that the rules governing the Audit and Compliance Committee may be implemented in the Regulations of the Audit and Compliance Committee. As indicted, these regulations were approved on 26 April 2018 by the Board of Directors of the Company.

The Audit and Compliance Committee presented the Board of Directors with a report on its activities, highlighting the tasks performed by the Committee in relation to its own duties for 2017. This report was made available to all shareholders for the General Meeting of Shareholders held on 10 April 2018.

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 2018 period, the Appointments and Responsible Management Committee regulations were not amended.

The Appointments and Responsible Management Committee also presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017. This report was made available to all shareholders for the General Meeting of Shareholders held on 10 April 2018.

REMUNERATION COMMITTEE

The regulation of the Remuneration Committee is included in the Bylaws (articles 44 and 47 ter) and the Regulations of the Board of Directors (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 2018 period, the Remuneration Committee regulations were not amended.

The Remuneration Committee presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017. This report was made available to all shareholders for the General Meeting of Shareholders held on 10 April 2018.

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 2018 period, the Risk Advisory Committee regulations were not amended.

The Risk Advisory Committee presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017.

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 2018 period, the Board Risk Committee regulations were not amended.

The Board Risk Advisory Committee presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017.

The Bylaws, the Regulations of the Board of Directors and the Regulations of the Audit and Compliance Committee, in addition to the compositions of the aforementioned committees, are permanently available on Bank's website: www.bankia.com (in the Corporate Governance and Remuneration Policy” section of “Shareholders and Investors”).

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup 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.

In 2018, 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 Regulations of the Board of Directors, are considered related-party transactions.

D.2. Describe any transactions that are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company’s significant shareholders:

Name of significant shareholder	Name of Company within the group	Nature of the relationship	Type of transaction	Amount (Thousand of euros)
Without data				N.A.

D.3. Describe any transactions that are significant, either because of their amount or subject matter, entered into between the company or entities within its group and directors or managers of the company:

Name of director or senior manager	Name of related party	Relationship	Type of transaction	Amount (Thousand of euros)
Without data				N.A.

D.4. Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered to be tax havens:

Name of entity within the group	Brief description of the transaction	Amount (Thousand of euros)
Without data		N.A.

D.5. State the amount of any transactions conducted with other related parties that have not been reported in the previous sections:

Name of entity within the group	Brief description of the transaction	Amount (Thousand of euros)
Without data		N.A.

D.6. Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management 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 with 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 minimizing 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 conflict, (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 company in the group listed in Spain?

[ ] Yes
[√] No

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

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. Transformation Plan: Bankia considers transforming and reinforcing the Risk Function crucial to ensure the continuity of its business model, better manage the Entity’s risk, meet the Supervisor's expectations and adapt its corporate governance to best market practices.

To do so, six goals have been established in the Risk Function Transformation Plan:

1) Adapt the risk function to the 3 lines of defence model, thereby complying with the supervisor's requirements.

2) Help to strengthen the Board of Directors’ oversight function: focus on the supervisor's guidelines and international best practices to strengthen the corporate governance and oversight function of the Board of Directors.

3) Adapt further to supervisory expectations: improve the relationship model with the supervisor in order to apply the requirements arising from the SREP more effectively.

4) Adopt a holistic and forward-looking view of risk: reinforce the holistic view of risk with a forward-looking approach aligned with a sustainable and profitable business model, embracing the risk culture across throughout the organisation.

5) Implement an effective control model: improve the control system for credit risk and other risks by implementing a new internal control tool that identifies, measures and control the critical risks of key processes.

6) Improve the management of credit risk: strengthen the credit risk management and control environment through a framework of enhancement that improves the roll-out of the credit growth strategy, and optimise the recoveries model.

Risk Internal Control:

In 2018, a project began to define and develop a new internal risk control framework that covers and prioritises the Entity's main risks, establishes a clear system of responsibilities divided up into three lines of defence, and strengthens the governance framework. This control framework will continue to be rolled out in 2019.

• 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 2019.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk.

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.

A crucial aspect is internal risk control, organised in accordance with a three lines of defence system. The first line entails operational areas, business lines or support units, as well as risk areas that directly service the business. All of these are responsible for complying with the risk frameworks, policies and procedures established by the Governing Bodies.

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

The third line of defence is the independent Internal Audit function. This function is performed by the Corporate Internal Audit Department, which is overseen by the Audit and Compliance Committee.

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. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

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, 31% in the wholesale segment (including public sector), 69% in the retail segment.

Mortgage portfolio in the retail sector represented 59% of loans and advances to customers (gross) of the gross credit investment.

The credit risk affecting the total loan investment in the property development portfolio is 0.5% and highly provisioned.

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.

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 al arm 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

Reputational risk is expressed as the probability of incurring losses due to the occurrence of any event that fails to meet stakeholder expectations to the point that this undermines the level of recognition obtained or prevents the desired level from being reached, resulting in an adverse attitude and/or behaviour that could have a negative impact on the business.

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. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

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.State which risks, including tax compliance risks, have materialised during the year.

Credit Risk

The Bankia Group has reduced doubtful exposures during 2018 in the amount of EUR 2,328 million. With a total amount by 31 December 2018 of EUR 9,789 million.

The decrease in the doubtful portfolio led to a reduction in the NPL ratio for loans and receivables to 7.46%.

Also worth noting is the breakdown of doubtful assets. At 31 December 2018, 49% 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 2018, there were 1,948 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 230 collateral agreements signed (120 derivatives, 74 repos and 36 securities loans). These agreements reduced the credit risk of the derivatives activity by 89.89%.

The value adjustment was EUR 98,586 million at 31 December 2018.

Market risk

Bankia's average VaR in 2018 was EUR 0.96 million, with a maximum of EUR 2.28 million and a minimum of EUR 0.36 million. Started form the second semester of 2018, a diversified VaR metric is used as opposed to an aggregate or additive VaR.

Interest rate VaR (EUR 0.48 million) follow FX VaR (EUR 0.36 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 2018 period is EUR 66.197 million. The most important operational risks relate to "execution, delivery and process management" (EUR 39.134 million) and "client practice" (EUR 18.396 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 all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the Board of Directors responds to any new challenges that arise.

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 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.

For the follow-up of this risk, the Entity counts with management policies and procedures established which allow us to identify, measure, monitor and control the operational risks of the Entity.

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 RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment

Report on at least the following, describing their principal features:

F.1.1. The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

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.

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, as well as the rest of Committees involved which should provide support to the Corporate Financial Controller's Department.

The group counts with an International risk management and control system policy (ICFR) approved by the Board of Directors, in which the tools and internal control systems of risks related to the publishing of financial information, as well as supervision, are described.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication 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 different processes.

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, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective 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 through the competent bodies.

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.

- Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.

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, and anonymous, if requested, written report on any possible financial or accounting irregularities that may potentially relevant or on any other behavior breaching the Code of Ethics and Conduct, found in any of the entities of the Group.

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 broad 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, within its competencies, the Audit and Compliance Committee an activity report at the end of each period, and regularly reports on the functioning of the Whistle-Blowing channel, in particular on the number of reports received, their origin, type, the results of the inquiries and the proposed actions.

- Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk 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 Department 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.

Presently, the Internal Control System for Financial Information Policy can be found in the Corporate Intranet available to every employee, as well as an online learning module specific of the ICFR.

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.

In this respect, the Corporate Financial Controller's Department is in charge of dissemination and updating, so that staff involved in ICFR have the necessary knowledge to perform their duties and responsibilities. Actions relate to the addition or modification of ICFR officers and identification of changes in processes, risks or controls arising both internally and externally.

F.2. Assessment of financial information risks

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists 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 process is documented, setting out the frequency, methodology, types of risks, controls performed, and the frequency and supervisors of such controls, where the Corporate Financial Controller’s Department is responsible for implementing and updating said process, counting with the collaboration of the rest of Departments involved in the ICFR.

- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

This procedure, it has been designed taking into account all financial reporting objectives (existence, occurrence integrity, valuation, presentation and disclosures, and rights and obligations), it is up dated once a year, using the latest financial information. As well as when there are material changes in processes or transaction flows due to internal changes in changes outside the Entity that may uncover material risks not identified previously that require implementation of the pertinent mitigating controls.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, 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 Groups scope is monthly reported in the corporate intranet.

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.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that 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.

- The governing body within the company that 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**

Report on whether the company has at least the following, describing their main characteristics:

F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

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 Regulations of the Audit and Compliance Committee, approved by the Board of Directors, set out the principles governing its work and the basic rules for its composition, functioning and responsibilities, which include:

1.- Supervise the effectiveness of the Company’s internal controls, internal audit, regulatory compliance and risk management systems, financial and non-financial, 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.

- 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; especifially considering its completeness and accuracy.

- 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

In the interests of effective supervision the committee must hold individual meetings with management and internal audit and maintain fluid communication with the statutory auditor for the purpose of analysing the following matters:

the appropriateness of the scope of consolidation ; any judgements, criteria, valuations or estimates that have a material impact on the financial statements and related non-financial reports; any changes in the significant criteria applied; where applicable, the reasons why in its public reports the Company uses certain alternative performance measures (APMs) instead of the measures defined directly by the accounting standards, the extent to which those APMs provide useful information to investors and the extent to which the Company complies with international recommendations and best practice in this regard; any material weaknesses in internal control, any material adjustments identified by the statutory auditor or resulting from reviews performed by internal audit, and management's position on such adjustments, taking into account any demands sent in the current or a previous period by the Comisión Nacional del Mercado de Valores (CNMV), in order to ensure that the same incidents identified in those demands are not repeated in future financial statements.

- review issue prospectuses and any periodic financial information the Board is required to provide to the markets and market supervisory bodies.

Corporate Financial Controller's Department include, inter alia, overseeing accounting and tax management, 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) with the collaboration of the rest of departments involved.

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 design of the accounting circuits for recording 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 and equity instruments.
-Derivatives (hedging and trading).
-Non-current assets held for sale.
-Investments.
-Tax assets and liabilities.

-Provisions.
-Fees and comisions 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.
- Prepar ation 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 judgements 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, the entity counts with an internal certifying process 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 2018 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 for the internal control of the information systems (including, access security, change control, operational aspects, continuous operability and segregation of functions) that support the relevant processes of the company in relation to the drafting and publication of the financial reporting.

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 minimize 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 centers. 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 Internal control policies and procedures for the supervision of the activities subcontracted to third parties, as well as the assessment, calculation or valuation aspects thereof that are commissioned to independent experts, that may substantially 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 a governance model for outsourcing management, establishing the 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).

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 ; breach; 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; specially when the delegation is an essential service or function and/ or requires the use of new technologies 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.

Meanwhile, the selection and assessment of third parties is carried out taking into consideration several factors to ensure that the provider to which the function or provision of services is outsourced: has the appropriate competence, ability, experience, quality and stability, and that, depending on the characteristics of the service or function, the appropriate resources and organisational structure; the necessary authorisation required by applicable legislation to perform the outsourced function or services reliably and professionally; complies with the main laws and regulations applicable to it, especially anti-money laundering and customer protection laws; performs the outsourced function or service effectively and in accordance with applicable legislation; cooperates with the supervisory authority in all matters relating to the activities outsourced to it; protects all confidential information related to the entity and its customers and, if it accesses, processes and/or stores personal data that are responsibility of the Bankia Group, offers sufficient guarantees that it applies appropriate technical and organisational measures so that such access, processing and/or storage complies with prevailing data protection regulations. And, in particular, for services or functions considered essential: supervises the correct performance of the outsourced functions; adequately manages the outsourcing risks and, in this respect, has the appropriate measures for this, such as the performance of regular data back-ups and security checks, and has, applies and keeps up to date an emergency and contingency plan to enable it to continue its activity and limit losses in the event of serious incidents in the business.

The organisational unit that receives the services is responsible for the monitoring and continuing control over the services or functions performed by the outsourcing services provider, regarding both fulfilment of the contract and the effective provision of the outsourced service. For services or functions considered essential, the Outsourcing Control Centre prepares regular monitoring reports and presents them to the Board of Directors after their content is reviewed by the Corporate Internal Audit Department, which assesses both the risks and rewards of the outsourcing. For adequate control and monitoring of the service, depending on the nature meetings are held periodically throughout the year with the outsourcing service provider. The arrangement sets out the frequency, the issues to be addressed and the persons attending these meetings.

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:

Report on whether the company has at least the following, describing their main characteristics:

F.4.1 A specific assigned function for the purpose of defining and keeping the accounting policies (accounting policy area or department) up-to-date and for resolving doubts or disputes in relation to the interpretation thereof, while maintaining fluid communication with the persons and units responsible for operations within the organisation, as well as an updated accounting policies manual that is provided to the units pursuant to which the company operates.

Amongst the duties of Corporate Financial Controller's Department, dependant of the Chief Executive Officer, would be 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, judgments 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 Bank has an Accounting Policies Manual, which is the responsibility of the Corporate Financial Controller's Department. The policy is approved by the Board of Directors and updated at least once a year to include any applicable amendments to accounting standards. All areas affected are notified and the policy is published on the Corporate Intranet.

The Bank rounds off the Accounting Policies Manual with several policies and manuals for certain matters that include specific issues requiring more in-depth development.

Indeed, as a complement to the Manual, there is a Financial Disclosure Policy, approved by the Board of Directors, which sets out the main disclosures required in regulated financial reporting and establishes the principles governing consistency between the information disclosed in the Entity's regulated financial reports and that of other regulatory information (e.g. Basel Pillar III disclosures).

F.4.2 Mechanisms for the capture and preparation of financial reporting with homogeneous formats, that are applicable and used by all of the units of the company or group, that support the main financial statements and the notes, as well as the detailed information out regarding the ICFR.

The Corporate Financial Controller's Department is responsible for define accounting policies and procedures to be applied generally in the preparation of individual 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.

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.

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 regul atory nature.

F.5. Supervision of system performance

Describe at least the following:

F.5.1 The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is 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 2018, the Corporate Internal Audit Department had 99 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 2018 Plan includes assessment activities that have covered aspects related with the process of preparation of the financial information. Furthermore, in the 2018 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, 5 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.

The procedures set out in the ICFR Policy were also reviewed, with respect to:

- Amendments made to the ICFR Policy currently approved with respect to the ICFR Policy approved in 2015.
- The process for identifying material areas and key processes in 2018.
- The result of the self-assessment processes and certification at December 2017 and June 2018.
- Incidents and recommendations issued by Audit in relation to IFCR in the last full ICFR audit cycle.

- The level of implementation/knowledge of ICFR in the Entity.

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 If there is a procedure by which the accounts auditor (in accordance with the provisions of the NTA), internal auditor and other experts may communicate senior management and the audit committee or senior managers of the company of the significant internal control weaknesses identified during processes of review of the annual accounts or during any other processes carried out thereby. Furthermore, state whether an action plan exists for the correction or mitigation of the weaknesses detected.

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; review the annual working plan which will be approved by the Board of Directors and perform its follow-up; 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 Board of Directors the budget for the Internal Audit Department; receive periodic reports on their activities; verify that senior management is acting on the findings and recommendations in its reports; evaluate the functioning of the Internal Audit Department and the performace of its officer.

- 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 relevant information

Not applicable.

F.7. External auditor's report

Report from:

F.7.1 If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

In 2018, 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 EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Code of Good Governance of listed companies.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to assess the company´s actions. General explanations are unacceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

   Complies [X] Explanation [ ]

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

   a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.

   b) The mechanisms in place to resolve any conflicts of interest that may arise.

   Complies [ ] Complies Partially [ ] Explanation [ ] Not applicable [X]

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the Chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

   a) Changes that have occurred since the last General Shareholders' Meeting.

   b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

   Complies [X] Complies Partially [ ] Explanation [ ]

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

   And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

   Complies [X] Complies Partially [ ] Explanation [ ]

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

   And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

   Complies [X] Complies Partially [ ] Explanation [ ]

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

   a) Report regarding the auditor's independence.

   b) Reports regarding the workings of the audit committee and the appointments and Remuneration Committee.

   c) Report by the audit committee regarding related-party transactions

   d) Report on the corporate social responsibility policy.

   Complies [X] Complies Partially [ ] Explanation [ ]

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

   Complies [X]   Explanation [   ]

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the Chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

   Complies [X] Complies Partially [   ] Explanation [   ]

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

   And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

   Complies [X] Complies Partially [   ] Explanation [   ]

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

    a) Immediately distributes the additions and new proposals.

    b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

    c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.

    d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

    Complies [   ] Complies Partially [   ] Explanation [   ]Not applicable [X]

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

    Complies [   ] Complies Partially [   ] Explanation [   ]Not applicable [X]

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

    And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

    Complies [X] Complies Partially [ ] Explanation [ ]

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

    Complies [X] Explanation [ ]

14. That the Board of Directors approves a selection policy for directors that:

    a) Is concrete and verifiable.

    b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

    c) Favours diversity in knowledge, experience and gender.

    That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

    And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

    The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

    Complies [X] Complies Partially [ ] Explanation [ ]

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

    Complies [X] Complies Partially [ ] Explanation [ ]

16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.

b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies [X] Explanation [ ]

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies [X] Explanation [ ]

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.

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) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.

e) The shares and options they own.

Complies [X] Complies Partially [ ] Explanation [ ]

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, mergers or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies [X] Explanation [ ]

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies [X] Complies Partially [ ] Explanation [ ]

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies [X] Complies Partially [ ] Explanation [ ]

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items which do not originally appear on the agenda.

Complies [X] Complies Partially [ ] Explanation [ ]

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies [X] Complies Partially [ ] Explanation [ ]

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies [X] Complies Partially [ ] Explanation [ ]

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies [X]Complies Partially [ ] Explanation [ ]

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the Chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies [X] Complies Partially [ ] Explanation [ ]

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X] Complies Partially [ ] Explanation [ ]

33. That the Chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies [X] Complies Partially [ ] Explanation [ ]

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: Chairman of the Board of Directors in the absence of the Chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the Chairman.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the

recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies [X] Explanation [ ]

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity of membership and competence of the Board of Directors.

d) Performance of the Chairman of the Board of Directors and the chief executive officer of the company.

e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies [X] Complies Partially [ ] Explanation [ ]

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

39. That the members of the audit committee, in particular its Chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies [X] Complies Partially [ ] Explanation [ ]

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive Chairman of the Board or of the audit committee.

Complies [X] Complies Partially [ ] Explanation [ ]

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

42. That in addition to those contemplated in the applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

   a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.

   b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

   c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2.With regard to the external auditor:

   a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.

   b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor’s independence.

c) Monitor that the company communicates relevant facts with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies [X] Complies Partially [ ] Explanation [ ]

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies [X] Complies Partially [ ] Explanation [ ]

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

45. That the risk management and control policy identify, as a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Means identified in order to minimise identified risks in the event they transpire.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies [X] Complies Partially [ ] Explanation [ ]

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies [X] Complies Partially [ ] Explanation [ ]

47. That members of the appointment and Remuneration Committee -or of the appointments committee and the Remuneration Committee if they are separate- are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies [X] Complies Partially [ ] Explanation [ ]

48. That high market capitalisation companies have formed separate appointments and Remuneration Committees.

Complies [X] Complies Partially [ ] Explanation [ ]

49. That the appointments committee consult with the Chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies [X] Complies Partially [ ] Explanation [ ]

50. That the Remuneration Committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Propose to the Board of Directors basic conditions of employment for senior management.

b) Verify compliance with company remuneration policy.

c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies [X] Complies Partially [   ] Explanation [   ]

51. That the Remuneration Committee consults with the Chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies [X] Complies Partially [   ] Explanation [   ]

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

a) That they are composed exclusively of non-executive directors, with a majority of them independent.

b) That their chairmen be independent directors.

c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee’s last meeting.

d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

e) That their meetings be recorded and the minutes be made available to all directors.

Complies [X] Complies Partially [   ] Explanation [   ]Not applicable [   ]

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:

   a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

   b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.

   c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

   d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.

   e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.

   f) Supervision and evaluation of the way relations with various stakeholders are handled.

   g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

   h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

   Complies [X] Complies Partially [ ] Explanation [ ]

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

   a) The objectives of the corporate social responsibility policy and the development of tools to support it.

   b) Corporate strategy related to sustainability, the natural environment and social issues.

   c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

   d) Methods or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

   e) Mechanisms of supervising non-financial risk, ethics, and business conduct.

f) Communication channels, participation and dialogue with stakeholders

g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies [X] Complies Partially [ ] Explanation [ ]

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies [X] Complies Partially [ ] Explanation [ ]

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies [X] Explanation [ ]

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies [X] Complies Partially [ ] Explanation [ ]

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.

c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. 3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010.

H. 1.-OTHER INTEREST INFORMATION

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 Definition of the Bankia Group Structure, and as regards internal governance 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 listed 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 Regulation.
- Board of Directors Regulations.
- Audit and Compliance Committe 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.
-Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers and Similar, and other key holders post.
-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.

Specifically, in 2018, the Board of Directors, approved the Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers and Similar, and of other key holders post in Bankia, S.A. This policy sets out the core principles, criteria and main lines of the procedures for assessing the suitability of members of the Board of Directors and of other holders post, particularly Board of Director selection, diversity and integration, and training processes.

Ensuring that the members of Bankia's Board of Directors are suitable and have the right knowledge, skills and experience necessary to carry out their duties is the overriding principle of this policy.

It also promotes diversity in nationality, gender, knowledge and experience to enrich decisions and provide a broad range of viewpoints.

Therefore, the bodies overseeing the director selection process at Bankia must ensure that the selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and, in general, does not have implicit biases that could imply any discrimination, seeking a diversity of profiles in the Board of Directors. The Board of Directors and the Appointments and Responsible Management Committee shall ensure that the following areas of diversity are upheld at all times.

a) Academic and profesional profile.
b) Gender.
c) Age
d) Geographical procedence
e) Non discriminatión.

H2.-OTHER INTEREST INFORMATION

SECTION A5

On 24 January 2019, was subscribed an agreement related to the management of the indirect ownership of the FROB through BFA Tenedora de Acciones, S.A.U. in Bankia S.A.

SECTION C.1.30. (continuation)

Moreover, article 38 of the Regulations of the Board of Directors 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 give them a privilege or advantage over other shareholders.

In addition, article 36.5 of the Board of Directors Regulations states that the Board of Directors will define, promote and publish on its website a policy for communication with shareholders, institutional investors and proxy advisors that is fully consistent with the rules against market abuse and gives similar treatment to shareholders that are in the same position.

This policy is applicable to information and communications provided by the Company to financial analysts, investment banks and rating agencies. For financial analysts, regulatory compliance recommendations are adhered to. For investment banks, where they are advisors to the Bank, the relationship is governed by non-disclosure agreements and all parties involved are included on the lists of insiders as applicable in accordance with prevailing law. For rating agencies, the relationship is governed by non-disclosure agreements. In addition, analysts of rating agencies are subject to specific ESMA (European Securities and Markets Authority) regulations applicable to them.

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 generate stable and sound 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.

SECTION C.2.1. (continuation)

FUNCTIONS OF THE RISK ADVISORY COMMITTEE (CONTINUATION)

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.

FUNCTIONS OF THE APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE (CONTINUATION)

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

FUNCTIONS OF THE REMUNERATION COMMITTEE (continuation)

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.

FUNCTIONS OF THE BOARD RISK COMMITTEE (continuation)

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

c) Define, within its competences, the global limits of pre-classification in favor of holders or groups in relation to exposures by risk classes.

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.

AUDIT AND COMPLIANCE COMITTEE (continuation)

In relation to the most important actions taken place during the year 2018, the Audit and Compliance Committee has taken place in the following areas:

-The financial and non-financial information and mechanisms related to internal control.

-Regulatory Compliance.

-Corporate Governance.

-Related party transactions.

-Risk management and control.

-External audit activity.

-Internal audit activity.

-Follow-up of the action plans of the Committee.

The Audit and Compliance Committee prepares an annual report of its activities carried out in the year, which is distributed among shareholders with the call of the General Meeting of Shareholders. The 2018 report includes the content provided for in CNMV Technical Guide 3/2017 on audit committees at public interest entities.

FUNCTIONS OF THE AUDIT AND COMPLIANCE COMMITTEE

Without prejudice to any other tasks that may be assigned to it by the Board of Directors, and in accordance with article 14 of the Regulations of the Board of Directors and the Regulation of the Audit and Compliance Committee, the Audit and Compliance Committee has all the functions assigned to it under applicable law and, in particular and without limitation, the basic responsibilities governed in Chapter III of the Committee's Regulations, including:

I. Supervision of the financial and non-financial information:

a) Supervise the preparation and presentation of statutory financial reports and make recommendations and proposals to the board of directors aimed at safeguarding the integrity of financial information.

In performing this task, the committee must receive and analyse relevant reports from the heads of the internal control areas, especially internal audit, and must assess the level of trust and reliability of the system, developing proposals for improvement actions.

b) Review the Company's accounts to ensure compliance with legal requirements and proper application of generally accepted accounting principles and report on any proposals for changes to accounting standards and principles put forward by management, basing its opinion on internal audit reports, other expert reports, and management analysis and opinion, as well as information about the results of the statutory audit, although the committee must use its judgement to draw its own conclusions. The committee must also consider in what cases it makes sense and is feasible to involve the statutory auditors in the review of reports other than the financial statements.

Additionally, in the interests of effective supervision the committee must hold individual meetings with management and internal audit and maintain fluid communication with the statutory auditor.

c) Report on any draft amendments to accounting principles and criteria proposed by management.

d) Report to the Board of Directors, before publication, on the financial and related nonfinancial information the Company is required to publish periodically, paying special attention to the clarity and integrity of the information.

e) Review any issue prospectuses or periodic financial information the Board is required to disclose to the markets and their supervisory bodies.

f) Ensure that the financial information published on the Company's website is kept up-to-date and coincides with the information prepared by the Company's directors and published on the website of the CNMV.

g) Continuously review, analyse and discuss any relevant non-financial information with management, internal audit and the statutory auditor.

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

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

b) Discuss with the statutory auditor any material weaknesses of the internal control system detected in the course of the audit, all this without impairing the auditor's independence. Where necessary, the committee may submit recommendations or proposals to the Board of Directors in this respect and advise on the monitoring period.

c) Verify the appropriateness and integrity of the internal control systems and review the appointment and replacement of the persons responsible for them.

d) Periodically review the internal control and risk management systems, so as to ensure that the main risks are properly identified, managed and disclosed.

e) Assess all matters relating to the Company's operational, technological and legal risks, independently of the risk oversight powers assigned to the Risk Advisory Committee and other committees.

f) Supervise the performance of the regulatory compliance unit, whose head must report directly to the committee any incidents in the implementation of the annual work plan and submit a report of activities at the end of each year.

g) Establish and supervise a mechanism that allows staff to report, in confidence, any potentially serious irregularities, especially financial or accounting irregularities, that come to their notice in the Company, promoting compliance with the Code of Ethics and Conduct approved by the Company and monitoring the work of the Ethics and Conduct Committee, which at the end of each year must submit a report of activities to the committee.

In its role as supervisor of the whistleblowing channel, the Ethics and Conduct Committee must report regularly to the committee on the operation of the channel and, in particular, on the number of reports received, the sources of the reports, the types of behaviour reported, the results of any investigations and any proposals for action. Once it has analysed this information, if it considers it necessary, the committee will propose the action to be taken to make the channel more effective and reduce the risk of irregularities in the future.

In particular, in relation to risk management systems, the committee must liaise and work closely with the risk advisory and board risk committees.

III. Supervision of internal audit:

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

2. In particular, the committee's responsibilities are to:

a) Make proposals for the selection, appointment, re-election and removal of the head of the internal audit functions.

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

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

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

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

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

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

(iv) The head of internal audit has effective direct access to the committee.

(v) All material changes to the work plan are properly reported to the committee.

(vi) The conclusions reached by internal audit are appropriate, any action plans are implemented as agreed and the Audit and Compliance Committee receives timely information on their implementation.

(vii) Any disagreements with management are resolved or else are submitted to the consideration of the committee.

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

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

e) Submit to the Board of Directors, before the end of each year, a draft annual budget and annual resource plan for the internal audit directorate, for approval.

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

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

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

IV. Responsibilities in relation to the auditing of accounts:

a) Refer to the Board of Directors any proposals for the selection, appointment, re-election or replacement of the statutory auditor, taking responsibility for the selection process and the terms and conditions of the engagement.

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

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

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

b) Ensure the independence of the statutory auditor in the exercise of its functions and, to that end:

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

(ii) Issue each year, before the auditor’s report is issued, a report stating an opinion as to whether the auditor or audit firm’s independence is compromised. This report must contain a reasoned assessment of the performance of each and every non-audit service provided, individually and in aggregate, taking the auditor’s independence and auditing standards into account.

(iii) Conduct relations with the statutory auditor in order to receive information about any matters that might jeopardise the auditor’s independence and assess the effectiveness of the safeguards put in place. Also, understand and assess, in aggregate, all the relationships between the Company and its related entities, on the one hand, and the statutory auditor and its network, on the other, that involve the provision of non-audit services or any other type of relationship.

(iv) 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 the auditor’s independence.

(v) Ensure that the remuneration of the statutory auditor for its work does not compromise its quality or independence, taking into account the rules on fees set out in auditing standards.

(vi) If the statutory auditor resigns, the committee must examine the circumstances that prompted the resignation.

(vii) Ensure that the Company reports any change of auditor as a material disclosure, accompanied by a statement as to whether there were any disagreements with the outgoing auditor and, where applicable, the nature of the disagreements.

(viii) Establish internal sources, within the Company, to obtain relevant information on the independence of the statutory auditor, from financial management, other executive functions, internal audit, or other assurance functions such as regulatory compliance or risks, or external sources such as information supplied by the statutory auditor itself.

(ix) Seek explanations from the statutory auditor about the internal quality control system it has in place to safeguard its independence, as well as information on internal practices regarding the rotation of the audit partner and audit team and whether those practices comply with applicable Spanish and EU regulations in this respect.

(x) Analyse any changes in the overall remuneration of the statutory auditor.

c) Serve as a channel of communication between the Board of Directors and the auditors (internal and external), assess the results of each audit and the management team's response to the auditor's recommendations and mediate in the event of disagreement between the auditors and the management team regarding the principles and criteria to be applied in preparing the financial statements. In particular, the committee must ensure that the statutory auditor holds at least one meeting each year with the full Board of Directors to report on the work carried out and any changes in the Company's accounting situation and risks.

d) Once the audit has been completed, review with the statutory auditor any significant findings and the content of both the auditors' report and the additional report for the Audit and Compliance Committee.

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

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

g) Request information from the statutory auditor about the audit plan and its implementation and make sure that senior management takes its recommendations into account.

h) Supervise the performance of the audit engagement, taking steps to ensure that the auditors' opinion on the annual accounts and the main content of the audit are drafted clearly and precisely.

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

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

V. Responsibilities in relation to the General Meeting of Shareholders:

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

The committee must also report to the General Meeting on any matters raised that fall within its remit, especially the result of the audit, explaining how the audit contributed to the integrity of the financial information and the role the committee played in the audit process.

VI. Other responsibilities:

1. Examine and supervise compliance with these Regulations, the Board of Directors Regulations, the Company's Internal Code of Conduct for the Securities Markets, the anti-money laundering manuals and procedures and the Company's governance and compliance rules in general and make the necessary proposals to improve them.

2. Supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
3. Periodically assess the adequacy of the Company's corporate governance system to ensure that it serves its purpose of promoting the Company's best interests and, where necessary, takes the legitimate interests of stakeholders into account.
4. Receive information and, where appropriate, issue reports on any disciplinary action taken against the Board of Directors or senior managers of the Company.
5. Establish and supervise a system for preventing and detecting crimes that could result in criminal liability for the Company.
6. Any other functions which have been assigned to it or for which it has been granted authority by the Board of Directors.

7. Report to the Board of Directors on related-party transactions before the board makes its decisions in this respect.

8. Report to the Board of Directors on the creation of, or the acquisition of holdings in, special purpose vehicles or entities domiciled in countries or territories classified as tax havens and any other transactions or operations of a comparable nature which, because of their complexity, could impair the transparency of the Group.

9. Report to the Board of Directors, prior to decision making, on all matters within its remit provided for in law, the Bylaws or the Board of Directors Regulations.

10. The committee must be informed of any planned corporate transactions or changes to the corporate structure, so that it may analyse them and report to the Board of Directors on the economic terms and accounting impact of these transactions and, in particular, the proposed exchange ratio.

MONITORING AND SUPERVISION COMMITTEE FOR THE PROCESS OF MERGER OF BANKIA AND BANCO MARE NOSTRUM

In addition, it's informed that Bankia had a Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum, set up pursuant to a resolution by the Company's Board of Directors on 24 March 2017 and governed by the final provision of the Regulations of the Board of Directors.

This Committee had powers of reporting, advice and proposal and, in particular, the essential function of ongoing monitoring and supervision of the process of merger of Bankia and Banco Mare Nostrum, both in the preliminary phase of prior analysis and study and, if applicable, regarding compliance with the legal requirements established in applicable national and Community regulations that, after approval by the boards of directors and general meetings of shareholders of both entities, allow consummation of the process of merger, reporting to the Board of Directors on the conduct of such analysis and studies and compliance with the aforesaid legal requirements, in particular focusing on the interests of the company and therefore all of it shareholders, ensuring autonomy and independence in conduct of the process of merger, both in its preliminary phase and, if applicable, in the decision-making process.

Regarding this committee's rules of organisation and functioning, the Final Provision of the Board of Directors Regulations stated that it would be composed exclusively of independent directors, specifically the Lead Independent Director and Chairman of the Appointments and Responsible Management Committee, the Chairman of the Audit and Compliance Committee, the Chairman of the Remuneration Committee, and the Chairman of the Risk Advisory Committee, without prejudice to the attendance, when so expressly decided by the members of the committee, of other directors including the executives, senior managers and any employee, in addition to advisors or experts participating in the process of merger of Bankia and Banco Mare Nostrum.

After the deed of merger was placed on file with the Mercantile Register and, accordingly, the merger by absorption of Banco Mare Nostrum by Bankia was concluded, on 25 January 2018, the Board of Directors agreed to extinguish the Committee and amend the Regulations of the Board of Directors by eliminating the Final Provision.

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

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, see Note 43 of the individual annual accounts and Note 46 of the consolidated annual accounts for 2018 of Bankia, S.A.

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 Y D.5

There have been no transactions with such characteristics.

SECTION E.6 (continuation)
Reputational Risk

To monitor this risk, the Entity has management policies and procedures in place that enable it to identify, measure, monitor and control the Entity's reputational risks. Based on these policies, the Entity is able to identify and quantify this type of risk and to identify potential additional sources of reputational risk.

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.

Moreover, the Board of Directors, as the highest decision-making body, is responsible for defining the Entity's risk appetite and tolerance. It is the maximum authority in terms of establishing the basic principles and criteria for measuring and monitoring risks, establishing limits to risk profiles, and drawing up action plans.

SECTION G.6

The Company publishes the reports indicated in the recommendation sufficiently in advance of the General Meeting of Shareholders. In particular, the Audit and Compliance Committee’s annual report is included in the information on auditor independence, related-party transactions and the functioning of the Audit and Compliance Committee.

APARTADO G.19

The situation is the same as the year before, so it was deemed necessary to report that the recommendation is not applicable to the Company since that situation has not arisen.

APARTADOS G.37 Y 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.

H.3.- OTHER INTEREST INFORMATION

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. 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 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 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 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.

• 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.

• Fundación Ecología y Desarrollo (ECODES) It promotes achievement of a sustainable economic and social development model by generating, implementing and disseminating activity models that factor in environmental and social costs in institutional, business and personal decision-making processes. Moreover, through ECODES, Bankia has become a strategic ally in the #PorElClima community, whose objective is to help and facilitate pro-climate actions and raise awareness about the efforts of social agents to stop climate change.

Date of adhesion: April 4, 2018.

This Annual Corporate Governance Report was approved by the Company’s Board of Directors at its meeting held on:

18/02/2019

Indicate whether Board Members voted against or abstained from voting for or against the approval of this Report.

[ ] Yes
[√] No

Statement to certify that the Board of Directors of BANKIA, S.A., at its meeting of 18 February 2019, has formulated the consolidated Annual Accounts and consolidated Management Report for the period from 1 January 2018 to 31 December 2018, comprising: financial statements and notes thereto on 233 pages, numbered from 1 to 233, and Management Report on 74 pages, numbered 1 to 74, to which the Annual Corporate Governance Report and the consolidated Statement of Non-Financial Information of the Bankia Group are attached as schedules. These documents have been approved with the signatures affixed below of the members of the Board of Directors of BANKIA, S.A., and have been flourished on all pages by the Secretary of the Company. The directors declare that, to the best of their knowledge, said accounts have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, of the financial position and of the earnings of the Company and of the entities included in the consolidation taken as a whole. The Management Report also includes true and fair analysis of the performance and earnings and of the position of the Company and of the entities in the consolidation taken as a whole, together with a description of the main risks and uncertainties that they face.

Madrid, 18 February 2019.

Mr. José Ignacio Goirigolzarri Tellaeche Chairman	Mr. José Sevilla Álvarez Chief Executive Officer
Mr. Joaquín Ayuso García Director	Mr. Francisco Javier Fields García Director
Ms. Eva Castillo Sanz Director	Mr. Jorge Cosmen Menéndez-Castañedo Director
Mr. Carlos Egea Krauel Director	Mr. José Luis Feito Higueruela Director
Mr. Fernando Fernández Méndez de Andés Director	Ms. Laura González Molero Director
Mr. Antonio Greño Hidalgo Director	Mr. Antonio Ortega Parra Director
	Mr. Miguel Crespo Rodríguez Secretary of the Board

Bankia S.A. and Subsidiaries

Independent Limited Assurance Report of the Non-Financial Statement for the year ended December 31, 2018

Ernst & Young, S.L.
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Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

INDEPENDENT LIMITED ASSURANCE REPORT OF THE NON-FINANCIAL STATEMENT

To the Shareholders of Bankia, S.A.:

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2018, of Bankia S.A. and subsidiaries (hereinafter, the Group), which is part of the Director's Report of the Group.

The content of the NFS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our review has been exclusively limited to the verification of the information shown in the Appendix: Table of contents required under Law 11/2018, included in the attached NFS report.

Responsibility of the Board of Directors and Management

The Board of Directors of the Group is responsible for the approval and content of the NFS included in the Director's Report of Bankia, S.A. The NFS has been prepared in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in the Appendix: Table of contents required under Law 11/2018, included in the attached NFS report.

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Bankia, S.A. administrators are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFS is obtained.

Our independence and quality control procedures

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence, diligence, confidentiality and professionalism.

Our Firm complies with the International Standard on Quality Control No. 1 and thus maintains a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards, as well as applicable legal provisions and regulations.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, that refers exclusively to 2018. Information on prior years was not subject to the verification required by prevailing mercantile regulations. Our review has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the Guide for Non Financial Statement verification engagements, issued by the Spanish Institute of Chartered accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are smaller in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFS, reviewing the process for gathering and validating the information included in the NFS, and applying certain analytical procedures and sampling review tests as described below:

- Meeting with Group personnel to know the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.

- Analyzing the scope, relevance and integrity of the content included in the NFS based on the materiality analysis made by the Group and described in chapter 2 of the NFS report, considering the content required by prevailing mercantile regulations.

- Analyzing the processes for gathering and validating the data included in the 2018 Non-Financial Statement.

- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the NFS.

- Checking, through tests, based on a selection of a sample, the information related to the content of the 2018 NFS and its correct compilation from the data provided.

- Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter came to our attention that would lead us to believe that the 2018 NFS of Bankia Group has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in the Appendix: Table of contents required under Law 11/2018, included in the attached NFS report.

Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Alberto Castilla

February 19, 2019

Report for 2018 on the Information Relating to the System of Internal Control over Financial Reporting (ICFR)

BANKIA, S.A.

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 13 September 2018, 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 2018 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 2018 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 Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013 as modified by Circular nº 7/2105 of the National Securities Market Commission, dated December 22, 2015 and by Circular nº 2/2018 of the National Securities Market Commission, dated October 12, 2018.

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. Reading the 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.

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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 Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013 as modified by Circular nº 7/2105 of the National Securities Market Commission, dated December 22, 2015 and by Circular nº 2/2018 of the National Securities Market Commission, dated October 12, 2018 for the purposes of describing ICFR in Annual Corporate Governance Reports.

ERNST & YOUNG, S.L.

Jaume Pallerols Cat

February 19, 2019

Audit Report on Financial Statements
issued by an Independent Auditor

BANKIA, S.A.
Financial Statements and Management Report
for the year ended December 31, 2018

Building a better working world

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

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 Company), which comprise the balance sheet at December 31, 2018, the income statement, the statement of other comprehensive income, the total 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 Company at December 31, 2018 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 Company 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.

Estimate of credit impairment losses on loans and advances at amortised cost

Description	Estimating the impairment loss allowance for credit risk is one of the most significant and complex elements of the Bank's financial reporting process. Moreover, the entry into force of Circular 4/2017 of Bank of Spain, has resulted in a substantial change in the assessment of credit risk impairment losses, replacing the incurred loss approach with an expected loss approach. Accordingly, the Group has devised a new approach for estimating impairment losses, based on the Group's past experience and adjusted to current circumstances, taking into consideration scenarios and forecasts of future economic conditions. The accompanying notes 1.3.2, 2.9, 3.1, 11 and Appendix IX to the accompanying financial statements explain the main principles and criteria applied by the Bank to estimate impairment losses and disclose the estimated amounts, which are assessed individually or collectively. The approach used for individual estimates takes into account mainly the identification and classification of impaired exposures or those with a significant increase in risk, the debtor's expected future cash flows and, where appropriate, estimates of the realisable value of the related collateral. The collective estimate is made using internal models that take into account matters such as the Banking of transactions, distributing them in homogeneous Banks based on their credit risk (e.g. borrower, type of transaction, guarantee or collateral); risk parameters (exposure, probability of default, loss given default), and scenarios and forecasts of future economic conditions. Regarding the adoption of Circular 4/2017, in explanatory note 1.3.2 to the accompanying financial statements the Bank discloses the most significant impacts of the first-time application of the standard. Therefore, the estimate of impairment loss allowances for credit risk on the portfolio of loans and advances at amortised cost was considered a key audit matter.
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: ▸ Reviewing compliance of the policies and procedures established by the Bank and the internal model with applicable regulatory requirements. ▸ Reviewing, in the granting process, the procedures established by the Bank to evaluate the borrower's creditworthiness based on future cash flows and its financial information. ▸ Evaluating that the regular review process of credit 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 indicators or warnings in place.
- Assessing the relevant controls in place for managing and valuing the guarantees related to credit transactions.
- Checking the reliability and coherence of the information sources used in the calculations.

We also performed substantive procedures, consisting mainly of:

- Evaluating, with the involvement of our financial risk specialists, i) the reasonableness of the methodology and segmentation of borrowers into the various credit risk portfolio categories; ii) the correct classification of credit transactions into the appropriate categories based on whether there has been a significant increase in credit risk or a default event has occurred; iii) the completeness of the information used for estimating impairment; iv) historical credit risk loss rates; and v) the reasonableness of the assumptions used regarding the future performance of the macroeconomic variables in the various scenarios used.
- Performing checks, for a sample of transactions, of underlying data to validate key information used by the internal models.
- Re-calculating credit losses assessed on a collective basis.
- Review the backtesting procedures carried out by management as part of the process for estimating credit risk impairment losses.
- Assessing the suitability of the discounted cash flow models and the valuation of collaterals for the individual assessment model.
- Reviewing a sample of loan files for which impairment was assessed individually to verify whether, where applicable, the related impairment losses have been classified and recognised correctly.

Finally, we assessed whether the accompanying financial statements contain the disclosures required in the financial regulatory framework applied by the Bank and, specifically, the impact of the first-time adoption of Circular 4/2017.

Estimate of impairment losses on real estate assets from foreclosures

Description

In Notes 2.15.2 and 2.19 to the accompanying financial statements, the Bank describes the process for estimating impairment losses on real estate assets foreclosed based on third-party appraisals adjusted to reflect the Bank's experience in sales of these assets.

Notes 14, 17 and Appendix VIII to the accompanying financial statements describe the Bank's exposure to these assets and the impairment losses recognised. It also explains that in 2018, the Bank implemented a new approach, subject to the necessary internal validation process. This process involves a significant degree of judgement by management, so we have considered it to be a key audit matter.

In particular, as indicated in note 17.5.1 to the accompanying financial statements, the Bank has reached an agreement with two entities for transferring a real estate portfolio of foreclosed assets of an approximate gross value of EUR 1,291 million. The effective date of the transactions is expected to be in 2019, after all authorizations have been obtained.

Our response	Our audit procedures included, among others, assessing and evaluating internal control and performing substantive tests, which consisted primarily of. ▶ Assessing the ability, capacity and objectivity of the specialists engaged by the Bank to appraise its real estate assets and the appropriateness of their work for use as audit evidence. ▶ Analysing, based on a sample of appraisals, the reasonableness of the valuation procedures and approaches used by the specialists engaged by the Bank's management, with the involvement of our experts. ▶ Analysing the reasonableness of the key assumptions used in the internal valuation model. ▶ Checking the reliability and coherence of the information sources used. ▶ Re-executing calculations to obtain the discounts of the internal model. ▶ Recalculating impairment losses on real estate assets arising from foreclosures. With regards to the transfer of real estate foreclosed assets, we have evaluated the measurement applied to the assets, according to the price agreed upon the parties and considering the costs to sell. Lastly, we assessed whether the accompanying financial statements contain the disclosures required in the financial regulatory framework applied by the Bank.

Provisions for legal contingencies

Description	In Notes 2.18 and 19 to the accompanying financial statements, the Bank describes the legal and administrative proceedings to which it is party arising from its ordinary operations. Based on the information available, the Bank has estimated 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. Notes 2.18 and 19 to the accompanying financial statements disclose the amounts and relevant information related to these proceedings.
Our response	Our work consisted mainly of: ▶ Obtaining an understanding of the control environment and the Bank's policies for identifying and classifying legal proceedings and claims, and for estimating the related provisions. ▶ 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 contingencies disclosed. We reviewed, among others, the supporting legal or regulatory documents for the purposes of evaluating the events and circumstances surrounding each case analysed that could have a material impact on the financial statements. ▶ Obtaining confirmation letters from external lawyers to weigh their assessment of the expected outcomes of claims or lawsuits against the provisions and contingencies identified by the Bank.

- Performing substantive audit procedures to evaluate historical data and assumptions used by management to estimate the provision and its adequacy.
- Assessing the recognition and changes in accounting provisions.

In addition, our audit included assessing whether the information included in the accompanying financial statements meets the requirements in the financial reporting framework applied by the Bank.

Evaluation of the Bank's ability to recover deferred tax assets

Description

In accordance with the Bank's policies, as explained in Note 2.14 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 to the accompanying financial statements, at 31 December 2018, the Bank had deferred tax assets amounting to EUR 9,989 million, of which the recovery of EUR 6,867 million is guaranteed through the monetisation mechanisms established in Royal Decree Law 14/2013 and article 130 of the Law on Corporate Income Tax.

Management assesses the Bank's ability to recover deferred tax assets based on estimates of future taxable profit using the Bank's financial projections and business plans and taking into account applicable tax legislation. 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 recovery of deferred tax assets, focusing our analysis on the economic and financial assumptions used by the Bank to estimate future taxable income. We also carried out a sensitivity analysis of income and evaluated the disclosures in 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, implemented and monitored appropriately and constitute key controls for mitigating the potential risk of fraud or error caused by access and changes to applications.

In addition, in the first half of 2018, the Bank completed the technological integration of the operations of Banco Mare Nostrum, S.A. (BMN). This integration was carried out under an execution plan, which included internal control and validation procedures to allow the migration of information and data underlying BMN's operations to Bankia's systems

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.

Regarding the process for integrating BMN's operations, our procedures consisted mainly of obtaining an understanding of the execution plan, inspecting and evaluating the plan validation documents after completion of the main migration milestones, with the involvement of our IT specialists, and analysing the reconciliations of financial information prepared by management to assess the integrity of the data transferred.

Other information: management report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the parent company'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 company 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 Company 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 management report includes a reference explaining that the non-financial information mentioned in section a) above is included in the consolidated management report of Group Bankia, to which the Company belongs, that the information included in the Annual Corporate Governance Report mentioned in that paragraph is included in the management report, and that the remaining information included in the management report agrees with that included in the 2018 financial statements and their content and presentation comply with the applicable regulations.

Responsibilities of the directors and the audit 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 Company, in accordance with the regulatory framework for financial information applicable to the Company 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company'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 Company'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 Company'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 Company 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 committee of the Company 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 committee of the Company 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 committee of the Company, 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 committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 19, 2019.

Term of engagement

The ordinary general shareholders' meeting held on April 10, 2018 appointed us as auditors of the Bank for one year, starting on the year beginning as of January 1, 2018.

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 19, 2019

Bankia, S.A.

Financial statements for the year ended 31 December 2018

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.

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BANKIA, S.A.
balance sheet at 31 December 2018 and 2017

(Thousands of euros)

ASSETS	NOTE	31/12/2018	31/12/2017 (*)
Cash, cash balances at central banks and other demand deposits	**7**	**4,354,390**	**3,755,070**
Financial assets held for trading	**8**	**6,320,607**	**6,719,052**
Derivatives		6,035,137	6,712,727
Equity instruments		3,901	4,324
Debt securities		281,569	2,001
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*224,986*	-
Non-trading financial assets mandatorily at fair value through profit or loss	**9**	**9,348**	-
Equity instruments		-	-
Debt securities		187	-
Loans and advances		9,161	-
Central Banks		-	-
Credit institutions		-	-
Customers		9,161	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Financial assets designated at fair value through profit or loss		**-**	**-**
Debt securities		-	-
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Financial assets at fair value through other comprehensive income	**10**	**15,622,815**	**22,725,897**
Equity instruments		66,484	57,190
Debt securities		15,556,331	22,668,707
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*6,794,067*	*9,892,613*
Financial assets at amortised cost	**11**	**156,747,204**	**159,027,488**
Debt instruments		33,860,266	32,797,525
Loans and advances		122,886,938	126,229,963
Central Banks		-	-
Credit institutions		4,432,818	3,029,283
Customers		118,454,120	123,200,680
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*22,257,594*	*23,443,829*
Derivatives – Hedge accounting	**12**	**2,619,883**	**3,058,341**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	**-**
Investments in subsidiaries, joint ventures and associates	**13**	**2,713,637**	**2,840,144**
Subsidiaries		2,549,079	2,678,645
Joint Ventures		3,818	31,589
Associates		160,740	129,910
Tangible assets	**14**	**2,171,142**	**2,402,415**
Property, plant and equipment		1,657,402	1,745,382
For own use		1,657,402	1,745,382
Leased out under an operating lease		-	-
Assigned to welfare projects (savings banksand credit cooperatives)		-	-
Investment property		513,740	657,033
Of which: assigned under operating leases		513,740	657,033
Memorandum item: acquired in leasing		-	-
Intangible assets	**15**	**205,523**	**142,669**
Goodwill		-	-
Other intangible assets		205,523	142,669
Tax assets		**10,449,957**	**10,345,204**
Current tax assets		460,768	426,958
Deferred tax assets	24	9,989,189	9,918,246
Other assets	**16**	**1,672,042**	**909,821**
Insurance contracts linked to pensions		1,034,030	432,981
Inventories		-	-
Other		638,012	476,840
Non-current assets and disposal groups classified as held for sale	**17**	**3,459,184**	**3,117,805**
TOTAL ASSETS		**206,345,732**	**215,043,906**

The accompanying Notes 1 to 44 and Appendices I to XIII are an integral part of the balance sheet at 31 December 2018.

(*)The balance sheet for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 financial statements (see Note 1.5).

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

BANKIA, S.A.

balance sheet at 31 December 2018 and 2017

(Thousands of euros)

LIABILITIES AND EQUITY	NOTE	31/12/2018	31/12/2017 (*)
Financial liabilities held for trading	**8**	**6,078,800**	**7,449,989**
Derivatives		5,956,719	7,106,560
Short positions		122,081	343,429
Deposits		-	-
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 at amortised cost	**18**	**184,060,914**	**190,916,511**
Deposits		165,712,473	170,537,855
Central Banks		13,856,000	15,355,970
Credit institutions		21,771,822	22,212,284
Customers		130,084,651	132,969,601
Debt securities issued		16,749,890	19,288,228
Other financial liabilities		1,598,551	1,090,428
Memorandum item: subordinated liabilities		*2,989,889*	*2,510,922*
Derivatives – Hedge accounting	**12**	**182,331**	**377,469**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Provisions	**19**	**1,846,702**	**1,953,867**
Pensions and other post-employment defined benefit obligations		1,080,822	442,407
Other long term employee benefits		-	-
Pending legal issues and tax litigation		183,294	352,324
Commitments and guarantees given		373,119	380,422
Other provisions		209,467	778,714
Tax liabilities		**536,194**	**686,139**
Current tax liabilities		-	1,368
Deferred tax liabilities	24	536,194	684,771
Share capital repayable on demand		**-**	**-**
Other liabilities	**20**	**1,106,381**	**867,586**
Of which: Welfare Fund (only savings banksand credit cooperatives)		-	-
Liabilities included in disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**193,811,322**	**202,251,561**
Own funds	**21**	**12,421,199**	**12,477,275**
Capital		3,084,963	3,084,963
Paid up capital		3,084,963	3,084,963
Unpaid capital which has been called up		-	-
Memorandum item: Uncalled capital		-	-
Share Premium		619,154	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		7,980,060	8,384,243
(-) Treasury shares		(96,646)	(79,837)
Profit or loss		833,668	468,752
(-) Interim dividends		-	-
Accumulated other comprehensive income	**22**	**113,211**	**315,070**
Items that will not be reclassified to profit or loss		51,684	64,554
Actuarial gains or (-) losses on defined benefit pension plans		29,939	48,764
Non-current assets and disposal groups classified as held for sale		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		21,745	15,790
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in the credit risk		-	-
Items that may be reclassified to profit or loss		61,527	250,516
Hedge of net investments in foreign operations [effective portion]		-	-
Foreign currency translation		(292)	(714)
Hedging derivatives. Cash flow hedges [effective portion]		(2,299)	(10,163)
Fair value changes of debt instruments measured at fair value through other comprenhensive income		62,554	264,648
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		1,564	(3,255)
TOTAL EQUITY		**12,534,410**	**12,792,345**
TOTAL EQUITY AND TOTAL LIABILITIES		**206,345,732**	**215,043,906**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS	**25.2**	**34,048,575**	**31,915,570**
Loan commitments given		21,070,128	18,699,632
Financial guarantees given		427,621	414,912
Contingent commitments given		12,550,826	12,801,026

The accompanying Notes 1 to 44 and Appendices I to XIII are an integral part of the balance sheet at 31 December 2018.

(*)The balance sheet for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 financial statements (see Note 1.5).

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

BANKIA, S.A.

income statement for the years ended 31 December 2018 and 2017

(Thousands of euros)

	NOTE	31/12/2018	31/12/2017 (*)
Interest income	**26**	2,471,354	2,315,829
Financial assets at fair value through other comprehensive income		233,106	388,051
Financial assets at amortised cost		2,249,915	1,961,320
Other interest income		(11,667)	(33,542)
(Interest expenses)	**27**	(442,758)	(391,893)
(Expenses on share capital repayable on demand)		-	-
A) NET INTEREST INCOME		**2,028,596**	**1,923,936**
Dividend income	**28**	411,016	61,632
Fee and commission income	**29**	1,042,062	866,067
(Fee and commission expenses)	**30**	(78,090)	(75,291)
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or	**31**	399,874	309,811
Financial assets at amortised cost		1,539	57,558
Other financial assets and liabilities		398,335	252,253
Gains or (-) losses on financial assets and liabilities held for trading, net	**31**	48,036	95,613
Reclassification of financial assets out of measured at fair value through other comprehensive income category		-	-
Reclassification of financial assets out of measured at amortised cost		-	-
Other gains or (-) losses		48,036	95,613
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	**31**	(429)	-
Reclassification of financial assets out of measured at fair value through other comprehensive income category		-	
Reclassification of financial assets out of measured at amortised cost		-	
Other gains or (-) losses		(429)	
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**	(28,534)	(29,627)
Exchange differences [gain or (-) loss], net		14,735	9,740
Other operating income	**32**	57,101	52,578
(Other operating expenses)	**33**	(297,562)	(240,904)
Of which: Mandatory provisions to Welfare Fund (only savings banksand credit cooperatives)			-
B) GROSS INCOME		**3,596,805**	**2,973,555**
(Administrative expenses)		(1,659,474)	(1,833,114)
(Staff expenses)	**34**	(1,124,440)	(1,373,949)
(Other administrative expenses)	**35**	(535,034)	(459,165)
(Depreciation)	**36**	(172,485)	(172,555)
(Provisions or (-) reversal of provisions)	**37**	16,755	(93,931)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	**38**	(429,581)	(267,664)
(Financial assets at fair value through other comprehensive income)		(971)	2,188
(Financial assets at amortised cost)		(428,610)	(269,852)
C) TOTAL OPERATING INCOME, NET		**1,352,020**	**606,291**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	**39**	(160,522)	68,129
(Impairment or (-) reversal of impairment on non-financial assets)	**40**	(22,970)	(38)
(Tangible assets)		(22,970)	(38)
(Intangible assets)		-	-
(Other)		-	-
Gains or (-) losses on the derecognition in nonfinancial assets accounts and investments, net	**41**	1,271	9,325
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**	(133,583)	(134,306)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**1,036,216**	**549,401**
(Tax expense or (-) income related to profit or loss from continuing operations)	**24.3**	(202,548)	(80,649)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**833,668**	**468,752**
Profit or (-) loss after tax from discontinued operations		-	-
F) PROFIT OR (-) LOSS		**833,668**	**468,752**

The accompanying Notes 1 to 44 and Appendices I to XIII are an integral part of the balance sheet at 31 December 2018.
(*)The Income statement for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 financial statements (see Note 1.5).

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

BANKIA, S.A.

statement of recognised income and expense for the years ended 31 December 2018 and 2017

(Thousands of euros)	2018	2017 (*)
Profit or (-) loss	**833,668**	**468,752**
Other comprehensive income	**(374,217)**	**(126,984)**
Items that will not be reclassified to profit or loss	**(12,870)**	**27,349**
Actuarial gains or (-) losses on defined benefit pension plans	(26,893)	8,774
Non-current assets and disposal groups held for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	8,507	21,207
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in the credit risk	-	-
Income tax relating to items that will not be reclassified	5,516	(2,632)
Items that may be reclassified to profit or loss	**(361,347)**	**(154,333)**
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	603	(1,750)
Translation gains or (-) losses taken to equity	603	(1,750)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	11,234	(13,161)
Valuation gains or (-) losses taken to equity	11,234	(13,161)
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Fair value changes of debt instruments measured at fair value through other comprehensive income	(534,931)	(191,830)
Valuation gains or (-) losses taken to equity	(136,578)	(17,987)
Transferred to profit or loss	(398,353)	(173,843)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	6,884	(4,646)
Valuation gains or (-) losses taken to equity	6,884	(4,646)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	154,863	57,054
Total comprehensive income	**459,451**	**341,768**

The accompanying Notes 1 to 44 and Appendices I to XIII are an integral part of the balance sheet at 31 December 2018.
(*)The statement recognised income and expense for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 financial statements (see Note 1.5).

BANKIA, S.A.

Statement of changes in equity for the year ended 31 December 2018

(Thousands of euros)

Sources of equity changes	Own Funds										Accumulated Other Comprehensive Income	Total
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends		
Opening balance at 31 December 2017	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,384,243**	**(79,837)**	**468,752**	**-**	**315,070**	**12,792,345**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies(*)	-	-	-	-	-	-	(487,047)	-	-	-	172,358	(314,689)
Opening balance [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**7,897,196**	**(79,837)**	**468,752**	**-**	**487,428**	**12,477,656**
Comprehensive accumulated income									833,668		(374,217)	**459,451**
Other changes in equity	-	-	**-**	**-**	-	-	**82,864**	**(16,809)**	**(468,752)**	-	-	**(402,697)**
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	-	-	-	-	-	-	(338,015)	-		-		**(338,015)**
Purchase of treasury shares					-	-	-	(122,241)				**(122,241)**
Sale or cancellation of treasury shares					-	-	(6,429)	105,432				**99,003**
Reclassification of financial instruments from equity to liabilities	-	-	-	-								-
Reclassification of financial instruments from liabilities to equity	-	-	-	-								-
Transfers among components of equity			-	-	-	-	468,752		(468,752)	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-			-	-
Share based payments	-	-		-				-				-
Other increase or (-) decrease in equity			-	-	-	-	(41,444)	-	-	-	-	**(41,444)**
Of which: discretionary provision to welfare funds (only savings banksand credit cooperatives)					-		-					-
Closing balance at 31 December 2018	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**7,980,060**	**(96,646)**	**833,668**	**-**	**113,211**	**12,534,410**

The accompanying Notes 1 to 44 and Appendices I to XI are an integral part of the statement of changes in total equity for the year ended 31 December 2018.
(*) See Note 1.3.2. Fisrt aplication of Circular 4/2017.

BANKIA, S.A.

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

(Thousands of euros)

Sources of equity changes	Own Funds										Accumulated Other Comprehensive Income	Total
	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss	(-) Interim dividends		
Opening balance at 31 December 2016	**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**
Comprehensive accumulated income					-	-	-		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 liabilities	-	-	-	-								-
Reclassification of financial instruments from liabilities 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 savings banksand credit cooperatives)					-		-					-
Closing balance at 31 December 2017	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,384,243**	**(79,837)**	**468,752**	**-**	**315,070**	**12,792,345**

(*)The statement of changes in equity at 31 December 2017 is presented solely for comparison and differs from the one included in the 2017 financial statements. See Note 1.5.

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

BANKIA, S.A.

statement of cash flows for the year ended 31 December 2018 and 2017

(Thousands of euros)	2018	2017 (*)
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**2,635,201**	**812,453**
Profit/(loss)	**833,668**	**468,752**
Adjustments made to obtain the cash flows from operating activities	**689,483**	**797,140**
Depreciation and amortisation	172,485	172,555
Other	516,998	624,585
Net increase/(decrease) in operating assets	**5,096,622**	**8,960,200**
Financial assets held for trading	(751,396)	(197)
Non-trading financial assets mandatorily at fair value through profit or loss	(1,281)	-
Other financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	8,242,065	6,974,873
Financial assets at amortised cost	(369,873)	2,639,061
Other operating assets	(2,022,893)	(653,537)
Net increase/(decrease) in operating liabilities	**(4,215,201)**	**(9,579,099)**
Financial liabilities held for trading	(221,348)	2,876
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(4,338,308)	(9,105,077)
Other operating liabilities	344,455	(476,898)
Income tax receipts/(payments)	**230,629**	**165,460**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**842,678**	**898,368**
Payments	**(485,480)**	**(213,002)**
Tangible assets	(16,528)	(106,065)
Intangible assets	(122,959)	(103,837)
Investments insubsidiaries, joint ventures and associates	(102,260)	(3,000)
Other business units	-	-
Non-current assets held for sale and associated liabilities	(243,733)	(100)
Other payments related to investing activities	-	-
Proceeds	**1,328,158**	**1,111,370**
Tangible assets	27,877	19,444
Intangible assets	-	-
Investments insubsidiaries, joint ventures and associates	486,491	47,103
Other business units	-	577,959
Non-current assets held for sale and associated liabilities	813,790	466,864
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(2,878,559)**	**(37,522)**
Payments	**(3,977,562)**	**(2,734,387)**
Dividends	(338,015)	(315,957)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	(122,241)	(132,919)
Other payments related to financing activities	(3,517,306)	(2,285,511)
Proceeds	**1,099,003**	**2,696,865**
Subordinated liabilities	500,000	1,250,000
Issuance of own equity instruments	-	-
Disposal of own equity instruments	99,003	106,125
Other proceeds related to financing activities	500,000	1,340,740
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**599,320**	**1,673,299**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**3,755,070**	**2,081,771**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**4,354,390**	**3,755,070**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		**-**
Cash	929,835	878,204
Cash equivalents at central banks	3,309,614	2,614,513
Other financial assets	114,941	262,353
Less: Bank overdrafts refundable on demand	-	-

The accompanying Notes 1 to 44 and Appendices I to XIII are an integral part of the balance sheet at 31 December 2018.
(*)The statement of cash flows for 2017 is presented solely and exclusively for comparison purposes and differs from the one included in the 2017 financial statements (see Note 1.5).

BANKIA, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

(1.1) Group description

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 2018, the Bank’s branch network comprised 2,298 offices. The company bylaws may be consulted, together with other relevant legal information, at its registered office and on its website (www.bankia.es).

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 10/2014, of 26 June, on the Discipline and Intervention in Credit Institutions.

Bankia is the parent of a business group (the “Group” or “Bankia Group”). At 31 December 2018, the scope of consolidation of the Bankia Group encompassed 63 companies, including subsidiaries, joint ventures and associates. 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 2018 (subsidiaries, Joint Ventures and associates over which Bankia, directly or indirectly, exercises significant influence, distinguishing those classified under “Non-current assets held for sale”) , and specifying the percentage of voting rights controlled by Bankia in each company.

Bankia’s main shareholder is BFA, Tenedora de Acciones, S.A.U., (hereinafter “BFA”) which at 31 December 2018 held shares representing 61.38% of its share capital (61.98% including the impact of treasury shares). Therefore, in addition to the operations it carries out directly, Bankia is a subsidiary of the BFA, Tenedora de Acciones Group.

The Bankia’s financial statements for the year 2018 were authorised for issue by Bankia’s directors at the Board meeting held on 18 February 2019. The financial statements are pending approval by the General Meeting of Shareholders of Bankia. However, the Bank's Board of Directors considers that these financial statements will be approved without any material changes.Bankia’s financial statements for 2017 were approved by the shareholders at the general meeting held on 10 April 2018.

In addition to the separate financial statements, Bankia’s Board of Directors also prepared the consolidated financial statements of the Bankia Group for the year ended 31 December 2018, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

(1.2) Restructuring plan

As explained in Note 1.2 to the 2017 financial statements, at 31 December, the Bank 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, and described in detail in that note, along with the main highlights of the period.

Royal Decree-Law 4/2016, of 2 December, on urgent measures on financial matters, extended the period for the FROB to dispose of its stake in Bankia from five to seven years. It also provided for the possibility of further extensions subject to approval by the Council of Ministers. On 21 December 2018, the Council of Ministers approve a further 2-year extension of the sale period for Bankia’s privatisation to December 2021. The aim is to make more efficient use of public funds, maximising the recovery of the public aid given and allowing the FROB to exercise a divestment strategy that is more flexible in finding the right conditions in capital markets.

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

With all the banks receiving public aid from the FROB having completed their restructuring and resolution plans and with the FROB having sold all its public holdings, except in the BFA-Bankia Group, the FROB's policy was updated (article 54.7 of Law 11/2015). The update lends continuity to the way the stake in the BFA-Bankia Group was being managed; i.e. based on responsible monitoring and reporting on the investment; non-intervention in the administration of the credit institution, allowing the administrators to operate with independence; and promoting best practices in the securities market.

Bankia's main shareholder is BFA, Tenedora de Acciones, S.A.U., hereinafter "BFA" which at 31 December 2018 held shares representing 61.38% of its share capital (61.98% including the impact of treasury shares).

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

Bankia's financial statements for the year ended 31 December 2018 are presented in accordance with the provisions of Bank of Spain Circular 4/2017, of 27 November, on public and confidential financial reporting rules and formats for credit institutions ("Circular 4/2017) and subsequent amendments thereto, which implement and adapt to Spanish credit institutions the International Financial Reporting Standards approved for 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.

The Bank's financial statements for 2018 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 2018 and of the results of its operations and cash flows during the financial year then ended, pursuant to the aforementioned financial information reporting framework, and in particular to the accounting principles and criteria herein.

The main accounting policies and measurement bases applied in preparing the Bank's financial statements for 2018 are summarised in Note 2.

1.3.1 Main regulatory changes during the period from 1 January to 31 December 2018

Main regulatory changes during the period from 1 January to 31 December 2018

On 6 December 2017, the Bank of Spain published Circular 4/2017, of 27 November, on public and confidential financial reporting rules and formats for credit institutions, effective 1 January 2018 -although its transitional provisions must be considered- replacing and repealing Circular 4/2004, of 22 December.. The objective is to adapt the accounting framework for Spanish credit institutions to the changes in European accounting regulations arising from the adoption of IFRS 15 and 9.Given the breadth and depth of the changes arising from IFRS 9, the Bank of Spain updated its accounting regime by issuing the new Circular 4/2017, rather than through partial amendments to the previous Circular 4/2004, as it had done until then, with the objective of ensuring internal consistency and making it easier to understand and apply.

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 is 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.

Main changes in regulations effective from 1 January 2019

On 28 December 2018, Bank of Spain Circular 2/2018, of 21 December, amending Circular 4/2017, of 27 November, on public and confidential financial reporting rules and formats for credit institutions, and Circular 1/2013, of 24 May, on the Risk Information Centre.

The main purpose of this Circular is to adapt the accounting framework for Spanish credit institutions to the changes in European accounting regulations arising from the adoption of IFRS 16 which, as of 1 January 2019, modifies the lease accounting requirements for lessees.

IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases. Lessor accounting is substantially unchanged from accounting under the previous standard with the dual model, distinguishing between finance and operating leases.

For lessees, Circular 2/2018 eliminates the dual accounting model and develops a single model whereby the lessee is required to recognise most leases on the balance sheet similar to the accounting for finance leases under the previous standard. At the commencement date of the lease, the lessee recognises a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees are required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The standard includes two recognition exemptions for leases: short-term leases or leases for which the underlying asset is of low value.

Under Circular 2/2018, lessees are also required to remeasure the lease liability to reflect changes in lease payments from the commencement upon the occurrence of certain events (e.g. a change in the lease term, or a change in an index used to update those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Bank embarked on a project in 2018 to implement IFRS 16, entailing the assessment, initial analysis, design and adaptation of systems and management.

The Bank will elect to apply Circular 2/2018 to lease contracts in which it is the lessee retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of reserves at the date of initial application, electing the option under the standard not to restate comparative information.

Accordingly, for leases previously classified as finance leases under the previous standard, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 will be the same, respectively, as the carrying amounts of the lease asset and lease liability at 31 December 2018 measured applying the previous standard. Subsequently, the right-of-use asset and the lease liability will be accounted for under the new requirements for leases introduced by Circular 2/2018.

For leases previously classified as operating leases under the previous standard, from 1 January 2019 the lessee shall recognise:

- A lease liability, measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at that date.
- A right-of-use asset, measured at an amount equal to the lease liability recognised as described in the preceding paragraph, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet at 31 December 2018.

The Bank will also apply the standard to contracts identified as containing a lease applying the requirements of the previous standard and will apply the exemptions for short-term leases or leases for which the underlying asset is of low value.

The Bank estimates that this standard will not have a material impact on the financial statements of future periods. The estimation 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 2019 with the impact of the first-time application. This is because adaptation of its systems has not been completed.

1.3.2 First-time application of Circular 4/2017

1.3.2.1. Changes in accounting principles, policies and measurement criteria

Adoption of Circular 4/2017 has required changes to the accounting policies and measurement criteria applicable from 1 January 2018. The accounting principles and policies and measurement criteria described in Note 2 to Bankia's financial statements for the year ended 31 December 2017 have been modified by those included in Note 2 to the accompanying financial statements.

In accordance with the transitional provisions included in Circular 4/2017, the Bank has elected not to restate comparative information. Therefore, the accounting principles and policies and measurement criteria included in Note 2 to Bankia's audited financial statements for the year ended 31 December 2017 are applicable to comparative information.

The following table summarises the main changes to accounting principles and policies and measurement criteria applied in the preparation of these financial statements from those applied in the preparation of the financial statements the year before:

- **Classification and measurement of financial assets.** Bank of Spain Circular 4/2017 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 measured systematically at amortised cost or fair value. The three new financial asset classifications allowed under Bank of Spain Circular 4/2017 are:

  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 addition, reclassifications between portfolios are limited to changes in the business model defined by the Bank.

  [S*ee Note 2.2.4 and 2.2.5, which replaces Note 2.5.4 and 2.5.5 to Bankia's financial statements for the year ended 31 December 2017*].

- **Classification and measurement of financial liabilities.** The classification and measurement of financial liabilities is substantially unchanged from Bank of Spain Circular 4/2017. 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.

  [*See Note 2.2.4 and 2.2.5, which replaces Note 2.5.4 and 2.5.5 to Bankia's financial statements for the year ended 31 December 2017*].

- **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.

  Expected credit losses are based on the probability of default during the next 12 months, unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance must be estimated considering the probability of default during the expected lifetime of the financial instrument. The assessment of whether there has been a significant increase in credit risk must be based on reasonable and supportable information that is available without undue cost or effort, including information about the past events, current conditions and forecasts of future economic conditions (forward-looking information).

  [*See Note 2.9, which replaces Note 2.12, to Bankia's financial statements for the year ended 31 December 2017*].

- **Hedge accounting and mitigation of risk** Bank of Spain Circular 04/2017 allows entities to continue to apply the hedge accounting requirements in Bank of Spain Circular 04/2004, even when other elements of the rules are mandatory from 1 January 2018.

  The Bank has elected to continue applying the alternative recognition and measurement criteria for hedges included in sections 28 to 42 of rule 31 of Circular 4/2017.

  The new standard aligns hedge accounting more closely with risk management, and maintains the three types of hedges provided in Bank of Spain Circular 4/2014, while expanding the possibilities for designating hedged items and hedging instruments, and simplifying the requirements for effective hedges.

[*See Note 2.3,, which replaces Note 2.6, to Bankia's financial statements for the year ended 31 December 2017*].

- **Other changes:** Lastly, the following accounting principles and policies and measurement criteria have also been modified:

  - Recognition of exchange differences [*see Note 2.4.4, which replaces Note 2.7.4 to Bankia's financial statements for the year ended 31 December 2017*].

  - Interest income, interest expense, dividends and similar items [*see Note 2.5.1, which replaces Note 2.8.1 to the Bankia's financial statements for the year ended 31 December 2017*].

  - Statement of cash flows [*see Note 2.20, which replaces Note 2.20 to Bankia's financial statements for the year ended 31 December 2017*].

1.3.2.2 Presentation of comparative information after application of Bank of Spain Circular 4/2017

Although the Bank has elected to apply the classification and measurement requirements of Bank of Spain Circular 4/2017, not restating prior periods, exclusively to present and facilitate comparison of the current period with the prior period after the change in regulations, it has modified the formats of the comparative balance sheet, income statement, statement of recognised income and expense, total statement of changes in equity and statement of cash flows. Therefore, these differ from those included in the financial statements for the year ended 31 December 2017. The new public financial statements formats provided in Circular 4/2017 and subsuquents ammendments.

The main changes are as follows:

- Creation of a category of non-trading financial assets mandatorily at fair value through profit or loss.
- Replacement of the category of Fair value changes of debt instruments measured at fair value through other comprenhensive income with financial assets at fair value through other comprehensive income.
- Elimination of the category of held-to-maturity investments.
- Replacement of the category of loans and receivables with financial assets at amortised cost.
- Inclusion of an increased level of disclosures in the following line items of the income statement: “Interest income”, “Gains or (-) losses on derecognition of 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” and “Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net”.

Below is the restated balance sheet at 31 December 2017 solely for presentation purposes for comparison with the balance sheet included in the 2017 financial statements without taking into account the effects of applying the new classification and measurement criteria of Circular 4/2017, which is presented later.

Balance sheets at 31 December 2017

(Thousands of euros)

ASSETS	Circular 4/2017	Note	31/12/2017	Transfer	31/12/2017 modified
Cash, cash balances at central banks and other demand deposits			**3,755,070**	**-**	**3,755,070**
Financial assets held for trading			**6,719,052**	**-**	**6,719,052**
Non-trading financial assets mandatorily at fair value through profit or loss	New line			**-**	**-**
Financial assets designated at fair value through profit or loss			**-**	**-**	**-**
Financial assets at fair value through other comprehensive :ome	New line	(1)		**22,725,897**	**22,725,897**
Available-for-sale financial assets	Removed	(1)	**22,725,897**	**(22,725,897)**	
Financial assets at amortised cost	New line	(2)		**159,027,488**	**159,027,488**
Loans and receivables	Removed	(2)	**126,674,121**	**(126,674,121)**	**<**
Held-to-maturity investments	Removed	(2)	**32,353,367**	**(32,353,367)**	
Derivatives – hedge accounting			**3,058,341**	**-**	**3,058,341**
Fair value changes of the hedged items in portfolio hedge of :erest rate risk			**-**	**-**	**-**
Investments, subsidiaries, joint ventures and associates			**2,840,144**	**-**	**2,840,144**
Subsidiaries	New line	(3)		2,678,645	2,678,645
Subsidiaries entities	Removed	(3)	2,678,645	(2,678,645)	
Joint ventures	New line	(4)		31,589	31,589
Joint-controlled entities	Removed	(4)	31,589	(31,589)	
Associates	New line	(5)		129,910	129,910
Associates entitites	Removed	(5)	129,910	(129,910)	
Assets under insurance contracts			**-**	-	**-**
Tangible assets			**2,402,415**	**-**	**2,402,415**
Property, plant and equipment			1,745,382	-	1,745,382
For own use			1,745,382	-	1,745,382
Leased out under an operating lease			-	-	-
Assigned to welfare projects (savings banks and credit operatives)			-	-	-
Investment property			657,033	-	657,033
Of which: leased out under operating leases			657,033	-	657,033
Intangible assets			**142,669**	**-**	**142,669**
Goodwill			-	-	-
Other intangible assets			142,669	-	142,669
Tax assets			**10,345,204**	**-**	**10,345,204**
Current tax assets			426,958	-	426,958
Deferred tax assets			9,918,246	-	9,918,246
Other assets			**909,821**	**-**	**909,821**
Insurance contracts linked to pensions			432,981	-	432,981
Inventories			-	-	-
Other			476,840	-	476,840
Non-current assets and disposal groups classified as held for sale			**3,117,805**	-	**3,117,805**
TOTAL ASSETS			**215,043,906**	**-**	**215,043,906**

Balance sheets at 31 December 2017

(Thousands of euros)

LIABILITIES	Circular 4/2017	Note	31/12/2017	Transfer	31/12/2017 modified
Financial liabilities held for trading			**7,449,989**	**-**	**7,449,989**
Financial liabilities designated at fair value through profit or loss			**-**	**-**	**-**
Financial liabilities measured at amortised cost			**190,916,511**	**-**	**190,916,511**
Derivatives – hedge accounting			**377,469**	**-**	**377,469**
Fair value changes of the hedged items in portfolio hedge of interest rate risk			**-**	**-**	**-**
Liabilities under insurance contracts			**-**	**-**	**-**
Provisions			**1,953,867**	**-**	**1,953,867**
Pensions and other post employment defined benefit obligations			442,407	-	442,407
Other long term employee benefits			-	-	-
Pending legal issues and tax litigation			352,324	-	352,324
Commitments and guarantees given			380,422	-	380,422
Other provisions			778,714	-	778,714
Tax liabilities			**686,139**	**-**	**686,139**
Current tax liabilities			1,368	-	1,368
Deferred tax liabilities			684,771	-	684,771
Share capital repayable on demand			**-**	-	**-**
Other liabilities			**867,586**	-	**867,586**
Liabilities included in disposal groups classified as held for sale			-	-	-
TOTAL LIABILITIES			**202,251,561**	**-**	**202,251,561**

Balance sheets at 31 December 2017

(Thousands of euros)

EQUITY	Circular 4/2017	Note	31/12/2017	Transfer	31/12/2017 modified
Equity			**12,477,275**	**-**	**12,477,275**
Capital			3,084,963	-	3,084,963
Paid up capital			3,084,963	-	3,084,963
Unpaid capital which has been called up			-	-	-
Memorandum item: Uncalled capital			-	-	-
Share Premium			619,154	-	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	-	8,384,243
(-) Treasury shares			(79,837)	-	(79,837)
Profit or loss attributable to owners of the parent			468,752	-	468,752
(-) Interim dividends			-	-	-
Accumulated other comprehensive income			**315,070**	**-**	**315,070**
Items that will not be reclassified to profit or loss			48,764	15,790	64,554
Actuarial gains or (-) losses on defined benefit pension plans			48,764	-	48,764
Non-current assets and disposal groups classified as held for sale			-	-	-
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income	New line	(6)		15,790	15,790
Accumulated hedge ineffectiveness for equity instruments measured at fair value through other comprehensive income	New line			-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	New line			-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	New line			-	-
Accumulated change in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability	New line			-	-
Other valuation adjustments	Removed		-	-	
Items that may be reclassified to profit or loss			266,306	(15,790)	250,516
Hedge of net investments in foreign operations [effective portion]	Modification name		-	-	-
Foreign currency translation			(714)	-	(714)
Hedging derivatives, Cash flow hedges reserve [effective portion]	Modification name		(10,163)	-	(10,163)
Fair value changes of financial assets measured at fair value through other comprehensive income	New line	(7)		264,648	264,648
Available-for-sale financial assets	Removed		280,438	(280,438)	
Debt instruments	Removed	(7)	264,648	(264,648)	
Equity instruments	Removed	(6)	15,790	(15,790)	
Hedging instruments [Not designated elements]					
Non-current assets and disposal groups classified as held for sale			(3,255)	-	(3,255)
TOTAL EQUITY			**12,792,345**	**-**	**12,792,345**
TOTAL EQUITY AND TOTAL LIABILITIES			**215,043,906**	**-**	**215,043,906**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS			**31,915,570**	**-**	**31,915,570**
Loan commitments given	New line	(8)		18,699,632	18,699,632
Financial guarantees given	New line	(8)		414,912	414,912
Other commitments given	New line	(8)		12,801,026	12,801,026
Guarantees given	Removed	(8)	8,930,154	(8,930,154)	
Contingent commitments given	Removed	(8)	22,985,416	(22,985,416)	

Explanatory notes to the modified balance sheet at 31 December 2017

1. Debt securities and equity instruments worth EUR 22,725,897 thousand at 31 December 2017 included in "Available-for-sale financial assets" are classified under the new item "Financial assets at fair value through other comprehensive income".
2. "Financial assets at amortised cost" includes the balance of "Loans and receivables" of EUR 126,674,121 thousand at 31 December 2017 and debt securities at amortised cost included in "Held-to-maturity investments" at 31 December 2017 of EUR 32,353,367 thousand.
3. "Subsidiareies, Investments in joint ventures and associates – Subsidiaries entities" has been replaced, with the entire balance at 31 December 2017 of EUR 2,678,645 thousand reclassified to the new item "Investments in joint ventures and associates – Subsidiaries".
4. "Subsidiareies, Investments in joint ventures and associates – Joint Ventures" has been replaced, with the entire balance at 31 December 2017 of EUR 31,589 thousand reclassified to the new item "Investments in joint ventures and associates – Joint ventures".
5. "Subsidiareies, Investments in joint ventures and associates – Associate entities" has been replaced, with the entire balance at 31 December 2017 of EUR 129,910 thousand reclassified to the new item "Investments in joint ventures and associates – Associates".
6. Transfer of the balance of "Equity instruments" in "Items that may be reclassified to profit or loss – Available-for-sale financial assets – Equity instruments" of EUR 15,790 thousand at 31 December 2017 to "Fair value changes of financial assets measured at fair value through other comprehensive income" under "Items that may be reclassified to profit or loss".

7. The item “Available-for-sale financial assets – Debt instruments” is replaced, with the full balance at 31 December 2017 of EUR 264,648 thousand classified in the new item “Fair value changes of financial assets measured at fair value through other comprehensive income” under “Items that may be reclassified to profit or loss”.
8. New disclosures of off-balance sheet exposure, distinguishing between “Loan commitments given” (EUR 18,699,632 thousand at 31 December 2017), “Financial guarantees given” (EUR 414,912 thousand at 31 December 2017) and “Other commitments given” (EUR 12,801,026 thousand, at 31 December 2017).

1.3.2.3 Impacts of first-time application of Circular 4/2017

The following table presents the impacts of the first-time application of Circular 4/2017 based on the modified balance sheet at 31 December 2017 for purposes of presentation (See Note 1.5) up to the balance sheet at 1 January 2018, distinguishing between the impact of changes in the measurement of the financial instrument for its new classification –“Transfer and adjustments for Circular 4/2017 measurement”– relative to impairments and provisions –“Adjustments for Circular 4/2017 impairments and provisions”–:

Balance sheet at 31 December 2017 and 1 January 2018

(Thousands of euros)

ASSETS	Note	31/12/2017 modified	Transfer and adjustments for Circular 4/2017 measurement	Adjustments for Circular 4/2017 impairments and provisions	01/01/2018
Cash, cash balances at central banks and other demand deposits		**3,755,070**	**-**	**-**	**3,755,070**
Financial assets held for trading		**6,719,052**	**-**	**-**	**6,719,052**
Non-trading financial assets mandatorily at fair value through profit or loss	(1),(2)	-	**8,415**	**-**	**8,415**
Financial assets designated at fair value through profit or loss		**-**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income	(2),(3),(4),(6)	**22,725,897**	**1,267,307**	**719**	**23,993,923**
Financial assets at amortised cost	(1),(3),(4),(5),(6)	**159,027,488**	**(1,030,095)**	**(652,661)**	**157,344,732**
Derivatives – hedge accounting		**3,058,341**	**-**	**-**	**3,058,341**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**	**-**	**-**
Investments in subsidiaries, in joint ventures and associates		**2,840,144**			**2,840,144**
Subsidiaries		2,678,645	-	-	2,678,645
Joint ventures		31,589	-	-	31,589
Associates		129,910	-	-	129,910
Assets under insurance contracts		-	**-**	**-**	**-**
Tangible assets		**2,402,415**	-	-	**2,402,415**
Property, plant and equipment		1,745,382	-	-	1,745,382
For own use		1,745,382	-	-	1,745,382
Leased out under an operating lease		-	-	-	-
Assigned to welfare projects (savings banks and credit cooperatives)		-	-	-	-
Investment property		657,033	-	-	657,033
Of which: leased out under operating leases		657,033	**-**	**-**	657,033
Intangible assets		**142,669**	-	-	**142,669**
Goodwill		-	-	-	-
Other intangible assets		142,669			142,669
Tax assets		**10,345,204**	**52**	**208,428**	**10,553,684**
Current tax assets		426,958	-	-	426,958
Deferred tax assets	(7)	9,918,246	52	208,428	10,126,726
Other assets		**909,821**	**-**	**-**	**909,821**
Insurance contracts linked to pensions		432,981	-	-	432,981
Inventories		-	-	-	-
Other		476,840	-	-	476,840
Non-current assets and disposal groups classified as held for sale		**3,117,805**	**-**	**-**	**3,117,805**
TOTAL ASSETS		**215,043,906**	**245,679**	**(443,514)**	**214,846,071**

balance sheet at 31 December 2017 and 1 January 2018

(Thousands of euros)

LIABILITIES	Note	31/12/2017 modified	Transfer and adjustments for Circular 4/2017 measurement	Adjustments for Circular 4/2017 impairments and provisions	01/01/2018
Financial liabilities held for trading		**7,449,989**	**-**	**-**	**7,449,989**
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Financial liabilities measured at amortised cost		**190,916,511**	**-**	**-**	**190,916,511**
Derivatives – hedge accounting		**377,469**	-	-	**377,469**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	-	-	**-**
Liabilities under insurance contracts		**-**	-	-	**-**
Provisions		**1,953,867**	**-**	**43,114**	**1,996,981**
Pensions and other post employment defined benefit obligations		442,407	-	-	442,407
Other long term employee benefits		-	-	-	-
Pending legal issues and tax litigation		352,324	-	-	352,324
Commitments and guarantees given	(6)	380,422	-	43,114	423,536
Other provisions		778,714	-	-	778,714
Tax liabilities		**686,139**	**73,740**	**-**	**759,879**
Current tax liabilities		1,368	-	-	1,368
Deferred tax liabilities	(7)	684,771	73,740	-	758,511
Share capital repayable on demand		**-**	-	-	-
Other liabilities		**867,586**	-	-	**867,586**
Liabilities included in disposal groups classified as held for sale		**-**	-	-	-
TOTAL LIABILITIES		**202,251,561**	**73,740**	**43,114**	**202,368,415**

balance sheet at 31 December 2017 and 1 January 2018

(Thousands of euros)

EQUITY	Note	31/12/2017 modified	Transfer and adjustments for Circular 4/2017 measurement	Adjustments for Circular 4/2017 impairments and provisions	01/01/2018
Equity		**12,477,275**	**(419)**	**(486,628)**	**11,990,228**
Capital		3,084,963	-	-	3,084,963
Paid up capital		3,084,963	-	-	3,084,963
Unpaid capital which has been called up		-	-	-	-
Memorandum item: Uncalled capital		-	-	-	-
Share Premium		619,154	-	-	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	(1),(2),(5),(6)	8,384,243	(419)	(486,628)	7,897,196
(-) Treasury shares		(79,837)	-	-	(79,837)
Profit or loss attributable to owners of the parent		468,752	-	-	468,752
(-) Interim dividends		-	-	-	-
Accumulated other comprehensive income		**315,070**	**172,358**	**-**	**487,428**
Items that will not be reclassified to profit or loss		64,554	-	-	64,554
Actuarial gains or (-) losses on defined benefit pension plans		48,764	-	-	48,764
Non-current assets and disposal groups classified as held for sale		-	-	-	-
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income		15,790	-	-	15,790
Accumulated hedge ineffectiveness for equity instruments measured at fair value through other comprehensive income		-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-	-	-
Accumulated change in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability		-	-	-	-
Items that may be reclassified to profit or loss		250,516	172,358	-	422,874
Hedge of net investments in foreign operations [effective portion]		-	-	-	-
Foreign currency translation		(714)	-	-	(714)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(10,163)	-	-	(10,163)
Fair value changes of financial assets measured at fair value through other comprehensive income	(3),(4)	264,648	172,358	-	437,006
Hedging instruments [not designated elements]		-	-	-	-
Non-current assets and disposal groups classified as held for sale		(3,255)	-	-	(3,255)
TOTAL EQUITY		**12,792,345**	**171,939**	**(486,628)**	**12,477,656**
TOTAL EQUITY AND TOTAL LIABILITIES		**215,043,906**	**245,679**	**(443,514)**	**214,846,071**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS		**31,915,570**	**-**	**-**	**31,915,570**
Loan commitments given		18,699,632	-	-	18,699,632
Financial guarantees given		414,912	-	-	414,912
Other commitments given		12,801,026	-	-	12,801,026

Explanatory notes to the balance sheet at 1 January 2018

1. Transfer of assets arising from loans and receivables under "Financial assets at amortised cost" for EUR 8,477 thousand to the new item "Non-trading financial assets mandatorily at fair value through profit or loss" with a cash value of EUR 8,182 thousand. The transfer gives rise to a negative adjustment to reserves of EUR 206 thousand, net of the related tax effect.
2. Transfer of debt securities from "Financial assets at fair value through other comprehensive income" to "Non-trading financial assets mandatorily at fair value through profit or loss" for a nominal amount of EUR 464 thousand and a carrying amount of EUR 233 thousand , at 31 December 2017. The transfer gives rise to a valuation adjustment of EUR 157 thousand and a negative adjustment to reserves of EUR 157 thousand, both net of the related tax effect.
3. Transfer of quoted debt instruments included under "Financial assets at amortised cost" for an amortised cost of EUR 3,073,877 thousand to "Financial assets at fair value through other comprehensive income" for a fair value of EUR 3,335,721 thousand. The transfer gives rise to a valuation adjustment of EUR 183,291 thousand, net of the related tax effect.
4. Transfer of fixed-income positions in the current portfolio recognised in "Financial assets at fair value through other comprehensive income" with a carrying amount of EUR 2,068,182 thousand to "Financial assets at amortised cost" with a new carrying amount of EUR 2,052,338 million and a negative valuation adjustment from the transactions of EUR 11,090 thousand, net of the tax effect.The fair value of the instruments still held by the Group at 31 December 2018 stood at EUR 1,987,773 thousand. The amount that would have been recognised under other comprehensive income in 2018 if the instruments were still measured at fair value through other comprehensive income would have been EUR 5,329 thousand.
5. Transfer of loans and receivables for failure to pass with the SPPI test from "Financial assets at amortised cost" with a value at 31 December 2017 of EUR 79 thousand, net of impairment, to the new item "Non-trading financial assets mandatorily at fair value through profit or loss". The transfer gives rise to a negative adjustment to reserves of EUR 56 thousand, net of the related tax effect.
6. Adjustment for impairment losses and provisions related to the first-time application of Circular 4/2017.
7. Tax adjustment for these transactions arising from the first-time application of Circular 4/2017.

1.3.2.4 Reconciliation of impairment allowances and provisions for financial assets

The following table presents the reconciliation for financial assets, by classification for measurement, of impairment allowances and provisions at 31 December 2017 in accordance with the previous standards Circular 4/2004 – and the loss allowances under the revised standard – Circular 4/2017 – at 1 January 2018.

Reconciliation of impairment allowances for financial assets and provisions for off-balance sheet

(Thousands of euros)

	31/12/2017 modified	Adjustments for Circular 4/2017 impairments and provisions	01/01/2018
ON-BALANCE SHEET EXPOSURES			
Cash, cash balances at central banks and other demand deposits	-	-	-
Financial assets held for trading	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-
Financial assets at fair value through other comprehensive income	(4,624)	719	(3,905)
Finacial assets at amortised cost	(5,716,763)	(652,661)	(6,369,424)
Derivatives – hedge accounting	-	-	-
TOTAL ON-BALANCE SHEET EXPOSURES	**(5,721,387)**	**(651,942)**	**(6,373,329)**
OFF-BALANCE SHEET EXPOSURES			
Loan commitment given	25,477	-	25,477
Financial guarantees given	28,533	-	28,533
Other commitments given	326,412	43,114	369,526
TOTAL OFF-BALANCE SHEET EXPOSURES	**380,422**	**43,114**	**423,536**

1.3.2.5 Impact of first-time application of Circular 4/2017 on "Accumulated other comprehensive income" and "Other reserves"

The following table presents the disclosure of the impact of first-time application of Circular 4/2017 on "Accumulated other comprehensive income" and "Other reserves":

Impact of firts-time application of Circular 4/2017 on "Accumulated other comprehensive income" and "Other reserves"	
(Thousands of euros)	
Accumulated other comprehensive income	
Transfer of financial assets (from available-for-sale financial assets to non-trading financial assets mandatorily at fair value through profit or loss)	157
Transfer of financial assets (from held-to-maturity investments to financial assets at fair value through other comprehensive income)	183,291
Reclassification of financial assets (from available-for-sale financial assets to financial assets at amortised cost)	(11,090)
Total accumulated other comprehensive income	**172,358**
Other reserves	
Transfer of financial assets (from available-for-sale financial assets to non-trading financial assets mandatorily at fair value through profit or loss)	(157)
Transfer of financial assets (from loans and receivables to non-trading financial assets mandatorily at fair value through profit or loss)	(262)
Recognition of expected loss	(486,628)
Total other reserves	**(487,047)**

1.3.2.6 Reconciliation amongst financial asset´s portfolios

For comparative purposes, the following table presents the portfolios used in the 2017 financial statements and those included in the consolidated financial statements:

	Portfolios used after applying Circular 4/2017 – IFRS 9				
(Thousands of euros)	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income l	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets held for trading	Total
Portfolios used in the 2017 financial statements (Circular 4/2004 - IAS 39)					
Loans and receivables and held-to-maturity investments	159,027,488	-	-	-	**159,027,488**
Available-for-sale financial assets	-	22,725,897	-	-	**22,725,897**
Financial assets held for trading	-	-	-	6,719,052	**6,719,052**
Financial assets designated at fair value through profit or loss	-	-	-	-	**-**
Total	**159,027,488**	**22,725,897**	**-**	**6,719,052**	**188,472,437**

(1.4) Responsibility for the information and estimates made

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

In the Bank's financial statements for the year ended 31 December 2018, 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 2.2.4 and 2.19).
- Impairment losses and classification for levels on certain financial assets, considering the value of the collateral received and non-financial assets (mainly property) as well as of contingent liabilities (see Notes 2.9, 2.15, 2.16, 2.17 and 2.19).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term commitments (see Note 2.13).
- 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. (see Notes 2.15 and 2.19).
- The recoverability of recognised deferred tax assets (see Note 24).

- The useful life and fair value of tangible and intangible assets (see Notes 2.15 and 2.16).
- 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 Notes 2.18 and 19).
- The fair values of the assets, liabilities and contingent liabilities in the context of the business combination purchase price allocation (See Note 1.15).

Although these estimates were made on the basis of the best information available at 31 December 2018 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 2017 contained in these financial statements is presented solely for comparison with the information relating to 2018 and, accordingly, does not constitute the Bank's financial statements for 2017.

(1.6) Agency agreements

A list at 31 December 2018 of the Bank's agents which meet the conditions established in Article 21 of Royal Decree 84/2015, of 13 February, is provided in Appendix X, attached.

(1.7) Investments in the capital of credit institutions

The Bank's ownership interests of 5% or more in the capital or voting rights of other Spanish or foreign credit institutions at 31 December 2018 are listed in Appendices I, II and III.

The breakdown of ownership interests of more than 5% held by non-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 2018 and 2017 is as follows:

Shareholding institution	Investee	Ownership interest
Banco Popular de Ahorro de Cuba	Corporación Financiera Habana, S.A.	40.00%

(1.8) Environmental impact

In view of the business activities carried on by the Bank (see Note 1.1), it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to the Bank's 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 2018, the Company complied with the minimum reserve ratio required by applicable Spanish legislation.

(1.10) Deposit Guarantee Fund and National Resolution Fund

The Bank is a member of the Credit Institution Deposit Guarantee Fund (hereafter "DGF") created by Royal Decree-Law 16/2011, of 14 October, whose purpose is to guarantee deposits in cash, securities or other financial instruments at credit limitations, up to a maximum of EUR 100,000 for cash deposits or, for deposits made in another currency, the equivalent amount applying the appropriate exchange rates, and of EUR 100,000 for investors entrusting a credit institution with securities or other financial instruments. These two guarantees by the Fund are different and mutually compatible.

The Management Committee of the DGF determined the annual contribution to be made at 1.8 per thousand of the calculation basis for the part relating to the guarantee of deposits which, added to the 2 per thousand for the part relating to the guarantee of securities, left an accrued amount at 31 December 2018 of EUR 160,384 thousand (EUR 124,660 thousand in 2017), recognised under "Other operating expenses" in the accompanying income statement (see Note 33).

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 2018 and 31 de December 2017, the Entity 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 125,681 thousand, and 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.

Meanwhile, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms requires Member Status to, among other measures, to make financial arrangements to ensure the effective application by the resolution authority of its powers. With the entry into force on 1 January 2016 of Regulation (EU) No 806/2014 of the European Parliament and of the Council, of July 15, 2014, the Single Resolution Board replaced the national resolution authorities and assumed management of the resolution financing arrangements of the credit institutions and certain investment firms under the Single Resolution Fund (SRF) as an key element of the Single Resolution Mechanism (SRM) established with Directive 2014/59/EU. The first ex-ante contributions made by institutions to SRF were for the 2016 contribution period.

In 2018, Bankia made a contribution to the SRF of EUR 71,566 thousand (EUR 64,012 thousand in 2017), using EUR 10,735 thousand of irrevocable payment commitments (EUR 9,602 thousand in 2017), recognising the cash collateral under "Loans and advances" and the remaining EUR 60,831 thousand (EUR 54,410 thousand in 2017) under "Other operating expenses" in the accompanying income statement.

(1.11) Events after the reporting period

On 24 January 2019, the Board of Directors of Bankia, based on a favourable report from the Appointments and Responsible Management Committee, approved a change in the Bank's organisation to drive its transformation and that of its businesses, creating four new general subdivisions –Financial, Credit Risk, People and Culture, and Digital Strategy and Transformation. Their members will have a seat on the Management Committee. This comes after the transfer of duties following the departure of the Deputy General Director of Investees and Associated Undertakings, Joaquín Cánovas. As a result, the composition of the Bank's highest management body increases from eight to 12 members, as follows:

- Mr. José Ignacio Goirigolzarri Tellaeche (Chairman)
- Mr. José Sevilla Álvarez (Chief Executive Officer)
- Mr. Antonio Ortega Parra (Executive Director and General Manager of People, Resources and Technology)
- Mr. Miguel Crespo Rodríguez (General Secretary and Deputy General Director of the General Secretariat)
- Mr. Gonzalo Alcubilla Povedano (Deputy General Director of Business Banking)
- Mr. Leopoldo Alvear Trenor (Deputy General Director of Financial Management)
- Mrs. Amalia Blanco Lucas (Deputy General Director of Communication and External Relations)
- Mr. Manuel Galarza Pont (Deputy General Director of Credit Risks)
- Mr. David López Puig (Deputy General Director of People and Culture)
- Mr. Fernando Sobrini Aburto ((Deputy General Director of Asset Management and Investees)
- Mr. Eugenio Solla Tomé (Deputy General Director of Retail Banking
- Mr. Carlos Torres García (Deputy General Director of Transformation and Digital Strategy)

On 7 February 2019, the economic terms of an issuance of EUR 1,000 million of subordinated notes under the "€ 10,000,000,000 Euro Medium Term Note Programme" were established. The base prospectus for the issue, dated 5 July 2018, was approved by the Central Bank of Ireland as competent authority.. An application will be made for the subordinated notes to be listed on the Main Securities Market of the Irish Stock Exchange, currently called Euronext Dublin. Bankia will apply for the subordinated notes to be treated as tier 2 capital in accordance with the criteria of the CRR.

No significant events occurred between 31 December 2018 and the date of authorisation for issue of the accompanying financial statements other than those included in this note or other notes to the 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 BFA 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 2018 and 2017, 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 2018 and 2017, 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's 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 2018 and 2017 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. As well as "Non-current assets held for sale".

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 2018 and 2017 is as follows:

(Thousands of euros)

	Distribution of revenue by geographical area	
ITEM	31/12/2018	31/12/2017
Domestic market	2,471,354	2,315,829
Export:	-	-
European Union	-	-
Total	**2,471,354**	**2,315,829**

The table below shows the Bank ordinary income by geographic area for the years ended 31 December 2018 and 2017:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Domestic market	4,400,480	3,671,903
Export:	-	-
European Union	-	-
Other OECD countries	-	-
Other countries	-	-
Total	**4,400,480**	**3,671,903**

The table below shows the Bank's ordinary income by business segments for the year ended 31 December 2018 and 2017:

31 December 2018:

(Thousands of euros) ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
External customers	2,094,502	698,843	1,607,135	4,400,480
Inter-segment transactions	(172,768)	(111,674)	284,442	-
Total ordinary income (1)	**1,921,734**	**587,169**	**1,891,577**	**4,400,480**

31 December 2017(2):

(Thousands of euros) ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
External customers	2,151,618	679,815	840,470	3,671,903
Inter-segment transactions	(86,905)	(114,701)	201,606	-
Total ordinary income (1)	**2,064,713**	**565,114**	**1,042,076**	**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.

(2) Comparative information for 2017 includes reclassifications among segments from the information included in the financial statements for 2017 after the process of reallocating segments to the portfolio of assets arising in the business combination with BMN was completed.

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

Segment results for the year ended 31 December 2018 and 2017 are as follows:

31 December 2018:

(Thousands of euros) ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
NET INTEREST INCOME	**1,146,340**	**389,747**	**492,509**	**2,028,596**
Return on equity instruments	-	104	410,912	411,016
Net fees and commissions	882,033	157,110	(75,171)	963,972
+/- Gains and losses on financial assets and liabilities and exchange differences	278	46,614	386,790	433,682
+/- Other operating income and other operating expenses	(150,534)	(7,695)	(82,232)	(240,461)
GROSS INCOME	**1,878,117**	**585,880**	**1,132,808**	**3,596,805**
Administrative expenses	(974,163)	(59,822)	(625,489)	(1,659,474)
Amortisation	(61,435)	(1,226)	(109,824)	(172,485)
OPERATING INCOME BEFORE PROVISIONS	**842,519**	**524,832**	**397,495**	**1,764,846**
Provisions or (-) reversal of provisions	(11,889)	56,202	(27,558)	16,755
Impairments or (-) reversal of impairment of financial assets not at fair value through profit or loss	(250,714)	74,369	(253,236)	(429,581)
Impairment losses on other assets (net) and other gains and losses	59	(7)	(315,856)	(315,804)
PROFIT/(LOSS) BEFORE TAX	**579,975**	**655,396**	**(199,155)**	**1,036,216**

31 December 2017[(1)]:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
NET INTEREST INCOME	**1,243,914**	**372,511**	**307,511**	**1,923,936**
Dividend income	-	230	61,402	61,632
Net fees and commissions	854,579	149,273	(213,076)	790,776
+/- Gains and losses on financial assets and liabilities and exchange differences	(4,954)	46,281	344,210	385,537
+/- Other operating income and other operating expenses	(143,971)	(6,611)	(37,744)	(188,326)
GROSS INCOME	**1,949,568**	**561,684**	**462,303**	**2,973,555**
Administrative expenses	(989,497)	(58,254)	(785,363)	(1,833,114)
Depreciation	(64,221)	(1,318)	(107,016)	(172,555)
OPERATING INCOME BEFORE PROVISIONS	**895,850**	**502,112**	**(430,076)**	**967,886**
Provisions or (-) reversal of provisions	987	24,404	(119,322)	(93,931)
Impairments or (-) reversal of impairment of financial assets not at fair value through profit or loss	(457,545)	(72,894)	262,775	(267,664)
Impairment losses on other assets (net) and other gains and losses	(9,267)	(1)	(47,622)	(56,890)
PROFIT/(LOSS) BEFORE TAX	**430,025**	**453,621**	**(334,245)**	**549,401**

(1) Comparative information for 2017 includes reclassifications among segments from the information included in the financial statements for 2017 after the process of reallocating segments to the portfolio of assets arising in the business combination with BMN was completed.

Segment assets and liabilities at 31 December 2018 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
Financial assets at amortised cost -Loans and receivables - Loans and advances – Customers	84,176,849	28,749,291	5,527,980	118,454,120
Other assets	24,233,059	11,006,657	52,651,896	87,891,612
Total assets	**108,409,908**	**39,755,948**	**58,179,876**	**206,345,732**
Financial liabilities at amortised cost - Deposit – Customers	103,178,189	11,584,254	15,322,208	130,084,651
Net inter-segment financing	-	-	-	-
Other liabilities	5,231,719	28,171,694	30,323,258	63,726,671
Total liabilities	**108,409,908**	**39,755,948**	**45,645,466**	**193,811,322**

Segment assets and liabilities at 31 December 2017 [(1)] are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
Financial assets at amortised cost Loans and receivables - Loans and advances – Customers	87,599,704	28,058,299	7,542,677	123,200,680
Other assets	17,455,095	17,027,408	57,360,723	91,843,226
Total assets	**105,054,799**	**45,085,707**	**64,903,400**	**215,043,906**
Financial liabilities at amortised cost - Deposit – Customers	101,056,674	14,123,128	17,789,799	132,969,601
Net inter-segment financing	-	-	-	-
Other liabilities	3,998,125	30,962,579	34,321,256	69,281,960
Total liabilities	**105,054,799**	**45,085,707**	**52,111,055**	**202,251,561**

[(1)]Comparative information for 2017 includes reclassifications among segments from the information included in the financial statements for 2017 after the process of reallocating segments to the portfolio of assets arising in the business combination with BMN was completed.

(1.15) Business combinations

Merger through absorption of BMN by Bankia

The merger of BMN into Bankia was ratified at the Extraordinary General Meetings of Bankia and Banco Mare Nostrum (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), 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. 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.

The transaction outlined above recognised as a business combination, in keeping with Circular 4/2017. Given that Bankia, S.A. is the acquiror, the pre-existing carrying amounts of its assets and liabilities did not change; rather the acquisition method was applied to the business of BMN.

The date on which Bankia took effective control of BMN was 28 December 2017. For accounting purposes, the date from which BMN transactions are deemed to performed by Bankia is 1 December 2017 ('designated' acquisition date). The impact on 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 fair values of the identifiable BMN assets acquired and liabilities assumed, measured in accordance with the rules applicable to business combinations as at 1 December 2017:

(Millions of euros)

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

(*) Information presented based on the balance sheet model applicable at the date of the business combination.

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 status of the loans when the business combination took place and the associated collateral

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

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

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

In keeping with Circular 4/2017, 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. In 1 December 2018 ended the measurement period, after that period no material changes have been identified.

Other transactions

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

In April 2018, Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (“Caser”) modified the composition of its board by appointing an additional director representing Bankia. The Bank is now one of the companies with the largest number of representatives sitting on the board and this company now qualifies as an associate from that date onward. The new inclusion has not had a significant impact on the Bank’s equity (see Note 13).

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

In 2018, Bankia, S.A. acquired 50% stakes in the Caja Granada Vida Compañía de Seguros Reaseguros, S.A., a Ahorro Andaluz, S.A., and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A., a Aviva Europe, SE insurance companies classified as associates at 31 December 2017. After obtaining control of the companies, the Bank intends to transfer its majority shareholdings in each, so they have been classified as discontinued operations (see Note 17.5.2.).

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

(2) Principles, accounting policies and measurement applied

A summary of the main accounting policies and measurement bases applied to prepare Bankia's financial statements for the year ended 31 December 2018 is as follows:

(2.1) Business combinations, and investments in subsidiaries, joint ventures and associates

(2.1.1) Business combinations

A business combination is a transaction or other event in which an acquirer gains control of one or more businesses. For these purposes, an entity controls another when it has the power to govern its financial and operating policies, under a statue or an agreement, so as to obtain benefits from its activities.

A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

In particular, the acquisition of control over an entity is considered a business combination.

The business combinations through which the Group acquires control of an entity or economic unit are recognised for accounting purposes using the acquisition method, the main phases of which are summarised as follows:

- Identifying the acquirer
- Determining the acquisition date
- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Other than the exceptions provided for in IFRS 3, in general, identifiable assets, liabilities and contingent liabilities of the entity or business acquired are measured at fair value when control is acquired.
- Recognising and measuring goodwill or a gain from a bargain purchase in the consolidated income statement comparing the price paid in the business combination and the initial value of the identifiable assets, liabilities and contingent liabilities of the acquired business.

In situations in which the Bank obtains control of an acquiree in which it holds an equity interest immediately prior to the acquisition date (a business combination achieved in stages), its equity interests in the acquire, previously held at fair value at the acquisition date, are remeasured and the resulting gains or losses, if any, are recognised in the consolidated income statement.

In the case of business combinations carried out without transferring consideration, such as business combinations achieved by contract alone, the Group recognises, where applicable, the amount of the net assets and liabilities of the acquiree applying the policies and bases contained in IFRS 3 (in general and with the exceptions established in IFRS 3) at fair value in the Group's equity, such that any goodwill or gains arising from the purchase are not recognised in business combinations of this type.

(2.1.2) Subsidiaries, Joint ventures and associates

(2.1.2.1) 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 these entities.

Investments in Bank entities are shown in these financial statements under "Investments in subsidiaries, Joint Venturesand 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 2018, there were no major restrictions on the transfer of funds from subsidiaries to the parent, either as dividends or repayment of loans or advances.

(2.1.2.2) 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 financial statements, the party to joint operations recognises, according to their nature and in accordance with applicable framework:
    - its assets, including its share of the joint ventures 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 (jointly-controlled entities), 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 in its separate financial statements using the equity method, net of any impairment of the investments.

Investments in joint ventures entities is showed in the part “Investments in subsidiaries, joint ventures and associates – Joint ventures” 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 2.19.

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.

(2.1.2.3) Associates

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

The 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 subsidiaries, joint ventures 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 2.19.

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

Relevant information on associates is provided in Appendix II and III.

At 31 December 2018, the Bank's investments in entities in which it holds an equity interest of over 20% that have not been classified as investments in associates on its balance sheet are immaterial and relate primarily to entities under the management of a bankruptcy administrator.

(2.2) Financial instruments:

(2.2.1) 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 currency market and 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.

(2.2.2) Derecognition of financial instruments

A financial asset is derecognised 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.

(2.2.3) 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").

Bankia 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 2018 and 2017.

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 in Circular 4/2017, 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.

(2.2.4) Classification and measurement of financial assets and liabilities

Financial instruments are classified in the Bank's balance sheet as follows:

- **Financial assets at amortised cost:** financial assets classified in this category present contractual terms that result in cash flows that are solely payments of principal and interest on the principal amount outstanding and are managed within a business model whose objective is to hold assets to collect their contractual cash flows.

  This category includes debt securities, financing granted to third parties in connection with ordinary lending activities carried out by Bank companies and receivables from purchasers of their goods and users of their services, provided the assets are managed within a business model of holding the financial assets in order to collect their contractual cash flows and the cash flows are solely payments of principal and interest on the principal amount outstanding. It 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 transactions costs that are directly attributable to the acquisition of the financial asset, which are allocated to the income statement using the effective interest method through maturity. Unless there is evidence to the contrary, the fair value at initial recognition is the transaction price; i.e. the fair value of the consideration given.

  As an exception to the preceding paragraph, trade receivables that do not contain a significant financing component are measured initially at their transaction price. In addition, trade receivables that have a significant financing component with an original maturity of less than one year may be recognised initially at their transaction price.

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.

Subsequently, all financial assets included in this category are measured at their amortised cost, calculated using their effective interest rate.

The interest accrued on these assets from their initial recognition, calculated using the effective interest method, and is 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 out in Note 2.4. Any impairment losses on these assets is recognised Note 2.9. Debt securities included in fair value hedges are recognised in Note 2.3.

- **Financial assets at fair value through other comprehensive income:** this category includes debt securities whose contractual terms result in cash flows that are solely payments of principal and interest on the principal amount outstanding, are managed within a business model whose objective is to hold assets to collect their contractual cash flows, and give rise to cash flows from the sale of those assets.

  It also includes equity instruments that are not related to subsidiaries, joint ventures or associates, voluntarily and irrevocably designated initially in this category and that shall not be classified as held for trading.

  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, 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.

  After acquisition, the financial assets included in this category are measured at fair value.

  Changes in the fair value of financial assets classified as at fair value through other comprehensive income are recognised with a balance entry in "Accumulated other comprehensive income" in the balance sheet until the financial asset is derecognised, in the case of debt instruments, and in an item of reserves, in the case of investments in equity instruments. Any impairment losses on these instruments are recognised as set out in this Note. Exchange differences on financial assets denominated in currencies other than the euro are recorded as set out in Note 2.4. Changes in the fair value of financial assets hedged in fair value hedges are recognised as explained in Note 2.3.

  The interest accrued on debt instruments calculated using the effective interest method is recognised under "Interest income" in the income statement. Dividends accrued on equity instruments classified in this category are recognised under "Dividend income" + in the income statement.

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

  - **Financial assets held for trading:** those acquired with the aim of selling them in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and derivatives that have not been designated as hedging instruments, including those separated from hybrid financial liabilities.

  - **Financial liabilities held for trading:** 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 received on loan or to secure sales rights, and derivatives not designated as hedging instruments, including those separated from hybrid financial liabilities pursuant to applicable regulations.

  - **Non-trading financial assets mandatorily at fair value through profit or loss:** includes debt instruments that cannot be classified as at amortised cost or fair value through changes in other comprehensive income because, due to their contractual terms, they give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

    This category also includes equity instruments that are not related to subsidiaries, joint ventures or associates that should not be classified as held for trading and have not been voluntarily and irrevocably been designated initially as at fair value through other comprehensive income.

- **Financial assets and financial liabilities designated as at fair value through profit or loss:** this includes, among others, financial assets designated voluntarily and irrevocably initially as at fair value through profit or loss if by doing so it eliminates or significantly reduces accounting mismatches, and hybrid instruments composed simultaneously of an embedded derivative and a host financial liability not held for trading that meets the requirements for accounting for the embedded derivative separately from the host financial instrument.

Financial assets and liabilities classified as held for trading, non-trading financial instruments mandatorily measured at fair value through profit or loss, and financial assets and financial liabilities designated at fair value through profit or loss are measured initially at fair value, with any subsequent changes in fair value recognised with a balancing entry in “Gains or losses on financial assets and liabilities held for trading, net”, “Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net” and “Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net” in the income statement, except for fair value changes due to returns accrued on the financial instrument other than from trading, which are recognised under “Interest income”, “Interest expenses”, and “Dividend income” in the income statement, depending on their nature. Returns on debt instruments included in this category are calculated using the effective interest method.

The amount of the change in fair value attributable to changes in the own credit risk of financial liabilities designated as at fair value through profit or loss is recognised in “Accumulated other comprehensive income” in the balance sheet, unless it would create or enlarge an accounting mismatch, which must be appropriately documented and justified. In this case, the entity may elect to recognise the full amount of the change in fair value initially and definitively in profit or loss.

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

  This category also includes financial liabilities arising from issues of contingent convertible bonds convertible into ordinary Bankia shares.

  The financial liabilities included in this category are initially measured at fair value adjusted by the amount of transactions costs that are directly attributable to the issue of the financial liability, which are allocated to the income statement using the effective interest method defined in prevailing regulations through maturity. They are subsequently measured at amortised cost using the effective interest method.

  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 2.4. Financial liabilities included in fair value hedges are recognised as explained in Note 2.3.

Assessment of business models

The business model refers to how the Bank manages its financial assets in order to generate cash flows. The assessment of the business model of the various financial assets recognised in the balance sheet is performed at the level that best reflects how groups of financial assets are managed together to achieve a particular objective.

Accordingly, the assessment is not carried out on an instrument-by-instrument basis, but rather on a higher level of aggregation, based on the following factors:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to Management.

- The risks that affect the performance of the business model and the way in which those risks are managed.

- How managers and Management in charge of these businesses models are compensated.

Contractual cash flow characteristics

The second step in the process carried out by the Bank to classify financial assets is to assess whether the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest, which also include the consideration for other risks (e.g. liquidity risk) and costs.

However, if a contractual cash flow characteristic could have an effect on the contractual cash flows that is more than de minimis or that cash flow characteristic is genuine, and introduces exposure to risks or volatility that is unrelated to a basic lending arrangement, it does not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Nevertheless, financial instruments that should be considered as non-current assets held for sale in accordance with Circular 4/2017 are recognised in the financial statements as explained in Note 2.19.

(2.2.5) Reclassification of financial instruments between portfolios

When, and only when, the Bank changes its business model for managing financial assets, it reclassifies all affected debt instruments. On the basis that a change in the business model is considered to be exceptional or infrequent.

The Bank has defined the following business models:

- Hold assets in order to collect contractual cash flows, whose objective is to hold financial assets to maturity in order to collect the contractual cash flows. Some sales are permitted, if those sales are infrequent or insignificant in value or insignificant in value or that irrespective of their frequency and value are carried out due to an increase in the assets' credit risk.

- Hold assets in order to collect contractual cash flows and sell financial assets, whose objective is to hold financial assets to maturity, but also to sell them in order to realise the contractual cash flows by selling them. These financial assets are measured at fair value through other comprehensive income.

- Hold assets for sale, whose objective is to manage the financial assets in order to realise cash flows by selling them, which normally involves frequent purchases and sales of the assets. These financial assets are measured at fair value through profit or loss.

The following diagram illustrates potential reclassifications of debt instruments among categories:

Reclassification to:	Reclassification to: Fair value through profit or loss	Reclassification to: Fair value through other comprehensive income	Reclassification to: Amortised cost
Fair value through profit or loss		▪ Fair value at the date of reclassification as gross carrying amount ▪ Recognition of subsequent changes in fair value in accumulated other comprehensive income	▪ Fair value at the date of reclassification as gross carrying amount
Fair value through other comprehensive income	▪ Fair value at the date of reclassification as gross carrying amount ▪ Reclassification of the amount accumulated in accumulated other comprehensive income to profit or loss at the date of reclassification		▪ Fair value at the date of reclassification as gross carrying amount, adjustment for the elimination of the amount accumulated in other comprehensive income (which coincides with amortised cost) ▪ No changes are made to the effective interest rate or expected credit losses
Amortised cost	▪ Fair value at the date of reclassification as gross carrying amount ▪ Recognition of the difference between amortised cost and fair value in profit or loss	▪ Fair value at the date of reclassification as gross carrying amount ▪ Recognition of the difference between amortised cost and fair valur in accumulated other comprehensive income ▪ No changes are made to the effective interest rate or expected credit losses	

There have been no changes in the Bank's business model during the period, and therefore no reclassification of debt instruments.

In no circumstance does the Bank reclassify derivatives to a category other than fair value through profit or loss, nor does it reclassify any financial liabilities.

Reclassification to fair value through profit or loss is not allowed for equity instruments not held for trading and irrevocably designated at initial recognition as measured at fair value through other comprehensive income.

Similarly, the Bank does not reclassify equity instruments measured at fair value through profit or loss to financial assets at fair value through other comprehensive income.

(2.3) Hedge accounting and mitigation of risk

The Bank has elected to continue applying the alternative recognition and measurement criteria for hedges included in sections 28 to 42 of rule 31 of Circular 4/2017.

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 the apllicable accounting regulation, 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 enters into hedges on a transaction-by-transaction basis in accordance with criteria explained previously, 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.

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.

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.

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 income statement.

  The Bank applies hedge accounting to reduce the risk that the fair value of fixed-rate assets and liabilities will fluctuate as if they were instruments indexed to a floating interest rate. The Bank only hedges changes in the fair value of the hedged instrument attributed to changes in the reference rate, which constitutes the main element of the total fluctuation in the fair value of the hedged item.

  The Group uses the hypothetical derivative method to assess effectiveness, by comparing changes in the fair value of the hedging instruments and hedged items attributable to the change in the reference rate, as explained for fair value hedges. This method implies modelling a derivative instrument whose characteristics perfectly match those of the hedged risk, so that the change in the fair value of the hypothetical derivative should be equivalent to the change in the present value of the expected future cash flows of the hedged item. The measurement of hedge ineffectiveness is based on a comparison between the changes in the fair of the derivative actually entered into as a hedge and the changes in the fair value of the hypothetical derivative

  The Bank also matches the principal of the hedging instruments with the principal of the hedged items.

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

  - -Financial assets at fair value through profit or loss: fixed-rate debt securities, whose risk is hedged with interest rate derivatives (basically swaps).

  - Financial assets at amortised cost: fixed-rate loans, whose risk is hedged with interest rate derivatives (basically swaps).: financial liabilities at amortised cost:

  - Long-term fixed-rate deposits and marketable debt securities issued by the Group, whose risk is hedged with interest rate derivatives (basically swaps).

  The main reason for the ineffectiveness of this type of hedge may arise from the divergence between payment dates of the hedging instruments and the use of different interest rate curves for the discount of the hedging instruments and the hedged item.Specifically, for financial instruments designated as hedged items and hedges, the differences in value are recognised as follows:

  - The gains or losses arising on both the hedging instruments and the hedged items associated to hedged risk are recognised directly in the income statement. The balancing entry of changes in fair value of the hedged item attributable to hedged risk is recorded as an adjustment to fair value of the hedged instrument.

  - When hedge accounting is discontinued for a fair value hedge, in the case of hedged items at amortised cost, the value adjustments made as a result of the hedge accounting 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.

- **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 profit or loss.

The Bank applies hedge accounting to reduce the risk that the cash flows of floating-rate assets and liabilities will fluctuate as if they were instruments indexed to a fixed interest rate.

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

- Financial assets at fair value through other comprehensive income: Floating-rate debt securities, whose risk is hedged with interest rate derivatives (basically swaps).

- Financial assets at amortised cost: Floating-rate loans, whose risk is hedged with interest rate derivatives (basically swaps).

The Bank uses the hypothetical derivative method to assess effectiveness, by comparing changes in the fair value of the hedging instruments and hedged items attributable to the change in the reference rate, as explained for fair value hedges. The cash flow hedges entered into by the Bank relate entirely to transactions in which the hedged transaction matches the hedging derivative. As a result, no significant causes of ineffectiveness for this type of hedge have arisen.

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

- The gains or losses attributable to the portion of the hedging instruments that qualifies as an effective hedge are recognised temporarily in equity under “Accumulated other comprehensive income - Items that may be reclassified to profit or loss - Hedging derivatives. Cash flow hedges [effective portion”. Financial instruments hedged in this type of hedging transaction are recognised as explained in “Classification and measurement of financial assets and liabilities”, with no change made to the recognition criteria due to their consideration as hedged items.
- As a general rule 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.
- 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 cumulative gain or loss on the hedging instrument recognised in equity under “ Equity - Accumulated other 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.

- **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 Group whose activities are based or undertaken in a different country or in a currency other than the euro. The treatment for this type of hedge is the same as for cash flow hedges.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.

(2.4) Foreign currency transactions

(2.4.1) 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 2018 and 2017 denominated in foreign currency is as follows:

(Thousands of euros)

	31/12/2018		31/12/2017	
ITEM	Assets	Liabilities	Assets	Liabilities
Balances in US dollars				
Cash, cash balances at central banks and other demand deposits	79,109	-	67,497	-
Finacial assets and liabilities held for trading	187,719	104,014	213,706	123,457
Financial assets at amortised cost	1,522,615	-	1,337,832	-
Financial liabilities at amortised cost	-	984,708	-	1,013,310
Available-for-sale financial assets	25,123	-	20,854	-
Other	3,420	27,789	6,926	37,688
Total	**1,817,986**	**1,116,511**	**1,646,815**	**1,174,455**
Balances in pounds sterling				
Cash, cash balances at central banks and other demand deposits	4,732	-	11,936	-
Financial assets and liabilities held for trading	104,020	106,939	124,143	126,094
Financial assets at amortised cost	160,692	-	123,716	-
Financial liabilities at amortised cost	-	96,180	-	206,178
Other	3,784	42	76	112
Total	**273,228**	**203,161**	**259,871**	**332,384**
Balances in other currencies				
Cash, cash balances at central banks and other demand deposits	21,812	-	28,807	-
Finacial assets and liabilities held for trading	791	2,176	21,836	20,094
Financial assets at amortised cost	119,868	-	152,277	-
Financial liabilities at amortised cost	-	64,346	-	45,954
Other	226	2,843	-	9,699
Total	**142,697**	**69,365**	**202,920**	**75,747**
Total foreign currency balances	**2,233,911**	**1,389,037**	**2,109,606**	**1,582,586**

(2.4.2) 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.

(2.4.3) 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.

(2.4.4) Recognition of exchange differences

Exchange differences arising on translating foreign currency balances into the functional currency of entities 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 "Accumulated other comprehensive income- Items that may be reclassified to profit or loss-Foreign currency translation" in the balance sheet until they are realised.

(2.5) Recognition of income and expenses

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

(2.5.1) 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 Circular 4/2017. Dividends received from companies other than those within the scope of consolidation of the Bank are recognised as income when the entities' right to receive them arises.

However, when a debt security is assessed to be impaired individually or collectively because recovery is considered unlikely, except for purchased or originated credit-impaired financial assets, the interest accrued in the income statement is the result of applying the effective interest rate to amortised cost (i.e. adjusted for any loss allowance), recognising an impairment loss for the same amount.

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.

(2.5.2) 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.

(2.5.3) Non-finance income and expenses

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

(2.5.4) Deferred income and accrued expenses

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

(2.6) Offsetting

Asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, when, and only when, they arise from transactions in which a contractual or legal right of set-off exists and the Bank intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

In this regard, “offsetting" is not considered when presenting the financial assets subject to valuation adjust.ents for decline in value or impairment, i.e. net of these adjustments, in the financial statements under Bank of Spain in Circular 4/2017.

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.

(2.7) 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:

    - If Bankia does not retain control of the transferred financial asset, the transferred financial assets is derecognised and any right or obligation retained or created as a result of the transfer is recognised.

    - If 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 2018 and 2017 year end which did not lead to the de-recognition of the related assets.

(2.8) 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 entities 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 in Circular 4/2007, 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.

(2.9) Impairment of financial assets

Debt instruments measured at amortised cost or at fair value through other comprehensive income

The entry into force of Circular 4/2017 has resulted in a substantial change to the impairment model, replacing the incurred loss approach included in Circular 4/2004 with an expected loss approach.

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

The criteria for assessing and classifying transactions in the financial statements in accordance with their credit risk includes both the credit risk attributable to insolvency and the country risk to which the transactions are exposed. For those credit transactions that are expose to both credit risk attributable to insolvency and country-risk are classified in the category attributable to insolvency risk. Notwithstanding, impairment losses attributable to insolvency are estimated on country-risk basis when the latter requirements are more stringent.

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

A) Classification of transactions for credit risk attributable to insolvency

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

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

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

Significant increase in credit risk

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

To perform this assessment from a quantitative perspective, the Bank has developed a specific approach for comparing probability of default (PD), whereby current PD is compared to the original PD associated with the rating level at inception. If the assessment shows an increase above absolute and relative thresholds, the Bank considers that there has been a significant increase in the risk of the instrument. These thresholds were calibrated in accordance with the criteria set out in the Bank's Risk approval policy and consider the individual characteristics of the loan portfolios. For purposes of comparison, the Bank availed of the simplification allowed in the standard, which entails changes in the risk of a default occurring over the next 12 months as a reasonable approximation to changes in lifetime risk of default of the instrument.

The Bank's credit risk management systems also include other quantitative and qualitative components which, combined or separately, could give rise to consideration that the credit risk of the financial instrument has increased significantly. such as adverse changes in the borrower's financial position, downgrades in credit rating, unfavourable changes in the sector in which they operate, their regulatory or technological environment, among others, that do not provide evidence of impairment.

Irrespective of the assessment based on probability of default and indications of deterioration in the credit risk of the exposure, a significant increase in credit risk is determined in transactions presenting the following circumstances:

- More than 30 days past due rebuttable assumption, based on reasonable and supportable information. The Bank has not applied a longer period of time for these purposes.
- Refinance or restructuring that does not present evidence of impairment. Appendix VIII shows the classification and allowance policies and criteria applied by the Bank for this type of transactions.
- Special debt sustainability agreement that does not present evidence of impairment until the cure criteria is applied.

- Agreements with issuers or holders involved in a creditors' agreement that do not present evidence of impairment.
- Repeat default or increase in the default ladder that does not present evidence of impairment of mortgage loans extended to individuals.
- Transactions with companies classified in risk-monitoring levels I and II, provided they are not classified as doubtful or assessed collectively.
- Transactions considered that there has been a significant increase in risk caused by an increase in PD from the grant date (increase established in the Bank's policies).

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

Default and credit-impaired financial assets

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

In this respect, the Bank considers that default occurs in credit exposures in the following circumstances:

- More than 90 days past due. This includes all transactions of an obligor when the amount of balances more than 90 days past due exceeds 20% of the amount outstanding.
- There are reasonable doubts that the full amount of the asset will be repaid.

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

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

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

In any case, the Bank's definitions of default and credit-impaired asset are aligned.

B) Approaches for estimating expected credit losses attributable to insolvency

The estimation of expected credit losses considers the following aspects, among others:

- The existence of several possible outcomes for determining the various weights based on the probability of occurrence of the various scenarios.
- The time value of money.
- The estimation is based on the latest available information without undue cost or effort, reflecting past events, current conditions and forecasts of future economic conditions.

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

B.1) Individual estimation of allowances and provisions

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

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

- All borrowers that exceed the aforementioned threshold and classified as Stage 3 - Doubtful exposure determined by expert judgement, including borrowers classified as Stage 3 – Doubtful exposure for reasons other than arrears, or in Stage 2 – Standard exposure under special monitoring, except those classified on the basis of automatic classification factors.
- Also subject to individual assets are borrowers with transactions identified as having low risk classified as Stage 3 – Doubtful exposures but below the threshold of significance.

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

- Forecast future cash flows: considering all amounts the Bank expects to obtain over the instrument's remaining term. For this, it considers both going concern and gone concern; i.e. settlement and enforcement of collateral.
- Credit exposure: carrying amount of transactions at the calculation date and off-balance sheet amounts expected to be disbursed in the future. To estimate the amounts of off-balance-sheet exposures expected to be disbursed bearing credit risk, a credit conversion factor (CCF) is applied to the nominal amount of the transaction.

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

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

B.2) Collective estimation of allowances and provisions

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

The calculation of collective allowances of significant portfolios for which sufficient information is available is made using internal models. Its use has been approved by the Board of Directors following the mandatory internal validation process.

In accordance with applicable regulations and followed by the required approval by the Board of Directors and the corresponding internal validation process, at 1 January 2018, the Bank implemented the use of internal methods to carry out collective estimates of allowances for credit losses. In line with the Bank’s internal models for estimating capital requirements, this internal methodology includes the calculation of losses, based on internal data, through own estimates of credit risk parameters.

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

a) *Criteria of grouping transactions*

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

Bankia uses certain factors to group these assets in clusters, including:

- Type of borrower or issuer.
- Type of transaction.
- Type of guarantee or collateral.
- Amount of time classified in Stage 3 – Doubtful exposure.

b) *Risk parameters*

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

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

c) *Scenarios and use of forecasts of future economic conditions*

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

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

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

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

- Gross Domestic Product ("GDP").
- No. of Social Security registrations.
- House prices.

C) *Credit risk attributable to country risk*

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

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

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

(2.10) 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.

In accordance with Bank of Spain Circular 4/2017, 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 the Bank 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 liabilities 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 liabilities side of the balance sheet at the higher of the following two amounts:

- The amount determined in n Appendix IX of Bank of Spain Circular 4/2017 in this estimate. 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 4/2017, 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 liabilities side of the balance sheet, are reclassified to the appropriate provision.

(2.11) Accounting for leases

(2.11.1) 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 act as lessors 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 “Financial assets at amortised cost” in the balance sheet based on the type of lessee.

When the Bank act as the lessees in a finance lease transaction, they present the cost of the leased assets in the balance sheet, based on the nature of the leased asset, and, simultaneously, recognise 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 2.15).

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to “Interest income” and “Interest expenses”, respectively, in the income statement and the accrued interest is estimated using the effective interest method as defined in Bank of Spain in Circular 4/2017.

(2.11.2) 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 act as lessors in operating leases, they present 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 act as the lessees 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).

(2.11.3) 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 2.11.1 and 2.11.2 above.

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

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 shall be recognised immediately in the income statement, except that, if the loss is offset by future lease payments at below market price, it shall 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.

(2.12) Investment funds, pension funds and saving insurance marketed and sold by the Bank

Assets managed by the Bank and owned by third parties are not shown on the balance sheet. Fees and commissions generated on this activity are included under “Fee and commission income” in the income statement. Note 25.3 provides information on third-party assets managed by the Group at 31 December 2018 and 2017.

Investment funds and pension funds managed and savings insurance marketed and managed by the Bank are not shown on the Bank’s balance sheet because the related assets are owned by third parties (see Note 25.3). Commissions accrued in the year from services provided by Group companies to these funds (e.g. asset management services, portfolio deposit) are recognised in “Fee and commission income” in the income statement (see Note 33).

(2.13) Staff costs

(2.13.1) Post-employment benefits

(2.13.1.1) 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 contributions to a separate entity and will have no legal or effective obligation to pay further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. 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, insurance policies and the internal fund.

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

(2.13.1.2) Description of the post-employment obligations undertaken by the Entity

The post-employment obligations assumed by the Bank with employees and their characteristics:

- 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 2018, there were 5 employees with defined-benefit obligations for retirement (of which were pre-retired). These obligations are covered with the pension plan or insurance policies.

  Vested 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.

(2.13.1.3) 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
- actuarial assumptions, which when determined:
    - 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 rate used to discount cash flows is based on market rates for issues of high-rated bonds at the date of the financial statements corresponding to the issuance of high quality bonds or obligations.

(2.13.1.4) 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 2018 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 2018, 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; and,
    - 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 4/2017, 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).

(2.13.2) 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.

(2.13.2.1) Pre-retirements and partial retirements

At 31 December 2018, these commitments were covered by insurance policies and an internal fund.

(2.13.2.2) 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.

(2.13.2.3) 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%.

(2.13.2.4) 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”.

(2.13.2.5) 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.

(2.13.2.6) 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 1.15), 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. The collective procedure includes up to a maximum of 2,000 Bank employees, along with geographical mobility arrangements.

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

At 31 December 2018, 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).

(2.13.2.7) 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 2018 to cover these obligation was EUR 5,020 thousand(EUR 2,166 thousand at 31 December 2017, of which EUR 4,429 thousand were covered by the Bankia Group Employee Pension Plan and EUR 591 thousand recognised under "Administrative expenses – Staff costs" in the income statement).

(2.13.3) 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.

Where appropriate, 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.

(2.13.4) 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 2.13.2 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 2018 (see Note 19).

(2.14) Income tax

Expenses for Spanish corporate income tax and similar taxes levied on foreign subsidiaries 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 carry forwards 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. In any case, there will be no 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 2018.

(2.15) Tangible assets

(2.15.1) 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 entities 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,
- If relevant, 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 entities assess at the reporting date whether there is any internal or external indication that an intangible 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 "" in the income statement.

Similarly, if there is an indication of a recovery in the value of an impaired tangible asset, the entities 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” 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 income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses on tangible assets for own use are recognised as an expense in the income statement in the period in which they are incurred.

Tangible assets that require more than one year 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.

The Bank’s buildings for own use that are no longer part of its branch network and that, under 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 are measured as described in Note 2.19.

(2.15.2) 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 2.15.1).

However, in the process for estimating impairment losses on investment properties foreclosed or received in payment of debt (see Note 2.20) reclassified from non-current assets held for sale to investment properties, among others, when the property is earmarked for lease, when determining the appropriate method for estimating fair value, the Bank assesses whether the lease transaction satisfies the follow two requirements:

a) The lessee's ability to pay is sufficient to service the lease payments; and

b) The lease price indicates that the market value of the leased asset is above its carrying amount

If either of these two requirements is not met, fair value is estimated as explained in Note 2.19 for investment properties foreclosed or received in payment of debt classified as non-current assets held for sale.

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.

(2.15.3) 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 2.15.1).

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 2.15.2 above, taking into account for impairment purposes the effect arising from the rent expected to be received from their lease.

(2.16) 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 entities. Only intangible assets whose cost can be estimated reasonably objectively and from which the entities consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any 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.

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 different companies of the Bank, have an average useful life of 10 years.

The estimated useful life of these assets is periodically updated through an individual analysis of the different items. Relevant considerations here include the type of software or application, its functional and technical status or their alignment with business strategy. According to applicable accounting standards, changes in the useful life are applied prospectively over the estimated years of useful life remaining. In 2018, the useful lives of intangible assets were updated. This did not have a material impact on the income statement.

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 2.15.1).

(2.17) Non financial guarantees provided

The guarantees or guarantee agreements in which the Bank undertakes to compensate an obligee in the event of non-compliance with a specific obligation other than a payment obligation by a particular debtor of the obligee, 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 purpose of preparing these financial statements, to be 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 in the income statement 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 (or, if applicable, using another method which must be indicated). In the event that, in accordance with Bank of Spain 04/2017, 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 the aforementioned provision.

(2.18) 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 entities.

The Bank's financial statements include all significant provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, but rather are disclosed in accordance with the requirements of Bank of Spain Circular 4/2017.

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 4/2017, 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.

(2.18.1) Legal proceedings related to the 2011 IPO

Civil proceedings regarding the invalidity of the subscription of shares.

At present, there are claims being processed albeit a small number 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 19.

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.

Summary Procedure 1/2018 arising from Preliminary Proceedings no. 59/2012 in the National Criminal 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. Since retail investors have been reimbursed for virtually the entire amounts invested in the IPO through civil lawsuits or the voluntary repayment process carried out by Bankia, the contingency existing with these is practically resolved.

On 23 November 2018, as part of the civil liability proceedings, a bail deposit of EUR 38.3 million was set. At present, requests for bail deposits amounting to EUR 5.8 million had been issued for which a ruling by the Court is pending.

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 19.

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 19, 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.

The trial began on 26 November 2018 and is expected to run, at least, through the first half of 2019.

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

- In the two separate cases regarding preferred securities of Caja Madrid and Bancaja, a ruling was issued on 17 May 2018 closing these cases, concluding that sufficient proof had not been provided of the existence of the crime of fraud in the issuance and marketing of preferred participating securities, knowing that investors would lose their investment.

  Individual plaintiffs have appealed the rulings, not the Tax Ministry, which have been opposed by Bankia and BFA -not considered defendants-.

- In the separate case related to credit cards, the Supreme Court issued a ruling on 3 October 2018 upholding the sentence handed down on 23 February 2017 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.

  On 26 November 2018, an enforcement decree was issued opening the individual subsidiary civil liability cases of each convicted party, determining and establishing the amounts payable by them.

The Bank considered the lawsuit included in preliminary proceedings No. 59/2012 as a contingent liability with an uncertain outcome. Note 19 provides additional information on the current status of the proceeding and the criteria applied by the Bank in its accounting treatment.

(2.18.2) Other court proceedings / claims in process

At year-end 2018, 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 Bank 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 material 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. Although two class actions rejecting the proposed actions have concluded over the past year.
- Claims seeking nullity of floor clauses. There were 6,415 legal proceedings underway regarding individual actions seeking nullity at 31 December 2018. Bankia, in addition to virtually all Spanish financial institutions, is also being sued in a class action brought by ADICAE being processed in Madrid mercantile court 11, under case no. 471/2010. On 12 November 2018, Section 28 of the Madrid Regional Court issued ruling no. 603/2018 rejecting the appeals filed by the financial institutions against the ruling in first instance partially upholding the claim. This ruling upholds the injunctions and restitution of amounts exercised by ADICAE and, as a result, ordering the defendants (including Bankia in its own name and as successor of Banco Mare Nostrum, SA [BMN]) (i) to eliminate the floor clauses in contracts with consumers and (ii) to reimburse the amounts paid as a result of these

stipulations, with no statute of limitations. The main argument for the declaration of nullity is the abstract of judgement of material or substantive transparency after an examination of each bank's standard loan arrangement practices. The analysis focused primarily on the wording and contractual treatment of the floor clause in the contract clauses with a view to determining whether, in the eyes of the average consumer, there was a lack of transparency. The implications of the sentence, without prejudice to potential appeals before the Supreme Court, are limited for Bankia because of the out-of-court procedure. Nevertheless, the ruling of the Madrid Regional Court does not have any automatic effects on all consumers, especially with respect to the claim for restitution of the amounts paid which, as appropriate, must be addressed in enforcement of the ruling on a case-by-case basis.

- Lawsuits presented in connection with mortgage arrangement fees. At 31 December 2018, a total of 16,367 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.

Other lawsuits

- Lawsuits filed in accordance with Law 57/68. At 31 Decemeber 2018, there were 691 legal proceedings in progress.
- Lawsuits related to derivatives. There were 262 legal proceedings in progress at 31 December 2018.

Lawsuits filed against Bankia S.A. and others, in Court of first instance No. 48 in Madrid: declaratory procedure against Bankia seeking compliance with the comfort letter by his obligations 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 and 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.

On 25 June 2018, Central Court of Instruction 1 issued a ruling rejecting the appeal filed by Fundación Bancaja de carácter especial de la Comunidad de Valencia against the ruling of 13 December 2017 holding it subsidiarily liable. Therefore, Fundación Bancaja remains subsidiarily liable, along with BFA and Bankia.

On 1 October 2018, the court issued a ruling requiring the parties to submit a request for stay or continuance of the summary process. BFA and Bankia have requested the stay. The Tax Minister requested an extension of the pre-trial stage to complete outstanding actions (i.e. take statements by Banco de Valencia managers).

On 19 October 2018, a ruling was issued rejecting the FROB's appeal against the ruling upholding BFA's subsidiary civil liability, with a dissenting vote implying that the FROB -a public body- cannot be included in the proceedings because subsidiary civil liability is required of BFA, in which it has 100% ownership.

- Complaint presented before 481/14 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. The ruling of 28 February 2018 of section 6 of the Madrid Regional Court resolves the appeals and confirms, definitively, the inadmissibility of the file to extend the scope of the lawsuit of the developer.

  Pending in these proceedings are the procedural appeals filed by the accused and investigated parties –first before Court of Instruction 1 of Coslada and second before the Regional Court- against the Transformation Ruling of 17 January 2018 dropping the suit against former Caja Madrid employees and not seeking subsidiary civil liability against Bankia.

- Appeals against the forfeiture of construction and operation surety bonds issued to toll road concessionaires, particularly against the following resolutions of the Council of Ministers:
  - Of 20 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the Alicante ring-road toll highway, the El Campello toll-free bypass, and ordering the forfeiture of the surety bonds deposited with the government by concessionaire Ciralsa, S.A. (five guarantees issued by CaixaBank for half and jointly and severally to the debtor).
  - Of 13 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the Madrid to Guadalajar section of the R-2 toll road and the Madrid M-50 ring road, sub-section from the N-II to the N-1 highways, and ordering the forfeiture of the bonds deposited with the government by concessionaire Autopista del Henares, S.A. (nine guarantees issued solely by CaixaBank).
  - Of 13 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the following sections: M-40 Arganda del Rey, of the R-3 toll road direction Madrid to Arganda del Rey; M-40 Navalcarnero, of the R-5 toll road, direction Madrid to Navalcarnero, and of the M-50 between the A-6 highway and the M-409 highway, and ordering the forfeiture of the bondes deposited with the government by concessionaire Accesos de Madrid, Concesionaria Española, S.A. (ten guarantees issued solely by Bankia).
  - Of 20 July 2018, terminating the concession arrangement for the construction, maintenance and operation of the Madrid to Guadalajar section of the A-10 toll road and the Madrid M-40 ring road, sub-section from the N-II to the N-1 highways, and ordering the forfeiture of the bonds deposited with the government by concessionaire Autopista del Henares, S.A. (one guarantee issued solely by Bankia)).

Administrative appeal filed before the Supreme Court agreeing the injunction on the suspension of the effectiveness of the agreement.

(2.19) Non-current assets and disposal groups classified as held for sale and discontinued operations

"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. 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.

In general, non-current assets and disposal groups 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. As long as they are classified in this category, the tangible and intangible assets, which by their nature would be depreciable, are not depreciated.

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 counterpart in the same heading of 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 operxations” 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.

Income and expenses of components classified as discontinued operations are shown, net of the related tax effect, under “Profit or (-) loss after tax from discontinued operations” in the income statement.

Assets foreclosed or received in payment of debts by the Bank, for the full or partial settlement of debtors’ payment obligations, are considered non-current assets held for sale unless the Bank has decided to make continuing use of the assets or to hold them to earn rentals and/or for future capital appreciation, in which case they are measured as described in Note 2.15.

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

– Financial assets recognised at carrying amount.

– Fair value at the time of foreclosure or reception of the asset net of the estimated sales costs.

After initial recognition, the Bank updates the reference value used to estimate fair value less costs to sell, at least annually.

The Bank has devised an internal methodology for estimating discounts on the reference value and costs to sell real estate assets foreclosed or received in payment of debt classified as non-current assets held for sale. This method is based on the Bank’s prior experience of sales of similar assets, in terms of time scales, prices and volumes, and the time taken for their sale. The methodology complies with the principles and requirements governing the development and use of internal methodologies for estimating discounts on the reference value and the cost of sale of foreclosed assets or those received in payment of debt. It has also undergone the necessary internal validation process prior to its approval and use. Application of this standard for the first time 2018 did not have a significant impact on the Bank’s financial statements.

Real estate assets foreclosed or received in payment of debts classified as non-current assets held for sale for which the Group has not attained sufficient sales volume, meaning therefore that its management unit does not possess the sales experience needed to sell or otherwise realise those assets at their fair value, are measured by taking the reference value and applying the percentage discount rates estimated by the Bank of Spain as alternative solutions, based on its experience and the information it holds on the banking sector, as set out in Bank of Spain Circular 4/2017.

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.All expenses related to the administration and management of the assets are recognised in the income in the period in which they are accrued.

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.

(2.20) 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 paragraph i)above are classified, for the purpose of this statement, as operating activities, except for , subordinated financial liabilities and investments in equity instruments at fair value through other comprehensive income 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.
- 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 in subsidiaries, joint ventures and associates , non-current assets held for sale and associated liabilities, equity instruments classified at fair value thorugh other comprehensive income which are strategic investments .
- 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 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.

(2.21) 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 Law 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.

(2.22) 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 2018 and 2017.

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

(2.23) Statement of recognised income and expense and Statement of changes in equity

The main features of the information presented in these statements are set out below:

Statement of recognised income and expense

The statement of recognised income and expense presents the income and expenses generated by the Bank as a result of its business activity in the year. A distinction is made between income and expenses recognised in the income statement, on one hand, and, on the other, income and expenses recognised directly in equity pursuant to prevailing laws and regulations.

Accordingly, this statement presents:

- Profit or loss for the years ended 31 December 2018 and 2017.
- The net revenue or expenses temporarily recognised in equity as valuation adjustments.
- The net revenue or expenses definitively recognised in equity.
- The tax accrued on the items referred to in the preceding two subparagraphs.
- 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 under "Valuation adjustments" are broken down – subject to the constraints set out above – 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 under this item are maintained in this line, 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: comprises 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 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 equity

The statement of changes in equity reflects all the changes in equity, including those due to accounting policy changes and error corrections. This statement accordingly presents reconciliation between the carrying amount of each component of the equity at the beginning and at the end of the period, separately disclosing any change into the following headings:

- Adjustments due to accounting policy changes and error adjustments: includes changes in Bank 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 Board of Directors is responsible for determining the management policy and risk control, and for monitoring the effectiveness of internal control, internal audit, regulatory compliance and systems for risk management, which it carries out through the Audit and Compliance Committee.

The 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 and 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.
   - Descentralization 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:
   - <u>Risk Appetite Framework integrated with the Capital Planning Framework and the Recovery Plan:</u>

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

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

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

     The Recovery Plan, also approved by the Board of Directors, establishes the potential measures to be adopted in a hypothetical crisis situation, that 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 annual budget, beyond the requirement to be commensurate with the risk appetite statement, was drawn up comparing business development proposals with the optimal portfolios provided by the system.

     If any of the key indicators in the Risk Appetite Framework are breached, the Management Committee, as appropriate, will propose to the Risk Advisory Committee, for its analysis and subsequent escalation to the Board of Directors, the actions plans that the Group may undertake to bring the indicators back to normal levels.
   - <u>Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP) adapted to new European Central Bank criteria:</u>

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

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

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

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

- To help to strength the Board of Directors' supervisory function.
- To enhance the supervisor relationship model in terms of risks, thereby improving compliance with SREP recommendations and the Annual Supervision Programme.
- To reinforce the holistic view of risk with a forward-looking approach aligned with a sustainable and profitable business model, embracing the risk culture across the entire organisation.
- To improve the risk control by implementing a new internal control tool (for credit and market risk) that identifies, measures and control the critical risks of key processes.
- To strengthen the credit risk management and control environment within a framework of enhancement that improves the roll-out of the credit growth strategy, in addition to optimisation of the recoveries model.
- To adapt the risk function to a three lines of defence model, thereby complying with prevailing regulations and supervisory expectations.

A crucial aspect is internal risk control, organised in accordance with a three lines of defense system. The first line entails operational areas, business lines or support units, as well as risk areas that directly service the business. All of these are responsible for complying with the risk frameworks, policies and procedures established by the governing bodies.

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

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

Meanwhile, the functions of the Audit and Compliance Committee, which reports to the Board of Directors, include supervising the effectiveness of the Company's internal controls, internal audit (where applicable) and risk management systemsand discussing with the statutory auditor any material weaknesses of the internal control system that may have been detected in the audit, all while safeguarding independence.

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

4. Additionally, 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 Bank, current and future, and its strategy in this regard.
   - The Delegated Risk Committee of the Board of Directors. It 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 Bank.

- 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: Its responsibility is 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.
- 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.
- Risk Control and Oversight Committee: Its risk-related functions include controlling, overseeing and exercising effective challenge to trends in the Group's risk profile, the risk appetite approved by the Board of Directors, and the business model from a holistic and forward-looking perspective, analysing any deviations affecting the Group's risk profile, solvency and/or liquidity, proposing, where necessary, any measures considered appropriate.

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 Bank.
- 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, 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.

(3.1) Exposure to credit risk and risk concentration

(3.1.1) Credit risk management objectives, policies and processes

A. Aim of credit risk management

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 obligations. This risk is inherent to all traditional banking products of financial institutions (loans, credits, financial guarantees given, etc.), and other types of financial assets (debt securities, derivatives and other) and affects financial assets measured at both amortised cost and fair value.

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, under conditions and amounts adjusted to 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.
- Alignment with the Risk Appetite Framework. Policies must be seen as a set of action guidelines and restrictions aimed at ensuring compliance with the Risk Appetite statement approved by the Board of Directors.
- Establishing criteria that feed through to best banking practices. In this vein, specific policies are defined for industries or borrowers that may be sensitive on account of their social implications, such as investments in or financing of controversial businesses, such as arms and ammunition, or that infringe on human rights, or any activity that could compromise the Entity's ethics.
- Transparent environment. It creates a transparent environment, integrating the various systems developed to prevent crimes and correct fraud, acting at all times in compliance with applicable law.
- Stable general approval criteria. Although the specific conditions are subject to change, the general guidelines have a vocation for permanence.
- Adaptation. Segment-specific criteria should combine stability with adaptation to the Group's strategic targets, as well as the prevailing economic environment.
- Adapting price to risk, considering both the customer as a whole and individual transactions, and guaranteeing the achievement of business objectives and coverage of cost of risk Data quality. To assess risk appropriately, sufficient and accurate data are required. Therefore, the coherence and integrity of the data must be assured.
- Two-way relationship with internal scoring systems. On one hand, Policies must establish clear lines of action designed to ensure that the internal scoring systems are fed with accurate and sufficient information to guarantee that they work properly. On the other hand, decisions related to credit risk must be shaped by the rating of the borrower and/or the transactions.
- Continuous monitoring of exposures. Monitoring is underpinned by the allocation of specific management responsibilities for customers/transactions, supported by policies, procedures, tools and systems that allow for their appropriate identification and assessment throughout their life-cycle.
- Fostering the recovery activity. Based on policies, procedures, tools and systems that ensure a flexible and early procedure by the parties, specified in actions and decision-making aimed at minimising the loss from exposures for the Entity.

Moreover, the Group develops credit risk implementation and management based on:

- The involvement of Senior Management in decision-making.
- A holistic view of the Credit Risk Management cycle.
    - Planning the key credit risk metrics to guide the actions of the business and risk-taking.
    - Specialising in each stage of risk management with policies, procedures and resources according to each: approval, monitoring and recoveries.
- An approval policy containing criteria that allows to identify aspects such as, minimum requirements of transactions and customers, the Bank's desired target profile for each type of material risk in line with the Risk Appetite Framework, and the elements or variables to be considered in the analysis and decision-making.
- Preventative customer monitoring system involves all the business units and is integrated in the day-to-day management, and facilitates the Entity's recovery activity in the event of impairment of exposures.
- Flexible recoveries model, adaptable to changes in the regulatory environment.
- Tools to assist risk decision-making and measurement, underpinned by credit quality of exposures (scoring, rating), with a view of objectifying and maintaining a risk management policy attuned with the strategy pursued by the Entity at any given time.

- Clear separation of roles and responsibilities. The Entity understands the risk control function as a function that is spread across the entire organisation and is based on a three-lines-of-defence system, as explained below.
    - First line: Departments that own and manage the risk.
    - Second line: Departments that oversee the risks.
    - Third line: Departments that provide independent assurance.

B. Credit risk management policies

To achieve these objectives, the Group has a "Credit Risk Document Structure" in place, approved by the Board of Directors in May 2018 to replace its previous Credit Risk Statement and Manual, for which the last amendment was authorised by the Board of Directors in December 2017, to reflect the completion of the Bank restructuring plan on 31 December 2017, in addition to the amendments included as a result of the entry into force of Bank of Spain Circular 4/2017 on 1 January 2018 (see Note 1.3.1).

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

- The Credit Risk Policies, Methods and Procedures Framework contains criteria and guidelines to ensure adequate management of the approval, monitoring and recovery process and the proper classification and coverage of transactions over their entire life cycle and, it also allows the Bank to establish high-level action limits by setting general principles that are adjusted accordingly in the policies.
- The Credit Risk Policies contain a set of rules and main instructions governing the management of credit risk. They are effective and consistent with the general principles set out in the Policies Framework and in the Risk Appetite Framework and are applied across the entire Group. They are used internally to create and develop rules and regulations on risks when it comes to competencies related to risk strategy, implementation and control.
- The Specific Criteria Manuals they provide a detailed description of the criteria set out in the policies regulating the activities carried out by the Group. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously put in place by minimising operational risk. The Specific Criteria Manuals combine with the Credit Risk Policies to provide transversal risk management across the Group.
- The Operating Manuals are methodological documents that develop and expand upon the criteria set out in the Specific Criteria Policies and Manuals. They are there for consultative purposes to enable the correct and proper performance of activities in accordance with the requirements previously established. These manuals remain permanently in sync with the Credit Risk Policies and Criteria Manuals.

C. Assessment, monitoring and control of credit risk

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

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

- Risk quantification

Approval and amendment of credit risk transactions

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

To this end, the Approval Policy is aligned with the standards established by Senior Management in terms of segments, products, markets, risk-adjusted return and other variables, in line with the management objectives set out in the Risk Appetite Framework. The policies include general approval criteria, underpinned by next cornerstones:

- Responsible approval.
- Activity geared toward Retail – SMEs banking in Spain.
- Borrower solvency.
- Operation: financing commensurate with the customer size and profile, balance with short- and long-term financing, assessment of guarantees or collateral.
- Environmental and social risk.

The approval policies are governed by credit scoring systems, which allow a response to be given that is objective, consistent and coherent with the Group'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 higher cut-off points.
    - Accept, if the score is above the higher 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, of 30 May, on the legal framework governing the certification of services and appraisal companies, ensuring the quality and transparency of the appraisals. In addition, appraisal values must be calculated unconditionally as set out in Ministerial Order ECO/805/2003, of 27 March, on rules for the valuation of properties and certain financial rights, taking into consideration Bank of Spain Circular 4/2017.

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, of 27 June, addressed to credit institutions and payment service providers, on transparency of banking services and responsibility in the granting of loans, also 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 regard, the Group has responsible approvals policies for loans and credits, which, as mentioned above, establish the need to offer customers financing facilities that best adapt to their needs, adjusting the terms and conditions and the amounts borrowed to the borrower's payment ability, providing the necessary support so that borrowers of good faith can overcome their financial difficulties, making the following pre-contract information available to the customer, which is stored in their file:

- 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 Good 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 Bank for a period of 14 calendar days from delivery.

In relation to changes in authorised credit transactions, Appendix IX shows a summary of the policies and standards established by the Bank for refinancing or forbearance transactions, in addition to quantitative information relating to these transactions.

Monitoring of credit risk transactions

The monitoring activity is predicated on anticipation, proactiveness and efficiency and the core principles for managing monitored customers are:

- Comprehensive view of the customer: the monitoring approach is geared towards overall management of customers (or groups), not just at contract level.
- Involvement of all Bank centres in monitoring activity.
- Symmetry with the approval process.
- Efficiency and sharing opinions.
- Executive in terms of 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.

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 during the period resulted from the proposals put forward pro-actively by the Bank.

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.

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 Directorate is equally responsible for revitalising the lending business, providing tools and establishing criteria that identify potential customers, simplify the decision-making processes and allocate risk lines, always within pre-defined tolerance levels. It has tools and pre-authorisation and limit assignment processes for lending to both companies and retail customers.

Risk classification

Rating and scoring tools are used to classify borrowers and/or transactions by risk level. Virtually all segments of the portfolio are classified, mostly based on statistical models. This classification not only aids in decision-making, but allows for the addition of the appetite and tolerance of risk decided by the governing bodies through the limits established the Policies.

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

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

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

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

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

Risk quantification

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

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

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

The entry into force of Bank of Spain Circular 4/2017 (see Note 1.3.1), represents substantial changes in estimating credit risk allowances, moving from an incurred loss to an expected loss approach, which includes the use of forecasts for future economic conditions. This change prompted the Group to carry out a project in 2017 for implementation of the new standard.

In accordance with prevailing regulations and pursuant to the required approval by the Board of Directors and prior internal validation process, at 1 January 2018 the Group implemented use of internal methods for collective estimates of credit risk allowances. In line with the Bank’s internal models for estimating capital requirements, this internal methodology includes the calculation of losses, based on internal data, through own estimates of credit risk parameters.

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

(3.1.2) Exposure to credit risk by segment and activity

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

At 31 December 2018 and 2017, 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 2018

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – Hedge accounting	Loan commitments, financial guarantees and contingent commitments given.
Loans and advances	**-**	**9,161**	**-**	-	**122,886,938**	**-**	**34,048,575**
Credit institutions	**-**	-	-	-	4,432,818	-	3,170,181
Institutions: Government agencies	-	-	-	-	5,085,248	-	509,456
Other financial companies	-	-	-	-	1,835,258	-	349,509
Companies	-	9,161	-	-	33,274,088	-	24,581,498
Households	-	-	-	-	78,259,526	-	5,437,931
Mortgage loans	-	-	-	-	70,524,379	-	-
Consumer credit	-	-	-	-	4,821,710	-	-
Cards	-	-	-	-	854,877	-	-
Others	-	-	-	-	2,058,560	-	-
Debt securities	**281,569**	**187**	**-**	**15,556,331**	**33,860,266**	**-**	**-**
Credit institutions	**-**	-	-	27,633	29,992	-	-
Government agencies	276,188	-	-	15,039,328	14,376,789	-	-
Other financial companies	1,992	136	-	213,477	19,453,485	-	-
Companies	3,389	51	-	275,893	-	-	-
Households	-	-	-	-	-	-	-
Equity instruments	**3,901**	**-**	-	**66,484**	**-**	-	-
Derivatives	**6,035,137**	**-**	-	-	-	**2,619,883**	**-**
Total	**6,320,607**	**9,348**	**-**	**15,622,815**	**156,747,204**	**2,619,883**	**34,048,575**
Memorandum item: Breakdown by country of the							
Spanish government agencies	94,421	-	-	12,405,972	15,902,615	-	509,456
Italian government agencies	181,767	-	-	2,632,473	2,786,092	-	-
French government agencies	-	-	-	-	773,330	-	-
Other government agencies	-	-	-	883	-	-	-
Total	**276,188**	**-**	**-**	**15,039,328**	**19,462,037**	**-**	**509,456**

31 December 2017

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – Hedge accounting	Loan commitments, financial guarantees and contingent commitments given.
Loans and advances	-	-	-	-	**126,229,963**	-	**31,915,570**
Credit institutions	-	-	-	-	3,029,283	-	2,885,059
Institutions: Government agencies	-	-	-	-	5,471,233	-	443,428
Other financial companies	-	-	-	-	2,998,641	-	455,592
Companies	-	-	-	-	32,327,228	-	22,917,141
Households	-	-	-	-	82,403,578	-	5,214,350
Mortgage loans	-	-	-	-	75,084,955	-	-
Consume credit	-	-	-	-	4,146,470	-	-
Cards	-	-	-	-	829,956	-	-
Others	-	-	-	-	2,342,197	-	-
Debt securities	**2,001**	-	-	**22,668,707**	**32,797,525**	-	-
Credit institutions	-	-	-	1,587,197	2,815	-	-
Government agencies	2,001	-	-	20,490,915	11,464,020	-	-
Other financial companies	-	-	-	277,323	21,330,690	-	-
Companies	-	-	-	313,272	-	-	-
Households	-	-	-	-	-	-	-
Equity instruments	**4,324**	-	-	**57,190**	-	-	-
Derivates	**6,712,727**	-	-	-	-	**3,058,341**	-
Total	**6,719,052**	**-**	**-**	**22,725,897**	**159,027,488**	**3,058,341**	**31,915,570**
Memorandum item: Breakdown by country of the Public Agency							
Spanish government agencies	2,001	-	-	16,210,851	15,577,347	-	443,428
Italian government agencies	-	-	-	4,279,208	376,769	-	-
French government agencies	-	-	-	-	981,137	-	-
Other government agencies	-	-	-	856	-	-	-
Total	**2,001**	**-**	**-**	**20,490,915**	**16,935,253**	**-**	**443,428**

(3.1.3) Breakdown of original exposure by product

Credit risk exposure net of impairment for credit risk at 31 December 2018 and 2017, by product excluding equity products, is shown in the table below, Loans and credits, account 66.87% at 31 December 2018 (64,7% at 31 December 2017). Fixed income products represent the second-highest customer demand, accounting for 22.95% at 31 December 2018 (25.3% at 31 December 2017).

The breakdown at 31 December 2018 is as follows:

(Thousands of euros)

PRODUCT	Financial assets held for trading	on-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives – Hedge accounting	Loan commitments, financial guarantees and contingent commitments given.
Loans and credits	-	9,161	-	-	122,886,938	-	21,070,128
Fixed income	281,569	187	-	15,556,331	33,860,266	-	-
Interbank deposits	-	-	-	-	-	-	-
Guarantees and documentary credits	-	-	-	-	-	-	12,978,447
Derivatives	6,035,137	-	-	-	-	2,619,883	-
Total	**6,316,706**	**9,348**	**-**	**15,556,331**	**156,747,204**	**2,619,883**	**34,048,575**

The breakdown at 31 December 2017 is as follows:

(Thousands of euros)

PRODUCT	Financial assets held for trading	on-trading financial assets mandatorily at fair value through	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensi	Financial assets at amortised cost	Derivatives – Hedge accounting	Loan commitments, financial guarantees and contingent commitments
Loans and credits	-	-	-	-	123,200,561	-	18,699,632
Fixed income	2,001	-	-	22,668,707	32,797,644	-	-
Interbank deposits	-	-	-	-	3,029,283	-	-
Guarantees and documentary credits	-	-	-	-	-	-	13,215,938
Derivatives	6,712,727	-	-	-	-	3,058,341	-
Total	**6,714,728**	-	-	**22,668,707**	**159,027,488**	**3,058,341**	**31,915,570**

(3.1.4) Credit quality

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

The rating system designed by the Bank 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 credit risk exposure (net of impairment for credit risk) at 31 December 2018 and 2017, excluding variable income and derivatives, with the average ratings per segment, is as follows:

31 December 2018

(Thousands of euros)

SEGMENT	With Rating		Without Rating
	Amount	Average rating	Amount
Credit Institutions	2,478,382	A-	5,176,980
Government agencies	35,171,774	BBB+	49,905
Other financial companies	21,226,722	A-	619,305
Companies	53,851,194	BB+	832,753
Households	79,953,768	BB	1,051,528
Mortgage loans	67,938,738	BB	-
Consumer credit	4,773,385	BB-	287
Cards	846,167	BB-	388
Rest	6,395,478	BB	1,050,853
Total (default excluded)	**192,681,840**	**BBB-**	**7,730,471**
Total (Default)	**6,230,716**	**D**	**-**

31 December 2017

(Thousands of euros)

SEGMENT	With Rating		Without Rating (1)
	Amount	Average rating	Amount
Credit Institutions	1,720,193	BBB+	5,783,173
Government agencies	32,646,748	BBB+	5,159,665
Other financial companies	1,991,613	BBB	23,054,601
Companies	45,355,528	BB+	6,239,129
Households	68,192,989	BB+	16,757,883
Mortgage loans	58,643,155	BB+	13,834,771
Consumer credit	3,618,108	BB-	505,632
Cards	719,461	BB-	106,733
Rest	5,212,265	BB	2,310,747
Total (default excluded)	**149,907,071**	**BB+**	**56,994,451**
Total (Default)	**6,712,244**	**D**	**-**

(1) Unrated exposures corresponding to the business combination.

Credit quality. Rating distribution for exposures of the Credit Institutions, Government agencies and Non-financial companies portfolio

The distribution of the exposure net of impairment for credit risk by credit ratings at 31 December 2018 and 2017, is shown in the table below:

(Thousands of euros)

Rating	31/12/2018	31/12/2017
AAA to A-	45,929,192	1,535,717
BBB+ to BB-	12,604,858	34,518,757
B+ to B-	281,004	252,922
CCC+ to C	61,825	51,159
Not rated (1)	5,846,189	33,997,437
Default	78,422	82,205
Total	**64,801,490**	**70,438,197**

(1) Unrated exposures corresponding to the business combination.

Credit quality. Rating distribution for exposures of the corporate portfolio

The distribution of the exposure net of impairment for credit risk by credit ratings at 31 December 2018 and 2017, is shown in the table below:

(Thousands of euros)

Rating	31/12/2018	31/12/2017
AAA to A-	5,756,225	2,911,737
BBB+ to BB-	37,184,274	32,454,225
B+ to B-	10,258,074	9,432,012
CCC+ to C	652,620	555,127
Not rated (1)	832,753	6,241,557
Default	3,460,134	3,962,983
Total	**58,144,080**	**55,557,641**

(1) Unrated exposures corresponding to the business combination.

Credit quality. Rating distribution of household exposures

The distribution of the exposure (net of impairment for credit risk) by credit ratings at 31 December 2018 and 2017, is shown in the table below:

(Thousands of euros)

Rating	31/12/2018	31/12/2017
AAA to A-	6,115,931	6,059,948
BBB+ to BB-	46,611,735	41,115,512
B+ to B-	27,050,181	20,793,342
CCC+ to C	175,922	224,186
Not rated (1)	1,051,527	16,757,884
Default	2,692,161	2,667,056
Total	**83,697,457**	**87,617,928**

(1) Unrated exposures corresponding to the business combination.

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 6.45% at 31 December 2018. (8.85% at 31 December 2017). This rate increases to 7.43% factoring in doubtful exposures transferred to the portfolio of non-current assets and disposal groups classified as held for sale (see Note 17).

(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 NACE code and regardless of the purpose of the financing at 31 December 2018 and 2017.

(Thousands of euros)

SECTOR	31/12/2018	31/12/2017
Foodstuffs	958,305	1,005,691
Associations	350,037	743,355
Automotive and auto services	1,510,913	1,165,926
Wholesale	6,536,369	5,530,713
Retail	2,147,656	2,028,835
Construction and development (*)	9,970,229	10,264,493
Machinery and equipment manufacturing	3,461,446	3,396,808
Manufacturing of intermediate products	4,549,021	4,123,479
Finance	30,342,170	33,121,383
Catering and tour operators	2,405,481	2,559,765
Food, beverages and tobacco industry	2,924,093	2,634,338
Basic manufacturing, textiles, furniture	815,880	686,854
Mining, energy and infrastructures	4,583,488	4,483,964
Public sector	34,509,445	36,664,163
Company services	3,925,349	4,030,555
Leisure, culture, health and education	4,635,816	3,355,322
Supplies: electricity, gas, steam, water	5,599,447	6,087,837
Telecommunications	1,172,831	1,045,765
Transport	2,369,453	1,826,557
Other sectors (home included)	83,875,598	88,857,963
TOTAL	**206,643,027**	**213,613,766**

(*) 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 2.6), 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)

	31/12/2018		31/12/2017	
Derivatives (trading and hedging)	Assets	Liabilities	Assets	Liabilities
Gross exposure	**12,684,096**	**10,168,126**	**16,193,168**	**13,906,129**
Amount netted (Notes 8 and 12)	(4,029,076)	(4,029,076)	(6,422,100)	(6,422,100)
Carrying amount	**8,655,020**	**6,139,050**	**9,771,068**	**7,484,029**
Netting agreement	(4,256,967)	(4,256,967)	(5,439,250)	(5,439,250)
Collaterals (*)	(3,516,355)	(1,848,773)	(3,402,648)	(2,111,341)
Net exposure	**881,698**	**33,310**	**929,170**	**(66,562)**

(*) 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)

	31/12/2018		31/12/2017	
Collateral	Delivered	Received	Delivered	Received
Cash	8,269	17,438	5,840	37,874
Securities	-	81,512	46,341	-
Total	**8,269**	**98,950**	**52,181**	**37,874**

(3.1.7) Exposure with collateral received and other credit enhancements

At 31 December 2018, the distribution by segments of exposure net of impairment from credit risk, excluding equities and trading derivatives, with collateral and other credit enhancements is as follows:

(Thousands of euros)

	Net exposure of impairment from credit risk				
SEGMENT	Mortgage collateral	Other collateral	Unsecured Guarantees	Other guarantees	TOTAL
Credit Institutions	-	-	7,660,623	-	7,660,623
Public administrations	219,781	195,846	34,870,363	1,020	35,287,010
Other financial corporations	91,724	18,083	21,741,450	2,600	21,853,857
Companies	7,849,113	6,252,901	43,053,570	988,495	58,144,079
Households	71,495,487	142,284	11,923,297	136,390	83,697,458
Mortgage loan	70,523,596	772	11	-	70,524,379
Consumer credit	-	4,647	4,808,103	8,960	4,821,710
Cards	-	-	854,877	-	854,877
Others	971,891	136,865	6,260,306	127,430	7,496,492
TOTAL	**79,656,105**	**6,609,114**	**119,249,303**	**1,128,505**	**206,643,027**

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

(Thousands of euros)

	Net exposure of impairment from credit risk				
SEGMENT	Mortgage collateral	Other collateral	Unsecured Guarantees	Other guarantees	TOTAL
Credit Institutions	-	-	7,504,354	-	7,504,354
Public administrations	306,614	225,700	37,338,920	364	37,871,598
Other financial corporations	87,227	158,029	24,812,901	4,089	25,062,246
Companies	8,291,670	6,430,505	39,973,249	862,215	55,557,639
Households	76,263,258	130,130	11,082,084	142,457	87,617,929
Mortgage loan	75,081,182	3,769	4	-	75,084,955
Consumer credit	293,509	238	3,843,598	9,126	4,146,471
Cards	-	-	829,956	-	829,956
Others	888,567	126,123	6,408,526	133,331	7,556,547
TOTAL	**84,948,769**	**6,944,364**	**120,711,508**	**1,009,125**	**213,613,766**

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 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.

See Note 11, shows additional information on the guarantees received..

(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

Following are the changes in 2018 and 2017 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	31/12/2018	31/12/2017
Accounting balance at the beginning of the year	**1,981,097**	**1,290,560**
Additions from:		
Assets unlikely to be recovered	361,355	372,299
Uncollected past-due amounts	163,598	70,679
Sum	**524,953**	**442,978**
Derecognition through:		
Cash collection	(100,058)	(27,547)
Foreclosure of assets and other causes	(573,826)	(223,370)
Sum	**(673,884)**	**(250,917)**
Net change due to exchange differences	-	499,760
Additions due to business combination	290	(1,284)
Accounting balance at the end of the year	**1,832,456**	**1,981,097**

(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 strives 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)

ITEM	31/12/2018	31/12/2017
Cash (*)	2,921	2,206
Undrawn amount on the facility	11,339	10,918
Highly liquid available assets (**)	17,678	19,703

(*) 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 Financial Management 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, operates as an independent unit, monitors and analyses liquidity risk, among other responsibilities, 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 businesses, 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 Group'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 2018 the LCR complies with the risk limits of the entity and the regulatory requirements.

The Markets and Operational Risks Department 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 possible crisis of liquidity.

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 2018 and 2017, by type of founding instrument, including promissory notes and issues placed via the network.

31 December 2018

(Thousands of euros)

ITEM	2019	2020	2021	> 2021
Mortgage-backed bonds and securities	2,764,179	417,917	2,025,000	12,880,508
Senior debt	1,004,662	-	35,000	100,352
Subordinate, preference and convertible securities	1,000,000	-	175,000	1,750,000
Securitizations sold to third parties	-	-	-	1,601,774
Commercial paper	-	-	-	-
Total Maturities of issues(*)	**4,768,841**	**417,917**	**2,235,000**	**16,332,634**

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

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.

Issuance capacity

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Mortgage-backed securities issuance capacity (Appendix VII)	16,526,637	15,539,614
Territorial bond issuance capacity	1,278,790	1,595,168

(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 2018

(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	4,354,390	-	-	-	-	-	4,354,390
Loans and advances to credit institutions	-	3,146,041	528,938	751,104	-	-	4,426,083
Loans and advances to customers	-	3,388,158	5,655,153	10,174,146	31,667,240	71,616,833	122,501,530
Financial assets held for trading and financial assets at fair value through profit or loss	-	6,051	-	1,000	198,646	76,059	281,756
Other portfolios - Debt securities	-	8,892	4,770,600	6,477,600	20,723,909	17,444,230	49,425,231
Derivatives (trading and hedging) (1)		224,121	429,648	1,484,244	5,274,428	5,271,655	12,684,096
Total	**4,354,390**	**6,773,263**	**11,384,339**	**18,888,094**	**57,864,223**	**94,408,777**	**193,673,086**
Liabilities							
Deposits from central banks and credit institutions	-	9,144,065	2,268,176	3,032,726	18,318,268	2,860,318	35,623,553
Customer deposits	84,539,291	4,995,372	6,363,981	22,855,173	7,288,829	2,854,212	128,896,858
Marketable debt securities	-	1,500,000	-	1,251,465	5,185,138	7,874,897	15,811,500
Other financial liabilities (2)	1,598,551	-	-	-	-	-	1,598,551
Derivatives (trading and hedging) (1)		13,698	387,565	1,416,992	4,663,058	3,686,813	10,168,126
Total	**86,137,842**	**15,653,135**	**9,019,722**	**28,556,356**	**35,455,293**	**17,276,240**	**192,098,588**

(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 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	**3,755,070**	**6,707,405**	**8,166,399**	**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**

(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

(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 Group's results. Interest rate risk management is designed to lend stability to margins, maintaining levels of solvency that are appropriate for the Group's level of risk tolerance.

Interest rate 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 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 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 2018, 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 downward shift in yield curve over a one-year time horizon in a scenario of a stable balance sheet is -1.94% (-3.94% at 31 December 2017).
- Impact on economic value of equity, understood as the present value of estimated cash flows from different assets and liabilities. At 31 December 2018, 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 -8.13% of equity and -4.62% of economic value of the Bank (8.04% and 4.41%, respectively, at 31 December 2017).

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.

(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.

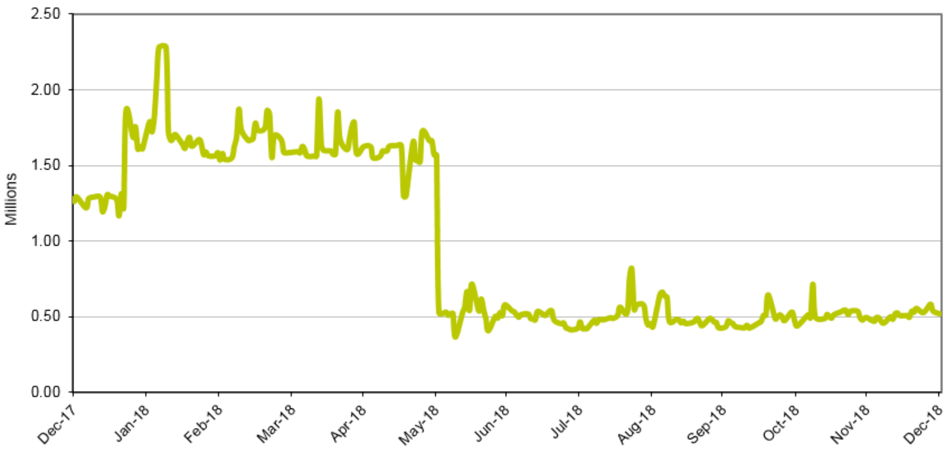
Each year, the Board of Directors approves the risk limits and internal risk measurement procedures for each product and market in which the various trading areas operate. The Market and Operational Risks Area, depending of Risk Division has the independent function of measuring, monitoring and controlling 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. In 2018, there were changes in the methods used to make the estimates included in the consolidated financial statements from those used the preceding year. Specifically, in the second half we switched from using an aggregate or incremental VaR metric to using a diversified VaR metric.

The following chart shows the trend in one day VaR with a 99% confidence level for operations in the markets area in trading activities in 2018.

VaR Negociation



The impact on equity and on the accompanying income statement of reasonable future changes in the various market risk factors at 31 December 2018 and 2017, calculated for the Bank's portfolio registered at fair value (excluding investments held for trading) , is as follows:

(Thousands of euros)

	Accumulated Other Comprehensive Income		Impact on profit and loss	
MARKET RISK FACTORS (1)	2018	2017	2018	2017
Interest rate	(233,518)	(345,824)	1,825	(3,967)
Equity instruments	-	(3,977)	(11)	(189)
Exchange rates	-	-	335	(986)
Credit spread	(246,528)	(333,444)	(465)	-

(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 2018 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 2018 is EUR 46,724,398 thousand (EUR 50,611,564 thousand at 31 December 2017). 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)

	31/12/2018			31/12/2017		
	Interest rate risk	Credit risk (spreads)	Total	Interest rate risk	Credit risk (spreads)	Total
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-			
Financial assets at fair value through other comprehensive income	(234)	(246)	(480)	(346)	(333)	(679)
Financial assets at amortised cost	-	(522)	(522)	-	(327)	(327)
Total	**(234)**	**(768)**	**(1,002)**	**(346)**	**(660)**	**(1,006)**

As for the sensitivities in the preceding table:

- For debt securities classified at fair value through other comprehensive inocme, the impact would have a balancing entry in "Accumulated other comprehensive income" in the equity.
- For debt securities classified at financial assets at amortisad cost, 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 2018 and 2017, 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 IV") 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 IV 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 l 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 IV, 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 IV 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; 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 Bank (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 Bank (2.063%).

In February 2019, the European Central Bank notified the Bankia Group of the capital requirements applicable to it in 2019: a minimum Common Equity Tier 1 ratio of 9,25% and a minimum Total Capital ratio of 12,75%, both measured in relation to its transitional (phase-in) regulatory capital. These thresholds include the minimum required under Pillar I (4.5% in terms of common equity tier 1 capital and 8% at the total capital level), as well as the Pillar II requirement (2%) and the combined buffers applicable to the Group (2.75%).

Regarding combined capital buffer requirements, bearing in mind the phase-in period provided for in Law 10/2014, the capital conservation buffer applicable in 2018 will be 1.875% (1.250% in 2017), corresponding to 75% (50% in 2017) 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 2018, it must meet 75% (50% in 2017) of this buffer; i.e. 0.1875% (0.1250% in 2017). Finally, the Group's own countercyclical buffer, calculated based on the geographical location of its exposures, is 0%. %. This is because the Group's exposures are located in countries (mainly Spain) whose supervisors have established the buffer at 0% for exposures in their territories. The combined buffer requirements applicable for 2019 will be 2.75% (2.5% for the capital conservation buffer and 0.25% for the "other systemically important institution" (O-SII)) buffer after the end of the phase-in period.

To further strengthen the resilience of banks, on 23 November 2016, the European Commission presented a package of banking reforms to prevailing legislation on capital requirements the CRR and CRD IV, and on the resolution of banks (Bank Recovery and Resolution Directive or BRRD). From that date, the package of banking reforms was subject to a public consultation, until in November 2018 it was submitted for consideration by the European Parliament and Council, and subsequently endorsed by the ECOFIN on 4 December 2018. The reforms are expected to become effective in early 2019 after final approval by the European Parliament and publication in the Official Journal of the European Union.

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, for credit institutions and authorised appraisal firms and services. Among other measures, this Circular amends Circular 2/2014 of 31 January on the exercise of the regulatory options contained in Regulation (EU) No. 575/2013, on prudential requirements for credit institutions and investment firms in order to unify the treatment of the deductions of intangible assets during the transitional period set out in Regulation (EU) No. 575/2013, equating the treatment of goodwill to that of all other intangible assets.
- 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.
- Royal Decree Law 22/2018 of 14 December establishing macroprudential tools and limits on sectoral concentration, along with conditions on the granting of loans and other exposures. In this respect, the Bank of Spain may require application of a countercyclical buffer for all of an entity's exposures or exposures in a specific sector.

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 Bank 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 Bank'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.

The following table provides a detail of the Bankia Group's capital levels at 31 December 2018 and 2017 as well as the RWA (Risk Weighted Assets) calculated in accordance with the CRR and CRD IV:

(Thousands of euros and %)

ITEM	31/12/2018 (*)	31/12/2017
Common Equity Tier I (CET 1)	**11,366,652**	**12,173,453**
Equity	3,084,963	3,084,963
Share Premium	619,154	619,154
Profit or loss admissible attributable to owners of the parent	703,211	504,513
Reserves and treasury shares	8,606,331	9,001,491
Other comprehensive eligible and accumulated income	123,001	261,982
Non-competing minority interests	-	4,863
Deductions	(1,770,008)	(1,303,513)
Deferred tax assets depend on future incomes	(846,699)	(586,600)
Prudent valuation related to assets side (AVA)	(35,947)	(35,266)
Dividend to be deducted for regulatory purposes	(357,115)	(340,086)
Intangible assets and others deductions	(530,247)	(341,561)
Additional Tier I Capital (AT1)	**1,250,000**	**682,125**
Capital TIER I (TIER1=CET1+AT1)	**12,616,652**	**12,855,578**
Capital TIER2	**1,862,961**	**1,631,837**
Subordinated debt	1,672,270	1,672,270
Others eligible/deductibles elements	190,691	(40,433)
Total capital (TIER1+TIER2)	**14,479,613**	**14,487,415**
Total Risk Weighted Assets	**82,381,200**	**86,041,890**
Credit risk, counterparty and dilution	**74,921,502**	**77,957,877**
Standardized approach	33,121,631	36,942,430
Internal ratings-based approach	41,799,871	41,015,447
By market risk	**1,578,723**	**1,607,737**
By operational risk	**5,880,975**	**6,476,276**
Common Equity Tier I ratio	**13.80%**	**14.15%**
Equity Tier I ratio	**15.31%**	**14.94%**
Total capital ratio	**17.58%**	**16.84%**

(*)Data estimated

On 31 December 2018, the Bankia Group shows a surplus of EUR 4,313 million (EUR 5,398 million on 31 December 2017) over the regulatory minimum Common Equity Tier 1 of 8.563%. (7.875% on 31 December 2017) established considering Pillar I, Pillar II and the combined requirement of buffers.

At the same date, the Bankia Group shows a surplus of EUR 4,542 million (EUR 4,700 million on 31 December 2017) over the regulatory minimum Common Equity Tier 1 of 12.063%. (11.375% on 31 December 2017) 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. 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. 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 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. The proposed banking reforms, which will become effective in early 2019, in line with Basel recommendations, establish a binding leverage ratio requirement of 3% of Tier 1 capital.

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 2018 and 2017 calculated in accordance with Commission Delegated Regulation (EU) No. 2015/62 is as follows:

(Thousands of euros and %)

ITEM	31/12/2018 (*)	31/12/2017
Tier I Capital	12,616,652	12,855,578
Exposure	207,077,825	213,504,901
Leverage ratio	**6.09%**	**6.02%**
(+) Exposures in balance sheet	193,061,853	201,141,814
(+) Derivatives exposures	2,516,452	2,241,736
(+)Counterparty credit risk add-on in securities financing transactions (SFTs)	3,925,402	3,254,634
(+) Exposure to off-balance sheet items (includes application of CCFs)	7,574,118	6,866,717
Total leverage ratio exposures	**207,077,825**	**213,504,901**

(*) Estimated data.

At 31 December 2018 and 2017, the leverage ratio exceeded the 3% minimum defined by the Basel Committee on Banking Supervision.

(4.3) Transparency Exercise 2018

During 2018, 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 14 December 2018, the European Banking Authority (EBA) published the results of its 2018 EU-wide transparency exercise, for 130 banks across the 25 EU countries with consolidated data as at 31 December 2017 and 30 June 2018. As on prior occasions, the information published relates to the banks' capital positions, risk-weighted assets, asset quality (non-performing exposures), profitability, sovereign exposures, credit and market risk exposures, all from the perspective of supervisor reporting. Since two years ago, this exercise is completed with the RAR (Risk assessment report) based on a sample of banks (150 EU institutions with information at consolidated level).

The capital ratios published are for the BFA Group, Bankia's parent, and do not include the earnings generated each year. At 31 December 2017, the phase-in common equity tier 1 ratio stood at 13.62%; this would have increased to 13.93% had these earnings been factored in. At 30 June 2018, the phase-in common equity tier 1 ratio stood at 13.20%; this would have increased to 13.93% had these earnings for the same period been factored in. According to the Risk Assessment of European Banking System, the average phase-in common equity tier 1 ratio for European banks at 30 June 2018 was 14.5%, up from 14.3% at 30 June 2017.

(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 (Minimum 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 Bank 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, and, in addition, indicating its level of percentage terms by dividing the numerator by the Group's RWAs.

As noted previously, the package of banking reforms proposed by the European Commission, which are expected to enter into force in 2019, will introduce amendments to the BRRD; e.g. regarding minimum requirements of subordination of MREL eligible liabilities and the determination of a maximum distributable amount (MDA); i.e. limit on the discretionary distribution of capital, in terms of MREL. However, on 20 November 2018, the SRB published its annual policy paper on the MREL, which serves as a basis for setting minimum MREL requirements for banks not considered "complex" (subject to resolution colleges) and that, therefore, did not having binding targets in 2018, including the Bankia Group.

Although the Bankia Group expects to receive official communication of its binding MREL target and the period for achieving it on the first half of 2019, the Group has already designed an issuance plan aimed at increasing its base of capital instruments and MREL eligible liabilities so that it can advance towards future compliance with the requirements.

(4.5) Capital management objectives and policies

The Group´s capital management covers two targets, a regulatory capital 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 Bank's risk profile and evaluates its internal control and corporate governance systems.

The capital planning process is part of the Strategic Planning process to ensure that the capital plan in consistent, coherent and aligned with the strategic objectives, the Bank's Risk Appetite Framework and the rest of the tactical plans comprising the financial plan for the forecast macroeconomic environment. The Management Committee updates the financial plan and, accordingly, the capital plan annually then submits then for approval by the Board of Directors. They form the basis for all shorter-term planning processes, including budgeting and other regulatory planning processes of stress simulation scenarios (i.e. stress tests). An organisational structure with a clear segregation of duties that prevents potential conflicts of interest and allows for the functions to be discharged within the capital planning process is required to carrying out these processes.

In early 2017, the ECB embarked on a multi-year plan to drive improvements regarding the ICAAP so that the document meets supervisors' expectations, publishing its guides to the ICAAP and ILAAP, which will be application in 2019 SREP. Accordingly, the Bankia Group will align its regulatory capital planning to the principles outlined in the guides. Capital planning starts from the need to have sufficient capital to guarantee the Entity's survival over time. The actions carried out are underpinned by risk management to comply with both Pillar I (credit, market and operational risk) and Pillar II (other risks; e.g. business, reputation) requirements, such as the Pillar I Requirement, Pillar II Guidance and capital buffers, which impact the Group and its remuneration policy (including the distribution of dividends). They are also geared towards integrated management of risks extended by the Entity in the scope of its corporate governance, the nature of the business, management of strategic planning and market demands, among other areas. Decision-making on capital management considers this enterprise-wide impact, whereby decisions are aligned with capital adequacy targets.

Capital planning starts from the need to have sufficient capital to guarantee the Entity's survival over time. The actions carried out are underpinned by risk management to comply with both Pillar I (credit, market and operational risk) and Pillar II (other risks: e.g. business, reputation) requirements, such as the Pillar I Requirement, Pillar II Guidance and capital buffers, which impact the Bank and its remuneration policy (including the distribution of dividends). They are also geared towards integrated management of risks extended by the Entity in the scope of its corporate governance, the natural of the business, management of strategic planning and market demands, among other areas. Decision-making on capital management considers this enterprise-wide impact, whereby decisions are aligned with capital adequacy targets.

The capital planning exercise is based on financial planning (e.g. balance sheet, income statement, etc.) in the macroeconomic scenarios forecast by the Bank and in the impact analysis of potential changes in capital adequacy regulations. The Bank's capital management policies are aligned with the Corporate Risk Appetite Framework and the Bank's Strategic Plans established by senior management. The capital planning process is formally documented in the following reports approved by the Bank's Board of Directors, which are reviewed at least once a year:

- The Corporate Risk Appetite and Tolerance Framework, which defines the level of risk appetite (internal capital target) based on the risks the Bank 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 Bank's various divisions related to the capital planning process to achieve a common objective and that this objective fits in the Bank'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 [3]	Long-term variable remuneration [4]	Remuneration for membership on Board committees	Termination benefits	Total 2018
Mr. José Ignacio Goirigolzarri Tellaeche	500	-	228	72	-	-	800
Mr. José Sevilla Álvarez	500	-	236	64	-	-	800
Mr. Antonio Ortega Parra	500	-	235	65	-	-	800
Mr. Carlos Egea Krauel [1]	203	29	-	-	-	-	232
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. Antonio Greño Hidalgo	-	100	-	-	-	-	100
Mrs.Laura González Molero [2]	-	15	-	-	-	-	15

[1] Mr. Egea was appointed director of Bankia, in the category of "other external directors", via a resolution passed at the General Meeting of Shareholders held on 14 September 2017, and included in the Bank of Spain's Register of Senior Officers on 12 January 2018., which carries annual remuneration for all items of EUR 100,000. Subsequently, on 27 April 2018, he was appointed executive director, with total annual remuneration of EUR 300,000. The amounts shown correspond to the period from 1 January to 26 April 2018 as external director and from 27 April to 31 December 2018 as executive director.

[2] On 6 November 2018, Ms. González was appointed director, which carries annual remuneration for all items of EUR 100,000. The amounts shown correspond to the period from 6 November to 31 December 2018.

[3] The amount of annual variable remuneration for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

[4] The amount of long-term variable remuneration for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega 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 Sir Goirigolzarri, Sevilla and Ortega 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. Mr. Egea's employment contract includes maximum severance equal to two years of his fixed remuneration, which will decrease proportionally as he provides service. After two years, he will not be entitled to any severance. 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 2018 as no amounts of variable compensation has paid.

iv) Long-term saving schemes

(Thousands of euros)

Name	Contribution Funds and Pension Plans [1] 2018 by the Entity	Life Insurance Premiums 2018 by the Entity
Mr. José Ignacio Goirigolzarri Tellaeche	-	-
Mr. José Sevilla Álvarez	-	-
Mr. Antonio Ortega Parra	-	-
Mr. Carlos Egea Krauel	-	-
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. Antonio Greño Hidalgo	-	-
Mrs. Laura González Molero	-	-

[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 Bank.

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 Bank	Total 2018
Mr. José Ignacio Goirigolzarri Tellaeche	800 [3][4]	-	800 [3][4]
Mr. José Sevilla Álvarez	800 [3][4]	-	800 [3][4]
Mr. Antonio Ortega Parra	800 [3][4]	-	800 [3][4]
Mr. Carlos Egea Krauel [1]	232	-	232
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. Antonio Greño Hidalgo	100	-	100
Mrs. Laura González Molero [2]	15	-	15

(1) Mr. Egea was appointed director of Bankia, in the category of "other external directors", via a resolution passed at the General Meeting of Shareholders held on 14 September 2017, and included in the Bank of Spain's Register of Senior Officers on 12 January 2018., which carries annual remuneration for all items of EUR 100,000. Subsequently, on 27 April 2018, he was appointed executive director, with total annual remuneration of EUR 300,000. The amounts shown correspond to the period from 1 January to 26 April 2018 as external director and from 27 April to 31 December 2018 as executive director.

(2) On 6 November 2018, Ms. González was appointed director, which carries annual remuneration for all items of EUR 100,000. The amounts shown correspond to the period from 6 November to 31 December 2018.

(3) The amount of annual bonuses for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

(4) The amount of long-term bonuses for 2018 of Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega 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 five people, Mr. Miguel Crespo Rodríguez, Mrs. Amalia Blanco Lucas, Mr. Fernando Sobrini Aburto, Mr. Gonzalo Alcubilla Povedano and Mr. Joaquin Canovas Páez, 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 ECO/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 [3]	Termination benefits	Total [4]
Senior Executives	2,535	260	135	-	2,930

[1] Includes the target variable remuneration for 2018 of the five Management Committee members, which amounts to EUR 719 thousand, although the definitive assessment and approval is pending.

[2] The targeted amount of long-term bonuses for the five members of the Management Committee was EUR 350 thousand in 2018; 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 in 2018 is pending both definitive assessment and the permits and approvals contemplated in prevailing legislation.

[3] Corresponds to contributions made in respect of pensions and life insurance premiums.

[4] Mr. Cánovas' remuneration relates to the period from 7 May 2018, the date of his inclusion in the Bank of Spain's registry of senior officers, until 31 December 2018.

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 five 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 2018.

(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 2018, 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 2018:

- On six occasions, Bank directors (Mr. Joaquín Ayuso García, Mrs. Eva Castillo Sanz, Mr. Jorge Cosmen Menéndez-Castañedo, Mr. Carlos Egea Krauel and Mr. 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 Mr. José Ignacio Goirigolzarri Tellaeche, Mr. Francisco Javier Campo García and Mr. 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 proposals regarding to Fundación Bankia.

- In addition, in keeping with best practices in corporate governance, the Entity's executive directors, Mr. José Ignacio Goirigolzarri Tellaeche, Mr. José Sevilla Álvarez and Mr. 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 Mr. 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 of BFA, abstained from participating in any of the deliberations and votes regarding to BFA financing operations. These same directors refrained from participating in the deliberations and votes corresponding to completion of the merger between Bankia and Banco Mare Nostrum.

(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 2018 proposed by the Board of Directors of Bankia, S.A., to be submitted for approval at the General Meeting of Shareholders (with data for 2017 presented for purposes of comparison), is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
To reserves	476,553	128,666
To dividends	357,115	340,086
Net profit for the year	**833,668**	**468,752**

(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 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Cash	929,835	878,204
Balances with the Bank of Spain	3,309,614	2,614,513
Other demand deposits	114,941	262,353
Total	**4,354,390**	**3,755,070**

(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 2018 and 2017, showing the carrying amounts is as follows:

(Thousands of euros)

	31/12/2018		31/12/2017	
ITEM	Asset positions	Liability positions	Asset positions	Liability positions
By counterparty				
Credit institutions	4,004,408	5,241,537	4,590,009	6,586,819
Resident public sector	224,060	35	148,361	3,043
Non-resident public sector	181,767	-	-	-
Other resident sectors	1,618,008	783,865	1,646,782	792,789
Other non-resident sectors	292,364	53,363	333,900	67,338
Total	**6,320,607**	**6,078,800**	**6,719,052**	**7,449,989**
By type of instrument				
Trading derivatives	6,035,137	5,956,719	6,712,727	7,106,560
Equity instruments	3,901	-	4,324	-
Debt securities	281,569	-	2,001	-
Short positions	-	122,081	-	343,429
Total	**6,320,607**	**6,078,800**	**6,719,052**	**7,449,989**

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 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018 Fair Value	Amount netted	Carrying amount	31/12/2017 Fair Value	Amount netted	Carrying amount
Debit balances:						
Unmatured foreign currency purchases and sales	51,453	-	51,453	72,198	-	72,198
Securities derivatives	4,563	-	4,563	10,304	-	10,304
Interest rate derivatives	9,731,865	(3,821,047)	5,910,818	12,698,116	(6,106,161)	6,591,955
Credit derivatives	2,170	-	2,170	1,485	-	1,485
Other	66,133	-	66,133	36,785	-	36,785
Total	**9,856,184**	**(3,821,047)**	**6,035,137**	**12,818,888**	**(6,106,161)**	**6,712,727**
Credit balances:						
Unmatured foreign currency purchases and sales	43,322	-	43,322	37,554	-	37,554
Securities derivatives	4,785	-	4,785	11,329	-	11,329
Interest rate derivatives	9,656,135	(3,821,047)	5,835,088	13,113,703	(6,106,161)	7,007,542
Credit derivatives	2,573	-	2,573	1,665	-	1,665
Other	70,951	-	70,951	48,470	-	48,470
Total	**9,777,766**	**(3,821,047)**	**5,956,719**	**13,212,721**	**(6,106,161)**	**7,106,560**

The detail, by maturity, of the notional amount of the trading derivatives at 31 December 2018, 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	3,002,558	117,052	-	3,119,610
Securities derivatives	1,385,251	2,741,433	437,000	4,563,684
Interest rate derivatives	73,858,398	79,759,295	63,018,362	216,636,055
Credit derivatives	929,730	-	-	929,730
Other	4,509,180	-	-	4,509,180
Total	**83,685,117**	**82,617,780**	**63,455,362**	**229,758,259**

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 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	31/12/2018	31/12/2017
Equity instruments		
Shares of resident companies	3,639	4,316
Shares of non-resident foreign companies	262	8
Total	**3,901**	**4,324**

Financial Assets held for trading. Debt securities

The breakdown of this heading in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Debt securities		
Spanish government debt securities	94,422	2,001
Other Spanish government debt securities	181,777	-
Spanish fixed-income securities	1,982	-
Other Spanish fixed-income securities	3,388	-
Total	**281,569**	**2,001**

The average effective annual interest rate of debt securities included in the held-for trading investments portfolio at 31 December 2018 was 1.22% (0.81% at 31 December 2017).

(9) Non-trading financial instruments mandatorily measured at fair value through profit or loss

Breakdown

The detail, by counterparty and type of instrument, of these items in the balance sheet at 31 December 2018 and 2017, showing the carrying amounts is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Credit institutions	-	-
Resident public sector	-	-
Other resident sectors	9,348	-
Other non-resident sectors	-	-
Total	**9,348**	**-**
By type of instrument		
Trading derivatives	-	-
Equity instruments	-	-
Debt securities	187	-
Loans and advances	9,161	-
Central Banks	-	-
Credit institutions	-	-
Customer	9,161	-
Total	**9,348**	**-**

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.

(10) Financial assets at fair value through other comprehensive income

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	31/12/2018	31/12/2017
By counterparty		
Credit institutions	54,107	1,611,384
Resident public sector	12,405,970	16,210,851
Non-resident public sector	2,633,356	4,280,064
Other resident sectors	164,970	201,704
Other non-resident sectors	365,520	423,051
Doubtful assets	-	3,467
Impairment losses	(1,108)	(4,624)
Total	**15,622,815**	**22,725,897**
By type of instrument		
Debt securities	15,556,331	22,668,708
Spanish government debt securities	12,405,970	16,210,851
Government bonds and obligations	12,100,879	15,850,136
Regional administrations	305,091	360,715
Foreign government debt securities	2,633,356	4,280,064
Issued by financial institutions	27,633	1,589,866
Other fixed-income securities	490,480	592,551
Impairment losses	(1,108)	(4,624)
Equity instruments	66,484	57,189
Total	**15,622,815**	**22,725,897**

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 - Financial assets at fair value through other comprehensive income” 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 financial assets at fair value through other comprehensive income portfolio at 31 December 2018 was 0.87% (1.27% at 31 December 2017).

Past-due and/or impaired assets

At 31 December 2018 and 2017, no asset recognised under "Financial assets at fair value through other comprehensive income" was past-due but not impaired.

The detail of those assets recognised under "Financial assets at fair value through other comprehensive income – Debt securities", that were considered to be impaired at 31 December 2018 and 2017, is as follows:

Impaired assets

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Types of contraparty		
Credit institutions	-	2,677
Other non-resident sectors	-	790
Total	**-**	**3,467**

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 2018 and 2017 are as follows:

At 31 December 2018

(Thousands of euros)

ITEM	Total
Balances at 31 December 2017	**4,624**
Adjustments first application Circular 4/2017	**(719)**
Balances at 1 January 2018	**3,905**
Impairment losses for the year charged to income	1,251
Available credit loss allowance	(280)
Net provision/(release) charged/(credited) to income statement	**971**
Amount used for depreciated assets	(766)
Other changes	(3,002)
Balances at 31 December 2018	**1,108**
Of which:	
Type of counterparty:	**1,108**
Entities resident in Spain	852
Entities resident abroad	256

At 31 December 2017

(Thousands of euros)

ITEM	Total
Balances at 31 December 2016	**8,264**
Impairment losses for the year charged to income	4,818
Available credit loss allowance	(7,006)
Net provision/(release) charged/(credited) to income statement	**(2,188)**
Amount used for depreciated assets	(4,878)
Additions due to business combination	3,426
Balances at 31 December 2017	**4,624**
Of which:	
Type of counterparty:	**4,624**
Entities resident in Spain	318
Entities resident abroad	4,306

During 2018 and 2017, the Bank has not registered in the income statement for impairment losses on equity instruments recognised under “Non-current assets and disposal group classified as held for sale”.

(11) Financial assets at amortised cost

Breakdown

The detail, by type of financial instrument, of "Financial assets at amortised cost" on the asset side of the balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Financial assets at amortised cost		
Loans and advances	126,927,613	131,745,343
Credit institutions	4,426,083	3,023,662
Customers	122,501,530	128,721,681
Debt securities	33,867,792	32,801,096
Subtotal	**160,795,405**	**164,546,439**
Impairment losses	(4,230,778)	(5,716,763)
Other valuation adjustments	182,577	197,812
Total	**156,747,204**	**159,027,488**

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 Financial assets at amortised cost

The breakdown at 31 December 2018 and 1 January 2018 of guarantees received related to Financial assets at amortised cost in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	1/01/2018
Gross Amount (*)		
Stage 1 – Standard risk	144,638,205	140,479,539
Stage 2 – Standard riskunder special monitoring	8,635,397	11,952,799
Stage 3 – Doubtful risk	7,704,380	11,281,819
Sum	**160,977,982**	**163,714,157**
Impairment allowace		
Stage 1 – Standard risk	(226,564)	(232,154)
Stage 2 – Standard risk under special monitoring	(619,333)	(937,899)
Stage 3 – Doubtful risk	(3,384,881)	(5,199,224)
Sum	**(4,230,778)**	**(6,369,277)**
Net carrying amount		
Stage 1 – Standard risk	144,411,641	140,247,385
Stage 2 – Standard risk under special monitoring	8,016,064	11,014,900
Stage 3 – Doubtful risk	4,319,499	6,082,595
Sum	**156,747,204**	**157,344,880**

(*) Include "Other valuation adjustments".

Credit quality of Financial assets at amortised cost. Guarantees received

The breakdown at 31 December 2018 and 2017 of guarantees received related to Financial assets at amortised cost in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018 (*)	31/12/2017 (*)
Value of the collateral	80,577,095	86,927,190
Of which: collateral with standard risks under special monitoring	5,312,920	6,568,193
Of which: collateral with default risks	8,710,282	10,213,726
Value of others collateral	-	-
Of which: collateral with standard risks under special monitoring	-	-
Of which: collateral with default risks	-	-
Total	**80,577,095**	**86,927,190**

(*) 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

Financial assets at amortised cost. Loans and advances. Credit institutions

The detail, by instrument type, of this caption on the balance sheet is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By instrument type		
Time deposits	157,569	114,398
Reverse repurchase agreements	2,029,395	685,968
Other financial assets	2,233,095	2,222,660
Doubtful assets	6,024	636
Subtotal	**4,426,083**	**3,023,662**
Impairment losses	(1,205)	(626)
Other valuation adjustments	7,940	6,247
Total	**4,432,818**	**3,029,283**

The average effective annual interest rate of financial instruments included under this heading at 31 December 2018 was 0% (0% at 31 December 2017).

Financial assets at amortised cost. 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	31/12/2018	31/12/2017
By counterparty		
Public sector	5,148,526	5,534,463
Other financial corporations	1,859,242	3,027,024
Non-financial corporations	35,824,461	35,842,851
Households	79,843,938	84,503,359
Sum (1)	**122,676,167**	**128,907,697**
Impairment losses	(4,222,047)	(5,707,017)
Total	**118,454,120**	**123,200,680**
By loan type and status		
Commercial credit	5,240,310	5,129,122
Secured loans	75,083,306	78,740,312
Reverse repurchase agreements	13,618	255,649
Other term loans	30,769,328	29,112,330
Receivable on demand and other	2,852,433	2,596,674
Other financial assets	853,382	1,619,779
Doubtful assets	7,689,153	11,267,815
Subtotal	**122,501,530**	**128,721,681**
Impairment losses	(4,222,047)	(5,707,017)
Other valuation adjustments	174,637	186,016
Total	**118,454,120**	**123,200,680**

(1) Of which EUR 7,689,153 thousand corresponds to doubtful "Loans and advances" at 31 December 2018 (EUR 11,267,815 thousand at 31 December 2017). Includes "Other valuation adjustments".

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 2018 was 1.69% (1.68% at 31 December 2017).

"Financial assets at amortised cost - Loans and advances - Customers" in the accompanying balance sheet includes certain loans with mortgage collateral which, as indicated in Appendix VIII 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 2.2.2). The amounts shown in the accompanying balance sheet related to securitised loans are:

(Thousands of euros)

Securitised loans	31/12/2018	31/12/2017
Securitised mortgage-backed assets	10,147,246	11,603,686
Of which:		
Receivable on demand and other	2,324	2,720
Doubtful assets	535,652	586,295
Other securitised assets	3,910	727
Total securitised assets (Note 25.1.1)	**10,151,156**	**11,604,413**
Of which:		
Liabilities associated with assets kept on the balance sheet (*)	1,741,860	2,059,762

(*) Recognised under "Financial liabilities at amortised cost - Marketable debt securities" 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	31/12/2018	31/12/2017
Securitised mortgage-backed assets	197,352	341,728
Other securitised assets	-	50
Total securitised assets (Note 25.1.1)	**197,352**	**341,778**

During 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	2018	2017
Accounting balance at the beginning of the period	**11,267,815**	**10,719,189**
Additions	3,367,121	1,676,907
Disposals	(6,945,783)	(3,383,874)
Through foreclosure	(312,165)	(478,176)
Through portfolios sales	(1,312,273)	(338,420)
Through reversals and others	(3,533,091)	(1,991,618)
Through forgiveness and disposals of assets	(415,105)	(575,660)
Through transfer to disposal group	(1,373,149)	
Additions due to business combination	-	2,255,593
Accounting balance at the end of the period	**7,689,153**	**11,267,815**

Financial assets at amortised cost. Loans and advances. Credit institutions and customers. Past-due and impaired assets (doubtful)

Following is a detail of assets classified as " Financial assets at amortised cost - Loans and advances -Credit institutions" and " Financial assets at amortised cost - Loans and advances- Customers", considered to be impaired at 31 December 2018 and 2017, and of the assets which, although not considered to be impaired, include any past-due amounts as at those dates, by counterparty.

Impaired doubtful assets at 31 December 2018 and 2017

The table below shows the classification of the Bankia Group's doubtful assets related to "Loans and advances - customers" and "Loans and advances - credit institutions" at 31 December 2018 and 2017, 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	31/12/2018	31/12/2017
By counterparty		
Credit institutions	116,016	128,209
Resident public sector	6,024	626
Other financial corporations	22,298	42,270
Non-financial corporations	3,640,648	5,473,036
Households	3,484,453	4,822,050
Total	**7,269,439**	**10,466,191**
By age		
Up to 6 monts	3,532,635	4,636,683
Between 6 and 9 months	431,230	506,216
9 to 12 months	197,238	230,321
More than 12 months	3,108,336	5,092,971
Total	**7,269,439**	**10,466,191**
By type of collateral		
Operation with full mortgage collateral	5,008,659	6,955,661
Operation with other collateral	49,574	84,479
Operation without collateral	2,211,206	3,426,051
Total	**7,269,439**	**10,466,191**

The amount of past-due and impaired not accumulated doubtful assets by 31 December 2018 amounts to EUR 444,175 thousand (EUR 401,117 thousand by 31 December 2017).

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	31/12/2018	31/12/2017
Lower than or equal to 40%	734,079	971,323
Greater than 40% and lower than or equal to 60%	1,002,813	954,859
Greater than 60% and lower than or equal to 80%	1,294,739	1,973,502
Greater than 80%	2,026,602	3,140,456
Total	**5,058,233**	**7,040,140**

Assets including past-due amounts not considered to be impaired at 31 December 2018 and 2017

The table below shows the classification of assets past-due but not impaired related to loans and advances to customers and credit institutions at 31 December 2018 and 2017, by counterparty, age past-due and type of collateral:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Credit institutions	30,705	515
Public sector	36,116	15,143
Other financial corporations	16,054	15,058
Non-financial corporations	610,595	300,859
Households	306,212	625,496
Total	**999,682**	**957,071**
By age		
Less than one month	605,993	330,847
Between 1 and 3 months	66,359	92,700
More than 3 months	327,330	533,524
Total	**999,682**	**957,071**
By type of collateral		
Operation with full mortgage collateral	432,952	812,354
Operation with other collateral	1,280	3,622
Operation without collateral	565,450	141,095
Total	**999,682**	**957,071**

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	31/12/2018	31/12/2017
Lower than or equal to 40%	213,590	302,187
Greater than 40% and lower than or equal to 60%	117,672	236,913
Greater than 60% and lower than or equal to 80%	53,044	173,042
Greater than 80%	49,926	103,834
Total	**434,232**	**815,976**

The table below shows the changes for the years ended 31 December 2018 and 2017 in provisions for impairment losses and fair value adjustments due to credit risk in relation to assets in " credit institutions" and "customers" under " Financial assets at amortised cost -Loans and advances " on the accompanying balance sheet:

31 December 2018

(Thousands of euros)

ITEM	Impairment losses due to credit risk	Country risk allowance	Total
Balances at 31 December 2017	**5,702,646**	**4,997**	**5,707,643**
Individually assessed	2,263,709	-	2,263,709
Collectively assessed	3,438,937	4,997	3,443,934
Adjustments first application Circular 4/2017	652,914	-	652,914
Balances at 31 January 2018	**6,355,560**	**4,997**	**6,360,557**
Impairment losses for the year charged to income	850,383	3,122	853,505
Available credit loss allowance	(320,343)	(3,775)	(324,118)
Net provision/(release) charged/(credited) to income statement	**530,040**	**(653)**	**529,387**
Amounts used for depreciated assets	(1,900,031)	-	(1,900,031)
Exchange differences	7,774	2	7,776
Other changes (*)	(774,410)	(28)	(774,438)
Balances at 31 December 2018	**4,218,933**	**4,318**	**4,223,251**
Individually assessed	1,574,212	-	1,574,212
Collectively assessed	2,644,721	4,318	2,649,039
Of which:			
Type of counterparty:	**4,218,933**	**4,318**	**4,223,251**
Entities resident in Spain	4,056,684	-	4,056,684
Entities resident abroad	162,249	4,318	166,567

(*) Includes transfer to Non-current assets held for sale.

The following table shows these movements by the classification of the exposures according to credit risk attributable to insolvency:

ITEM	Standard	Special monitoring	Doubtful	Total
Balances at 1 January 2018	**231,181**	**937,876**	**5,191,500**	**6,360,557**
Changes due to origination and acquisition, derecognition and variation of credit risk (net)	(7,582)	(350,725)	887,694	529,387
Use of allowances for written-off assets	-	-	(1,900,031)	(1,900,031)
Transfers to non-current assets held for sale and other movements	2,858	31,122	(800,642)	(766,662)
Balances at 31 December 2018	**226,457**	**618,273**	**3,378,521**	**4,223,251**
Of which assessed individually	-	88,649	1,485,563	1,574,212
Of which assessed collectively	226,457	529,624	1,892,958	2,649,039

In 2018, there were transfers to standard exposures under special monitoring from exposures originally classified as standard, for a gross EUR 1,313 million, and from exposures originally classified as doubtful, for EUR 472 million. In addition, items classified originally as standard exposures under special monitoring for a gross amount of EUR 3,316 million were transferred to standard exposure, and items classified originally as standard exposure and standard exposure under special monitoring for a gross amount of EUR 940 million to doubtful exposure.

31 December 2017

(Thousands of euros)

ITEM	Impairment losses due to credit risk	Country risk allowance	Total
Balances at 31 December 2016	**5,853,336**	**16,441**	**5,869,777**
Individually assessed	2,738,630	-	2,738,630
Collectively assessed	3,114,706	16,441	3,131,147
Impairment losses for the year charged to income	1,839,776	8,335	1,848,111
Available credit loss allowance	(1,531,271)	(19,815)	(1,551,086)
Net provision/(release) charged/(credited) to income statement	**308,505**	**(11,480)**	**297,025**
Amounts used for depreciated assets	(1,412,501)	-	(1,412,501)
Exchange differences	(46,999)	-	(46,999)
Other changes	1,000,305	36	1,000,341
Balances at 31 December 2017	**5,702,646**	**4,997**	**5,707,643**
Individually assessed	2,263,709	-	2,263,709
Collectively assessed	3,438,937	4,997	3,443,934
Of which:			
Type of counterparty:	**5,702,646**	**4,997**	**5,707,643**
Entities resident in Spain	5,304,631	-	5,304,631
Entities resident abroad	398,015	4,997	403,012

(*) Includes transfer to Non-current assets in sale.

The different items recognised in 2018 and 2017 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	31/12/2018	31/12/2017
Net charge for the year	528,401	293,303
Written-off assets recovered	(99,791)	(23,451)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss – Loans and receivables (Note 42)	**428,610**	**269,852**

Financial assets at amortised cost. Debt securities

The breakdown, by counterparty, of this balance sheet heading:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Credit institutions	29,992	2,815
Resident public sector	10,817,367	10,204,196
Non-resident public sector	3,559,422	1,259,824
Other resident sectors	19,407,265	21,186,196
Other non-resident sectors	44,544	134,696
Doubtful assets	9,202	13,369
Subtotal	**33,867,792**	**32,801,096**
Impairment losses	(7,526)	(9,120)
Other valuation adjustments	-	5,549
Total	**33,860,266**	**32,797,525**
By type of instrument		
Spanish government debt securities	10,817,367	10,204,196
Foreign government debt securities	3,559,422	1,259,824
Bonds and obligations	19,491,003	21,342,625
Impairment loss	(7,526)	(9,120)
Total	**33,860,266**	**32,797,525**

The balances in “Other resident sectors” and “Bonds and obligations” include the debt securities issued by Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB) backed by the Spanish government, which were received as consideration for the assets transferred by the BFA Group to SAREB in December 2012, at a price of EUR 22,317 million —EUR 2,850 million at BFA in respect of the part of the price relating to its own assets and those of its subsidiaries and EUR 19,467 million at Bankia in respect of the part of the price relating to its own assets and those of Bankia subsidiaries—. They also include the debt securities received as consideration for the assets originally transferred by the BMN Group in February 2013 for EUR 5,820 million —absorbed following its merger by the Bankia Group—.

The securities received by the Bank (with original maturities at 31 December 2013, 2014 and 2015 and 28 February 2014, 2015 and 2016) include an annual renewal option for the issuer, although the estimated value of that option does not generate any negative difference between the fair value of the instruments and the nominal value at the transaction date.

In 2013 and subsequent periods, the SAREB redeemed and delivered new bonds. Accordingly, the securities received by the Bank and recognised under "Financial assets at amortised cost" at 31 December 2018 were as follows:

(Thousands of euros and %)

Titles	Amount	Maturity	Interest rate
SAREB 2018-3	7,624,200	31.12.2020	-
SAREB 2018-2	5,550,100	31.12.2019	-
SAREB 2017-2	2,425,000	28.02.2019	-
SAREB 2018-4	1,236,300	31.12.2021	-
SAREB 2018-1	1,681,300	28.02.2019	-
SAREB 2016-2	638,300	28.02.2019	0.20%

As these cancellations were made at the nominal amount, there were no differences with respect to the carrying amounts. Therefore, the transactions did not have a significant impact on the Bank’s income statement for prior periods.

On 31 December 2018, 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 2018. Rollovers of bonds carried out in previous years 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 2017) (see Note 18).

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 classified in financial assets at amortised cost portfolio at 31 December 2018 was 0.55% (0.77% at 31 December 2017).

On 30 October 2018, the arbitration process between Sareb and, on the other hand, other entities, including Bankia (jointly referred to as the “Entities”), arising from the bonds issued by Sareb to deal with the payment of certain assets that the Entities transferred to Sareb in compliance with the obligation imposed by Law 9/2012, of 14 November. The discrepancy submitted to arbitration concerning the possibility that the quarterly coupon of the bonds corresponding to the Senior Issues of 2017 and 2018 could be negative and the Entities would be obliged to pay Sareb the amount of the negative coupon. The ruling concludes that the quarterly coupon of the Senior Bonds of the 2017-3 and 2018-1 issues cannot be negative and must be limited to 0%; a limitation that extends to future issues of Sareb Bonds when the calculation formula yields a negative result.

Impaired assets at 31 December 2018 and 2017

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
By counterparty		
Other resident sectors	9,202	13,369
Total	**9,202**	**13,369**

At 31 December 2018 and 2017, no assets recognised under "Financial assets at amortised cost – 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 Financial assets at amortised cost for the years ended 31 December 2018 and 2017 are as follows:

31 December 2018

(Thousands of euros)

ITEM	Total
Balances at 31 December 2017	**9,120**
Adjustments for first-time application of Circular 4/2017	(253)
Balances at 1 January 2018	**8,867**
Impairment losses for the year charged to income	3,201
Available credit loss allowance	(4,187)
Net provision/(release) charged/(credited) to income statement	**(986)**
Provisions used for written-off assets and other movements (net)	(598)
Other changes	243
Balances at 31 December 2018	**7,526**
Of which:	
Type of counterparty:	**7,526**
Entities resident in Spain	7,368
Entities resident abroad	158

31 December 2017

(Thousands of euros)

ITEM	Total
Balances at 31 December 2016	**6,849**
Impairment losses for the year charged to income	685
Available credit loss allowance	(4,407)
Net provision/(release) charged/(credited) to income statement	**(3,722)**
Provisions used for written-off assets and other movements (net)	(2,687)
Additions due to business combination	8,680
Balances at 31 December 2017	**9,120**
Of which:	
Type of counterparty:	**9,120**
Entities resident in Spain	8,853
Entities resident abroad	267

(12) Derivatives– hedge accounting

At 31 December 2018 and 2017, 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 2.2 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 2018 and 2017:

(Thousands of euros)

ITEMS	31/12/2018 Fair Value	31/12/2018 Netting	31/12/2018 Carrying Amount	31/12/2017 Fair Value	31/12/2017 Netting	31/12/2017 Carrying Amount
Debit Balance:						
Operations of fair value hedges	2,826,465	(208,029)	2,618,436	3,372,088	(315,939)	3,056,149
Operations of cash flow hedges	1,447	-	1,447	2,192	-	2,192
Total	**2,827,912**	**(208,029)**	**2,619,883**	**3,374,280**	**(315,939)**	**3,058,341**
Credit Balance:						
Operations of fair value hedges	344,063	(208,029)	136,034	677,421	(315,939)	361,482
Operations of Cash flow hedges	46,297	-	46,297	15,987	-	15,987
Total	**390,360**	**(208,029)**	**182,331**	**693,408**	**(315,939)**	**377,469**

The detail, by maturity, of the notional amount of the derivatives classified as hedging derivatives at 31 December 2018 and 2017 is as follows:

(Thousand of euros)

	Remaining term from 31 December 2018			
ITEMS	0 to 3 years	3 to 10 years	More than 10 years	Total
Interest rate derivates	7,273,672	13,681,590	3,212,033	24,167,295
Total	**7,273,672**	**13,681,590**	**3,212,033**	**24,167,295**

(Thousand of euros)

	Remaining term from 31 December 2017			
ITEMS	0 to 3 years	3 to 10 years	More than 10 years	Total
Interest rate derivates	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**

Operations of fair value hedges:

The following table presents a breakdown, by classes of hedged items, of the value of outstanding fair value hedges in the balance sheet and the accumulated amount of fair value hedge adjustments at 31 December 2018:

(Thousand of euros)

ITEM		31/12/2018 Carrying amount of hedged item	31/12/2018 Accumulated amount of fair value adjustments on the hedged item	
Debit balance				
Fixed rate debt securities	A	6,148,118	149,846	D
Fixed rate loans and advances	B	52,551	8,886	
Total		**6,200,669**	**158,732**	
Credit balance				
Fixed rate deposits	C	6,398,715	(867,928)	E
Fixed rate debts securities issued by the Banki	C	11,236,732	(1,436,970)	F
Total		**17,635,447**	**(2,304,898)**	

The hedged item and the fair value hedge adjustment on the hedged item are recognised in the balance sheet under the following line items:

A. Financial assets at fair value through other comprehensive income

B. Financial assets at amortised cost

C. Financial liabilities at amortised cost

In addition to the cumulative fair value adjustments on hedged items for continuig hedges, also recognised at 31 December 2018 is the amount of fair value adjustments of discontinue hedges unamortized in the hedged items, as explained below:

A. Debt securities classified as financial assets at fair value through other comprehensive income for EUR 5,543 thousand.

B. Deposits classified as financial liabilities at amortised cost for EUR 91,687 thousand.

C. Debt securities issued classified as financial liabilities at amortised cost for EUR 326 thousand.

The following table presents a breakdown, for of fair value hedges, by type of derivative, fair value and the notional amount of derivatives designated as hedging instruments at 31 December 2018:

ITEM	31/12/2018		
	Notional amount	Carrying amount	
		Debut amount	Credit amount
Interest rate derivates	23,622,536	2,618,436	136,034
Total	**23,622,536**	**2,618,436**	**136,034**

The following table presents a breakdown, for fair value hedges, of the change in the fair value of the hedging instrument and the hedged item used as a basis for recognising hedge ineffectiveness in 2018

(Thousands of euros)

ITEM		31/12/2018		
		Gains/(losses) attributable to the hedged risk		Ineffectiveness
Hedged item	Hedging instruments	Hedged item	Hedging instrument	
Debit Balance:				
Debt securities	Interest rate derivatives	13,426	(26,435)	(13,009)
Loans at amortised cost	Interest rate derivatives	(6,714)	6,618	(96)
Total		**6,712**	**(19,817)**	**(13,105)**
Credit Balance:		:		
Deposit	Interest rate derivatives	84,349	(85,265)	(916)
Debt Securities issued	Interest rate derivatives	184,922	(199,435)	(14,513)
Total		**269,271**	**(284,700)**	**(15,429)**

The detail, by maturity, the notional amount of derivatives classified as fair value hedges at 31 December 2018 is as follows:

(Thousands of euros)

	Remaining term to maturity as of 31 December 2018			
ITEMS	0 to 3	3 to 10	More than 10	Total
Debt securities				
Interest rate derivatives	561,800	5,344,667	10,000	5,916,467
Loans at amortised cost				
Interest rate derivatives	15,148	14,492	91,037	120,677
Deposits				
Interest rate derivatives	1,612,226	2,963,920	889,569	5,465,715
Debt securities issued				
Interest rate derivatives	5,002,550	4,895,700	2,221,427	12,119,677
Total	**7,191,724**	**13,218,779**	**3,212,033**	**23,622,536**

Operations of cash flow hedges:

The cash flow hedges relate entirely to micro-hedges. Therefore, the hedged item and hedging derivative are perfectly identified. As a result, in 2018 and 2017, there was no ineffectiveness that, according to applicable regulations, required recognition on the Bank's income statement for that year.

The table below presents, for cash Flow hedges, a breakdown, by type of hedged item, of the change in the balance value of the hedged element in the year, and of the cash Flow hedge reserves as of 31 December 2018:

(thousand of euros)

ITEMS		31/12/2018		
		Change in the value of the hedged item used as a the basis for recognising hedge ineffectiveness for the period	Cash flow hedge reserve	
			Continuing hedges	Discontinued hedges
Debit balance:				
Floating rate debt securities (*)	A	10,290	3,375	
Floating rate loans and advances (*)	B	944	359	(7,019)
Total		**11,234**	**3,734**	**(7,019)**

(*)Not taking into consideration the related tax effect.

The hedged item is recognised in the balance sheet under the following headings:

A. Financial assets at fair value through other comprehensive income

B. Financial assets at amortised cost

The detail for cash flow hedges, by class of derivative, fair value, notional amount, change in fair value of the hedging instrument used as a basis to recognise the ineffectiveness in the year, the ineffectiveness recognised in the year, and the amount reclassified due to the cash flow hedge adjustment at 31 December 2018, is as follows:

(Thousand of euros)

ITEMS	Notional amount	Carrying amount		31/12/2018 Change in the value of the hedging instrument used as a he basis for recognising hedge ineffectiveness for the period			Amount reclassified to profit or loss	
				Total	Effective portion	Ineffectiveness		
		Debit balances	Credit balances		Accumulated other comprehensive income (*)	Gains or (-) losses from hedge accounting, net	Net interest income	Gains or (-) losses from hedge ıccounting, net
Interest rate derivates	544,759	1,447	46,297	11,234	11,234	-	-	-
Total	**544,759**	**1,447**	**46,297**	**11,234**	**11,234**	**-**	**-**	**-**

(*)Not taking into consideration the related tax effect.

The detail of the periods after 31 December 2018 and 2017 at which it is estimated that the amounts recognised in equity under "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 (See Note 22):

(Thousands of euros)

ITEMS	Remaining term to maturity as of 31 December 2018				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	TOTAL
Losses (*)	-	-	(442)	(6,100)	(6,542)
Gains (*)	4	3,237	484	518	4,243
Total	**4**	**3,237**	**42**	**(5,582)**	**(2,299)**

(*) Taking into consideration the related tax effect.

(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.

The table below presents an estimate at 31 December 2018 of future receipts and payments hedged with cash flow hedges by the time from that date that the hedges are expected to take effect in the form of receipt or payment:

(Thousand of euros)

ITEMS	Remaining term from 31 december 2018 Between 0 to 3 years	Between 3 to 10 years	More than 10 years	Total
Interest rate derivates				
Notional amount	81,948	462,811	-	544,759
Average fixed interest rate (%)	0.001	1.470	-	1.249
Total	**81,948**	**462,811**	**-**	**544,759**

The table below presents an estimate at 31 December 2017 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)

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
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)**

(13) Investments in subsidiaries, joint ventures and associates

(13.1) Investments in subsidiaries, joint ventures and associates – Subsidiaries

The detail of the main investments under "Investments in subsidiaries, joint ventures and associates – Subsidiaries" in the accompanying balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

COMPANY	31/12/2018	31/12/2017
Arrendadora Aeronáutica, A.I.E.	-	62,057
Arrendadora de Equipamientos Ferroviarios, S.A.	10,812	10,812
Bankia Fondos, S.G.I.I.C, S.A.	34,915	66,422
Bankia Habitat, S.L.U.	3,904,326	3,904,326
Bankia Inversiones Financieras, S.A.U.	1,182,206	1,182,206
Bankia Pensiones, S.A., E.G.F.P.	108,179	114,000
Centro de Servicios Operativos e Ingeniería de Procesos, S.L.U.	12,522	12,522
Corporación Empresarial Mare Nostrum, S.L.U. (1)	-	65,446
Corporación Industrial Bankia, S.A.U.	784,033	702,525
Innostrum División Inmobiliaria, S.L.U. (1)	-	37,642
Inversiones y Desarrollos 2069 Madrid, S.L.U.	39,480	39,480
Mediación y Diagnósticos, S.A.	20,344	20,344
Puertas de Lorca Desarrollos Empresariales, S.L.U.	13,605	10,240
Valenciana de Inversiones Mobiliarias, S.L.U.	136,841	136,841
Vector Capital, S.L.U.	18,763	18,763
Resto de participaciones	113,917	19,996
Sum	**6,379,943**	**6,403,622**
Valuation adjustments - Impairment losses	**(3,830,864)**	**(3,724,977)**
Total	**2,549,079**	**2,678,645**

(1) Companies absorbed by Corporación Industrial Bankia, S.A.U.

Changes in this balance sheet heading in 2018 and 2017 were as follows

(Thousands of euros)

ITEM	31/12/2017	31/12/2017
Accounting balance at the beginning of the year	**2,678,645**	**2,536,348**
Acquisitions	203,431	-
Disposals	(227,110)	(57,954)
Others changes	-	6,274
Additions due to business combination	-	60,586
Net change in impairment losses	(105,887)	133,391
Total	**2,549,079**	**2,678,645**

(13.2) Investments in subsidiaries, joint ventures and associates - Joint Ventures

The detail of the main investments under "Investments in subsidiaries, joint ventures and associates – Joint Ventures" in the accompanying balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

COMPANY	31/12/2018	31/12/2017
Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. (1)	-	17,281
Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. (1)	-	16,826
CA CF – Bankia,S.A.	4,900	-
Subtotal	**4,900**	**34,107**
Valuation adjustments – Imparment losses	**(1,082)**	**(2,518)**
Total	**3,818**	**31,589**

(1) Company transferred to the portfolio of Group companies of non-current assets held for sale.

Changes in this balance sheet heading in 2018 were as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Accounting balance at the beginning of the year	**31,589**	-

Acquisitions	4,900	-
Disposals	-	-
Transfers (Note 17)	(34,107)	-
Additions due to business combination	-	31,589
Net change in impairment losses	1,436	-
Total	**3,818**	**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 2018 and 2017 is as follows:

(Thousand of euros)

COMPANY	31/12/2018	31/12/2017
Avalmadrid, S.G.R.	29,578	29,578
Bankia Mapfre Vida, S.A. de Seguros y Reaseguros	169,312	173,050
Caja de Seguros Reunidos Compañía de Seguros y Reaseguros, S.A.	69,377	-
Redsys Servicios Procesamiento, S.L.	7,676	7,676
Nettit Colaborative Payment, S.L.	3,000	3,000
Sum	**278,943**	**213,304**
Valuation adjustments - Impairment losses	(118,203)	**(83,394)**
Subtotal	**160,740**	**129,910**

As described in Note 1.15, in 2018, the investment in Caser was reclassified from "Financial assets at fair value through other comprehensive income" to "Investments in associates" and accounted for using the equity method.

On 4 December 2018, the Group reached an agreement with CASER for the non-extinctive partial novation of the alliance with Sa Nostra Vida covering the distribution of life insurance and pension plans. The novation restricts the regional scope of the alliance to the Balearic Islands and modifies certain circumstances for the termination of the alliance, as well as the terms and conditions of the related termination options. The terms and conditions covering commissions in the original agreements were maintained. The price agreed by the parties for the novation has been EUR 35 million, paid in full by Bankia to Grupo Caser. This amount was paid out of the provisions set aside previously for this purpose.

Regarding the change in the value of the stake in Bankia Mapfre Vida, S.A., de Seguros y Reaseguros, this company paid dividends in 2018, with Bankia, S.A. receiving EUR 47,524 thousand according to its percentage stake.

Changes in this balance sheet heading in 2018 and 2017 in this caption of the balance sheet were as follows:

(Thousands of euros)

ITEMS	31/12/2018	31/12/2017
Accounting balance at the beginning of the year	**129,910**	**126,024**
Acquisitions	69,377	10,676
Disposals	(3,738)	-
Transfers	-	29,578
Net change of impairment loss	(34,809)	(36,368)
Total	**160,740**	**129,910**

(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 2018 and 2017 is as follows:

31 December 2018

(Thousands of euros)

ITEM	Group entities	Joint ventures	Associates	Total
Accounting balance at the beginning of the year	**3,724,977**	**2,518**	**83,394**	**3,810,889**
Provision charged to income	217,212	2,896	34,808	254,916
Recovery of provisions with a credit to income	(94,394)	-	-	(94,394)
Net provision (Note 39)	**122,818**	**2,896**	**34,808**	**160,522**
Other changes and exchange differences	(16,931)	(4,332)	1	(21,262)
Transfers	-	-	-	-
Total	**3,830,864**	**1,082**	**118,203**	**3,950,149**

31 December 2017

(Thousands of euros)

ITEM	Group entities	Joint ventures	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**

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 item in the accompanying balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	For own use	Investment property	Total
Cost			
Balances at 31/12/2017	**4,788,023**	**949,960**	**5,737,983**
Additions/disposals (net)	22,051	(33,400)	(11,349)
Transfers to non-current assets held for sale and other changes (1)	(63,055)	(199,442)	(262,497)
Balances at 31/12/2018	**4,747,019**	**717,118**	**5,464,137**
Accumulated depreciation			
Balances at 31/12/2017	**(2,907,917)**	**(63,186)**	**(2,971,103)**
Additions/disposals (net)	44,150	3,755	47,905
Depreciation for the year	(100,684)	(11,696)	(112,380)
Transfers to non-current assets held for sale and other changes (1)	(9,713)	36,631	26,918
Balances at 31/12/2018	**(2,974,164)**	**(34,496)**	**(3,008,660)**
Impairment losses			
Balances at 31/12/2017	**(134,724)**	**(229,741)**	**(364,465)**
Net provision/(release) charged/(credited) to income statement	12	(22,982)	(22,970)
Transfers to non-current assets held for sale and other changes	19,259	83,841	103,100
Balances at 31/12/2018	**(115,453)**	**(168,882)**	**(284,335)**
Total at 31 December 2017	**1,745,382**	**657,033**	**2,402,415**
Total at 31 December 2018	**1,657,402**	**513,740**	**2,171,142**

(1) In the case of assets for own use and property investments, relates mainly to the transfer to "Non-current assets held for sale" of properties and facilities earmarked for disposal., and disposal groups of elements which have been classified as held for sale of dwellings and facilities susceptible to divestment.

31 December 2017.

((Thousands of euros) ITEM	For own use	Investment property	Total
Cost			
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 31/12/2016	**(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 31/12/2016	**(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 and investment properties, relates mainly to the transfer to "Non-current assets held for sale" of properties and facilities earmarked for disposal. In adition in the case of assets for investment property, mainly to the disposal of the investment in subsidiary Torre Norte Castellana, S.A.

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 2018

(Thousands of euros) ITEM	Cost	Accumulated depreciation	Impairment losses	Net balance
Buildings and other structures	1,830,919	(410,667)	(63,830)	1,356,422
Furniture and vehicles	214,980	(184,152)	-	30,828
Facilities	1,564,015	(1,296,574)	(51,623)	215,818
Office equipments and mechanization	1,137,105	(1,082,771)	-	54,334
Balance at 31 December 2018	**4,747,019**	**(2,974,164)**	**(115,453)**	**1,657,402**

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
Facilities	1,490,970	(1,217,404)	(61,772)	211,794
Office equipments and mechanization	1,137,372	(1,074,636)	(3,526)	59,210
Balance at 31 December 2017	**4,788,023**	**(2,907,917)**	**(134,724)**	**1,745,382**

At 31 December 2018 and 2017, 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 2018 and 2017, the Bank did not have any significant contractual obligations in connection with the future operation of the investment properties included on the balance sheet, and there were no relevant restrictions thereon, other than those inherent to the current conditions of the property market.

During the year ended at 31 December 2018 net income from the Bank's investment property totalled EUR 22,654 thousand (EUR 13,077 thousand at 31 December 2017) (see Note 32).

(15) Intangible assets- Other intangible assets

The breakdown of assets under this heading on the accompanying balance sheets is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Cost		
Computer software	1,146,057	1,023,275
Accounting balance at the end of the period	**1,146,057**	**1,023,275**
(Accumulated amortisation)	(940,534)	(880,606)
Total	**205,523**	**142,669**

The movements in this heading of the balance sheet during the years ending on 31 December 2018 and 2017, have been the following:

(Thousands of euros)

ITEM	2018	2017
With indefinite useful life -	**142,669**	**121,813**
Other additions	122,959	103,453
Amortisation recognised in income (Note 36)	(60,105)	(82,597)
Balance at 31 December	**205,523**	**142,669**

(16) Other assets

Details of "Other assets" on the balance sheets at 31 December 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Insurance contracts linked to pensions (Note 34.2)	1,034,030	432,981
Other items	638,012	476,840
Total	**1,672,042**	**909,821**

"Other items"contains, 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

(17.1) Breakdown

The breakdown of this heading of the asset side of the accompanying balance sheet 31 December 2018 and 2017:

31 December 2018

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Tangible asset for own use	276,860	(79,388)	197,472
Foreclosed real state or received in payment debts	2,228,316	(562,133)	1,666,183
Other equity instruments	127,851	-	127,851
Investments in subsidiaries, joint ventures and associates	72,429	(45,613)	26,816
Disposal group	3,094,107	(1,653,245)	1,440,862
Total	**5,799,563**	**(2,340,379)**	**3,459,184**

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 asset	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 as a result of the business combination (see Note 1.15)

(17.2) Tangible assets for own use

At 31 December 2018, 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 2.19, the Bank recognises these assets at the lower of their carrying amount and fair value less cost to sell. Having recognized an impairment in 2018 for an amount of EUR 6,409 thousand (EUR 5,025 thousand in 2017) (See note 42).

As a result of the sale of buildings by the Bank in previous periods, at 31 December 2018 it was a party to operating lease contracts with the purchasers of the buildings (investors). These contracts have mandatory durations between 2 and 18 years, extendable for additional periods of 5 years. The weighted maturity of those agreements is 8 years. The present value of the future payments in which the group will incurr, arise from the lease agreements among the legal compliance period, will be EUR 37 millions in one year, EUR 137 millions from two to five years and EUR 298 millions for more tan 5 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).
- 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.

(17.3) Tangible assets in payment of debts.

The Bank has devised, according to Bank of Spain Circular 04/2017, an internal methodology for estimating discounts on the reference value and costs of sale of real estate assets foreclosed or received in payment of debt. This method is based on the Bank's experience in selling by asset category in relation to terms, prices and volume, and also the time it takes to sell them. Use of this internal method had no significant impact on these interim condensed financial statements.

The methodology therefore excludes those assets for which the Bank has not attained sufficient sales volume, meaning that its management unit does not possess the sales experience needed to sell or otherwise realise those assets at their fair value. The Bank seeks to maximise the application of the internal methodologies. Therefore they will be extended to these assets when it amasses sufficient sales experience. The value of the portfolio has been measured by taking its reference value and applying the percentage discount rates estimated by the Bank of Spain, on the basis of its experience and the information it holds on the banking sector, as set out in Bank of Spain Circular 4/2017.

The methodology complies with the principles and requirements governing the development and use of internal methodologies for estimating discounts on the reference value and the cost of sale of foreclosed assets or those received in payment of debt. It has also undergone the necessary internal validation process prior to its approval and use.

The breakdown of assets foreclosed in settlement of debts recognised on the Bank's accompanying balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Property assets		
Finished dwellings	1,102,758	1,842,747
Managed rural property and offices, commercial and industrial premises	407,825	517,480
Building plots, plots and other property assets	155,600	243,380
Total	**1,666,183**	**2,603,607**

Significant changes

The changes recognised in foreclosed assets in the years ended 31 December 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	2018	2017
Accounting balance at the beginning of the period	**2,603,607**	**1,889,626**
Additions during the year and other changes	250,750	293,704
Disposals during the year	(580,015)	(386,375)
Net impairment losses(Note 42)	(73,875)	(114,748)
Other changes	(534,284)	921,400
Accounting balance at the end of the period	**1,666,183**	**2,603,607**

Sales of foreclosed assets are made on an arm's length basis. In 2018, financing was granted for an amount of approximately EUR 116 million. On average, 81.4% of the sales amount was financed (EUR 174 million and 87.6% in 2017).

Proceeds on disposals of foreclosed assets, by type, in the years ended 31 December 2018 and 2017 were as follows:

(Thousand of euros)

	31/12/2018		31/12/2017	
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	461,839	(7,232)	331,388	(4,304)
Managed rural property and offices, commercial and industrial premises	94,317	12,461	42,381	15,618
Building plots, plots and other property assets	23,859	17,060	12,606	3,744
Total	**580,015**	**22,289**	**386,375**	**15,058**

(*) Excludes fees paid to intermediates.

Appendix VIII provides further details on the Bank's property assets at 31 December 2018 and 2017, including the foreclosed assets referred to in the preceding paragraph.

Moreover, the table below shows the net value of the foreclosed assets at 31 December 2018 and 2017, by their estimated ages as of the date of acquisition:

(Thousands of euros)

Age of foreclosed assets	31/12/2018	31/12/2017
Less than 12 months	178,672	389,793
12 months to 24 months	327,242	347,298
More than 24 months	1,160,269	1,866,516
TOTAL	**1,666,183**	**2,603,607**

The following tables provides a breakdown of the gross balance at 31 December 2018 of real estate assets foreclosed or received in payment of debts (transactions in Spain) classified by their purpose in "Non-current assets held for sale" and "Tangible assets - Investment properties" in the public balance sheet at that date, excluding those classified as a disposal group (see Note 18.5.1):

(Thousand of euros)

ITEM	31/12/2018
Real estate assets from loans to construction and real estate developers	367,679
Finished buildings	181,831
Buildings under construction	29,032
Land	156,816
Real estate assets from loans to households for home purchases	1,670,778
Other real estate assets received in payment of debts	779,355

Appendix IX provides information on exposure to property and construction risk in Spain, including information on assets foreclosed or received in payment of debts and the real estate assets included in the preceding table.

(17.4) Equity instruments and investments in joint ventures and associates

The detail of this heading in the accompanying balance sheet at 31 December 2018 and 2017 is as follows:

31 December 2018

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Other equity instruments	127,851	-	127,851
Investments in subsidiaries	2,487	(2,487)	-
Investments in joint ventures	23,513	(23,513)	-
Investments in associates	46,429	(19,613)	26,816
Total	**200,280**	**(45,613)**	**154,667**

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**

Investments in subsidiaries, joint ventures and associates – subsidiaries:

(Thousands of euros)

ITEM	2018	2017
Accounting balance at the beginning of the year	**87**	**2,485**
Acquisitions	50	75
Lows	(458)	-
Net impairment losses	321	(2,560)
Additions due to business combination	-	87
Total	**-**	**87**

Investments in subsidiaries, joint ventures and associates– joint ventures:

(Thousands of euros)

ITEM	2018	2017
Accounting balance at the beginning of the year	**22,360**	**-**
Acquisitions	-	-
Lows	(34,402)	(2,865)
Transfers (1)	-	(17,111)
Net impairment losses	12,042	17,111
Additions due to business combination	-	25,225
Total	**-**	**22,360**

(1) In 2017, this related to a stake transferred to the portfolio of financial assets at fair value through other comprehensive income

Investments in subsidiaries, joint ventures and associates – associates:

(Thousands of euros)

ITEM	2018	2017
Accounting balance at the beginning of the year	**19,250**	**16,807**
Acquisitions	114	-
Lows	(16,724)	-
Transfers	-	(29,578)
Net impairment losses	24,176	29,291
Additions due to business combination	-	2,730
Total	**26,816**	**19,250**

The table below shows the impairment of the subsidiaries, joint ventures and associates ofr the period-end 31 December 2018 and 2017:

31 December 2018

(Thousands of euros)

ITEM	Subsidiaries	Jointly-controlled entities	Associates	TOTAL
Accounting balance at the beginning of the year	**2,808**	**35,555**	**43,789**	**82,152**
Net provision (Note 42)	33	-	(8,928)	(8,895)
Amortisation recognised in income	50	-	165	215
Recovery of provisions with a credit to income	(17)	-	(9,093)	(9,110)
Amounts used due to losses on sales	(354)	-	(14,886)	(15,240)
Transfers between portfolios	-	-	-	-
Others changes	-	(12,042)	(362)	(12,404)
Exchange differences	-	-	-	-
Total	**2,487**	**23,513**	**19,613**	**45,613**

31 December 2017

(Thousands of euros)

ITEM	Subsidiaries	Jointly-controlled entities	Associates	TOTAL
Accounting balance at the beginning of the year	**-**	**17,111**	**43,682**	**60,793**
Net provision (Note 42)	2,864	-	287	3,151
Amortisation recognised in income	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**

(17.5) Assets and liabilities included in disposal groups

A disposal group is defined as a group of assets, possibly with some directly associated liabilities, which will be disposed of in a single transaction. Such a disposal group may be a cash-generating unit. In addition, the Bank has classified these disposal groups as non-current assets held for sale since they satisfy the requirements for classification as "non-current assets held for sale". Therefore, the assets and liabilities are presented and measured in accordance with the criteria established for "Disposal groups" (see Note 2.1).

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Disposal groups			
Loan and real estate portfolio	2,776,087	(1,564,346)	1,211,741
Bancassurance reorganization	318,020	(88,899)	229,121
Total assets on 31 December 2018	**3,094,107**	**(1,653,245)**	**1,440,862**

The following table presents information on the disposal groups identified by the Group:

(17.5.1) Loans and real estate assets portfolio

As reported in a material disclosure on 17 December 2018, the Group reached an agreement with two subsidiaries of the Lone Star XI fund, in order to set up a company to administer, develop and have available a portfolio of foreclosed real estate assets and transfer a portfolio of non-performing loans , for a combined gross book value of approximately EUR 3,070 million –EUR 1,650 million of foreclosed assets and EUR 1,420 million of mortgage loans, approximately– in accordance with the scope of assets originally agreed at the date of identification.

The real estate assets will be contributed to two companies in which Bankia, S.A. holds, directly or indirectly, 20% of their capital, and the Lone Star Fund XI subsidiary, the remaining 80%. Meanwhile, the economic rights of the non-performing loans will be acquired in full by a wholly owned vehicle of Lone Star Fund XI for their subsequent securitisation by an asset-backed securitisation fund.

The transaction is subject to the pertinent administrative authorisations and is expected to be closed in the second quarter of 2019, after which the assets will be derecognised from the balance sheet. Until the transaction is completed, these assets have been classified as a disposal group of assets classified as held for sale since their carrying amount of all the assets will be recovered together through the transaction, which is considered to be highly probable.

At 31 December 2018, the gross values included in "Disposal groups – Portfolio of loans and real estate assets" were lower than estimated in the original scope indicated previously due to the trends and ordinary performance of the assets from the date of identification (e.g. receipts from redemptions or recoveries, foreclosures or payments in lieu, sales of foreclosed assets).

The breakdown of this item in the accompanying balance sheet, by the nature of the entity's operations:

(Thousands of euros)

ITEM	31/12/2018
Loans	1,377,441
Tangible assets for own use	107,206
Assets from the foreclosed	1,291,440
Gross Value	**2,776,087**
Impairment losses	**(1,564,346)**
Net carrying amount	**1,211,741**

Loans portfolio

Virtually the entire loan portfolio –more than 99% of the gross balance– by counterparty sector relates to transactions with retails and non-financial companies and by credit status to non-performing loans.

The following table shows the classification of doubtful assets at 31 December 2018 by age of the oldest past-due amount of each transaction and the type of guarantee or collateral:

(Thousands of euros)

ITEM	31/12/2018
By age	
Up to 6 months	73,337
Between 6 and 9 months	21,001
9 to 12 months	25,334
More than 12 months	1,253,477
Total	**1,373,149**
By type of collateral	
Full mortgage collateral	1,373,149
Other collateral	-
Without collateral	-
Total	**1,373,149**

Below is the distribution 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 relations to the risks to which it is exposed:

(Thousands of euros)

ITEM	31/12/2018
Lower than or equal to 40%	107,553
Greater than 40% and lower than or equal to 60%	236,738
Greater than 60% and lower than or equal to 80%	520,718
Greater than 80%	508,140
Total	**1,373,149**

Appendix IX includes the classification and impairment policies and criteria applied by the Group/Bank in refinancing and restructuring operations, along with their gross amount and the allowances and provisions for credit risk, with details of those classified as doubtful and a breakdown of those classified as “Non-assets and disposal groups classified as held for sale”.

Appendix XI provides information on risk concentration by activity and geographic area. The information includes non-current assets classified as held for sale.

Of total loans, according to the industry classification (NACE) of the borrower, irrespective of the purpose of the finance, EUR 563,047 thousand related to Other sectors, which includes exposures to Households.

Real estate assets portfolio

The breakdown of real estate assets by classification in the balance sheet and type of asset is as follows:

(Thousands of euros)

ITEM	31/12/2018
Tangible assets for own use	**107,206**
Foreclosed assets	**1,291,440**
Finished dwellings	902,252
Managed rural property and offices, commercial and industrial premises	221,349
Building plots, plots and other assets	167,839
Total	**1,398,646**

The table below shows the gross value of the foreclosed assets at 31 December 2018 and 2017, by their estimated ages as of the date of acquisition:

(Thousands of euros)

Age of foreclosed assets	31/12/2018
Less than 12 months	462
12 months to 24 months	42,887
More than 24 months	1,248,091
TOTAL	**1,291,440**

The following table provides a breakdown of the gross balance at 31 December 2018 of real estate assets foreclosed or received in payment of debts (transactions in Spain) classified as a disposal group:

(Thousand of euros)

ITEM	31/12/2018
Real estate assets from loans to construction and real estate developers	316,203
Finished buildings	131,248
Buildings under construction	19,736
Land	165,219
Real estate assets from loans to households for home purchases	738,927
Other real estate assets received in payment of debts	236,310

Appendix IX provides information on exposure to property and construction risk in Spain, including information on assets foreclosed or received in payment of debts and the real estate assets included in the preceding table.

(17.5.2) Bancassurance reorganisation alliances

In 2018, after the merger by absorption of Banco Mare Nostrum, S.A. (see Note 1.15), the bancassurance alliances of Bankia Group companies were reorganised.

In this respect, on 10 July 2018, on receiving authorisation by the competent authority and in the absence of opposition by the General Directorate of Insurance and Pensions (Dirección General de Seguros y Pensiones), the acquisition of 50% interests in insurance companies Caja Granada Vida Compañía de Seguros Reaseguros, S.A. (hereinafter "Caja Granada Vida"), from Ahorro Andaluz, S.A., and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. (hereinafter "Cajamurcia Vida"), from Aviva Europe, SE, by Bankia, S.A., for EUR 226,393 thousand, was completed, giving it whole ownership of both companies and concluding the bancassurance alliances with Aviva Europe, SE.

After obtaining control of the companies, the Bank intends to transfer its majority shareholdings in each, so they have been classified as Disposal groups - Discontinued operations.

On 4 December 2018, the Group reached an agreement with Grupo Mapfrefor the sale of 51% of the shares of Caja Granada Vida and Cajamurcia Vida to Mapfre Vida Sociedad Anónima de Seguros sobre la Vida Humana ("Mapfre Vida") for a total price of EUR 110 million. Prior to the sale of these shareholdings, the agreement calls for the distribution of dividends, which will be received by Bankia as their sole shareholder.

The effectiveness of the sale is subject to the pertinent regulatory and competition authorities' approvals, which are expected to be obtained in the first half of 2019. The derecognition of the investments will not have a material impact on the Bankia Group's equity since they are measured at their selling price net of the estimated amount of dividends to be distributed. The initial recognition of the companies at their fair value, which was equivalent to the sale price agreed with Mapfre, did not have any impact on the income statement since EUR 36 million of provisions set aside for the business combination with BMN to cover the transaction (see Note 20) were used.

The table below provides the detail of the assets and liabilities corresponding to the disposal group by line item in the accompanying balance sheet under which they were recognised before classification as non-current assets held for sale at 31 December 2018:

Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A

(Thousand of euros)

	31/12/2018		31/12/2018
Cash and balances with central banks and other demand deposits	27,703	Financial liabilities at amortised cost	13,349
Non-trading financial assets mandatorily at fair value through profit or loss	2,840	Liabilities under insurance contracts	178,861
Financial assets at fair value through other comprehensive income	17,853	Other liabilities	27,554
Financial assets at amortised cost	200,300		
Intangible assets	82,671		
Other assets	15,253		
TOTAL ASSETS	**346,620**	**TOTAL LIABILITIES**	**219,764**

Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A.

(Thousand of euros)

	31/12/2018		31/12/2018
Cash and balances with central banks and other demand deposits	27,055	Financial liabilities at amortised cost	4,272
Non-trading financial assets mandatorily at fair value through profit or loss	11,693	Liabilities under insurance contracts	118,357
Financial assets at fair value through other comprehensive income	12,367	Other liabilities	3,850
Financial assets at amortised cost	95,242		
Intangible assets	1		
Tangible assets	74,946		
Other assets	7,441		
TOTAL ASSETS	**228,745**	**TOTAL LIABILITIES**	**126,479**

The post-tax profit from discontinued operations recognised in the income statement for 2018 was EUR 6,047 thousand.

Appendix II provides additional information on both companies.

On 4 December 2018, the Group reached an agreement with CASER for the non-extinctive partial novation of the alliance with Sa Nostra Vida covering the distribution of life insurance and pension plans. The novation restricts the regional scope of the alliance to the Balearic Islands and modifies certain circumstances for the termination of the alliance, as well as the terms and conditions of the related termination options. The terms and conditions covering commissions in the original agreements were maintained. The price agreed by the parties for the novation was EUR 35 million, paid in full by Bankia to Grupo Caser. This amount was paid out of the provisions set aside previously for this purpose (see Note 19).

(18) Financial liabilities at amortised cost

Breakdown

The detail of this item in the accompanying balance sheets, based on the counterparty and nature of the related financial instruments, is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Financial liabilities at amortised cost		
Deposits from central banks	13,855,970	15,355,970
Deposits from credit institutions	21,767,583	22,205,205
Customer deposits	128,896,858	131,736,239
Debt securities issued	15,727,608	17,971,594
Other financial liabilities	1,598,551	1,090,428
Sum	**181,846,570**	**188,359,436**
Valuation adjustments	2,214,344	2,557,075
Total	**184,060,914**	**190,916,511**

Financial liabilities at amortised cost – Deposits – Central banks

The breakdown of assets under this heading in the accompanying balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)		
ITEM	31/12/2018	31/12/2017
Bank of Spain / European Central Bank	13,855,970	15,355,970
Sum	**13,855,970**	**15,355,970**
Valuation adjustments	30	-
Total	**13,856,000**	**15,355,970**

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 13,855,970 thousand from T-LTRO II with an average maturity of one year and 6 months, both cases at 31 December 2018 (EUR 1,500,000 thousand by T-LTRO I ,with an average maturity of 9 months and EUR 13,855,970 thousand with an average maturity of 2 years and 7 months, at 31 December 2017).

Regarding finance raised under the framework of the T-LTRO II programme, the Group received confirmation from the ECB that it had met the requirements to receive the incentive included in the terms of the programme. As a result, the Bank recognised EUR 55,905 thousand in the year ended 31 December 2018 (EUR 46,931 thousand in 2017) under "Interest income" in the income statement (Note 26).

Financial liabilities at amortised cost – Deposits – Credit institutions

The detail of this item in the accompanying balance sheets at 31 December 2018 and 2017, based on the nature of the related operations, is as follows:

(Thousands of euros)		
ITEM	31/12/2018	31/12/2017
Mutual accounts	-	1
Time deposits	3,769,231	3,403,428
Repos	14,643,061	15,557,780
Other accounts	3,355,291	3,243,996
Sum	**21,767,583**	**22,205,205**
Valuation adjustments	4,239	7,079
Total	**21,771,822**	**22,212,284**

At 31 December 2018, there was no balance of non-marketable (one-off) mortgage-backed securities issued by the Bank included under this item in the balance sheet (EUR 2,000 thousand at 31 December 2017) (see Appendix VII).

The average effective annual interest rate on deposits from central banks and other credit institutions at 31 December 2018 was 0.12% (0.13% at 31 December 2017).

Financial liabilities at amortised cost - Customer deposits

The detail of this item in the accompanying balance sheets at 31 December 2018 and 2017, based on the nature of the related operations, is as follows:

(Thousands of euros)		
ITEM	31/12/2018	31/12/2017
Public sector	6,607,977	5,677,761
Current accounts	5,826,401	4,488,059
Term deposits	781,576	1,189,702
Other financial corporations	17,566,365	21,656,537
Current accounts	7,240,487	6,125,966
Term deposits	10,281,924	12,862,915
Repos	43,954	2,667,656
Non-financial corporations	15,049,170	16,606,744
Current accounts	12,549,030	12,611,130
Term deposits	2,500,140	3,995,614
Repos	-	-
Households	90,861,139	89,028,559
Current accounts	59,632,449	53,677,080
Term deposits	31,228,690	35,351,479
Repos	-	-
Total	**130,084,651**	**132,969,601**

This balance sheet item includes one-off non-marketable mortgage-backed securities issued by the Bank amounting to EUR 6,247,854 thousand at 31 December 2018 (EUR 7,499,242 thousand at 31 December 2017) (see Appendix VII).

The average effective annual interest rate of these instruments at 31 December 2018 increased up to 0.16% (0.17% at 31 December 2017).

Liabilities at amortised cost – Issued marketable debt securities

The detail of issues recognised under this heading in the balance sheet at 31 December 2018 and 2017 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 2018 amounted to EUR 65,675 thousand (EUR 56,721 thousand at 31 December 2017), recognised under "Interest expenses" in the income statement for the year

The average effective annual interest rate of these instruments at 31 December 2018 has been 1.03% (0.89% at 31 December 2017).

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 2018, a negative balance of EUR 52,179 thousand after tax (year-end 2017: EUR 14,295 thousand) 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 2018 and 2017:

31 December 2018

(Thousands of euros)

TYPE OF ISSUE	31/12/2017	Issues	Reimbursement	Value adjustments, Treasury and other	31/12/2018
Debt securities issued in an EU Member State requiring a prospectus to be registered	19,288,228	1,000,000	(3,652,352)	114,014	16,749,890
Debt securities issued in an EU Member State not requiring a prospectus to be registered	-	-	-	-	-
Other debt securities issued outside the EU	-	-	-	-	-
Total	**19,288,228**	**1,000,000**	**(3,652,352)**	**114,014**	**16,749,890**

31 December 2017

(Thousands of euros)

TYPE OF ISSUE	31/12/2016	Issues	Reimbursement	Value adjustments, Treasury and other	Additions due to business 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**

The main issues and repurchases or repayments in the first half of 2018 were:

– On 25 May 2018, the “CH Caja Madrid issuance maturing 25/05/18” was redeemed at maturity for EUR 2,060 million.

– On 1 June 2018, the “Bankia 2018-1 Covered Bond” issuance was placed for EUR 100 million.

– On 16 July 2018, the “Caja Madrid 2008-6 Bond” issuance was fully redeemed before maturity for EUR 172 million.

- On 19 September 2018, EUR 500 million of perpetual contingent convertible bonds (convertible into new-issue ordinary shares of Bankia.
- On 9 October 2018, the "Bankia 2018-2 Mortgage-Covered Bond" issuance was placed for EUR 400 million.

Appendices V and VI provide a detail of issues comprising the balance sheet disclousure item "Debt securities issued", along with issuances, repurchases or repayments of debt securities in 2018 and 2017 by the Bank.

Other information

In terms of seniority, the subordinated bonds rank junior to the claims held by all general creditors over the issuing entities.

The subordinated bond issue recognised under "Financial liabilities at amortised cost" at 31 December 2018 includes an option for the issuer to call, redeem, repurchase or repay early the securities after (at least) five years from the date of payment and on each coupon payment date, 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 issuer 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 bond, 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 Bank 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, "Liquidity risk of financial instruments".

Financial liabilities at amortised cost - Other financial liabilities

The detail, by type of transaction, of "Other financial liabilities" in the accompanying balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Obligations payable	83,909	95,980
Collateral received	1,857	6,819
Tax collection accounts	251,035	231,562
Special accounts and other items (*)	1,216,363	708,637
Financial guarantees	45,387	47,430
Total	**1,598,551**	**1,090,428**

(*)The balances at 31 December 2018 and 2017 include EUR 132,708 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 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Pensions and other post employment defined benefit obligations (see Note 34)	1,080,822	442,407
Pending legal issues and tax litigation	183,294	352,324
Commitments and guarantees given	373,119	380,422
Other provisions	209,467	778,714
Total	**1,846,702**	**1,953,867**

The changes in the provisions recognised in the balance sheet in the years ended 31 December 2018 and 2017 and the purposes thereof are as follows:

31 December 2018

(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 2017	**442,407**	**352,324**	**380,422**	**778,714**	**1,953,867**
Adjustments first application Circular 4/2017	-	-	43,114	-	43,114
Balances at 1 January 2018	**442,407**	**352,324**	**423,536**	**778,714**	**1,996,981**
Provisions charged to the income statement	-	1,119	11,541	45,572	58,232
Reversals credited to the income statement	(10,418)	(1,870)	(62,699)	-	(74,987)
Net provisions/(reversals) charged to profit recognised for the year (Notes 34 and 37)	**(10,418)**	**(751)**	**(51,158)**	**45,572**	**(16,755)**
Amounts used	(31,767)	(168,279)	-	(563,591)	(763,637)
Other movements	680,600	-	741	(51,228)	630,113
Balances at 31 December 2018	**1,080,822**	**183,294**	**373,119**	**209,467**	**1,846,702**

31 December 2017

(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 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 (Notes 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**

Pensions and other post-employment defined benefit obligations

The balance of pension and similar obligations at 31 December 2018 and 2017, recognised under “Provisions - Pensions and other post-employment defined benefit obligations” in the accompanying balance sheets stood at EUR 1,080,822 thousand and EUR 442,407 thousand, as disclosed in Note 34.2. The difference was due, primarily, to the recognition of the externalisation of the restructuring plan obligations with Bankia Mapfre Vida and the inclusion of the externalisiation of the long-term employee obligations with Caser, after this company’s consideration as a related party once significant influence was obtained.

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 Bank.

As indicated in Note 2.18 the Bank 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 and appeals for inadmissibility against the transformation ruling were submitted, but were rejected, except the appeal by the savings banks’ employees’ union (CIC) with respect to the dismissal of the criminal liability charges against the external audit firm at the time of the IPO, which was accepted. As a result, an agreement was reached to keep Deloitte in the proceeding.

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

The trial began on 26 November 2018 and is expected to run through the first half of 2019.

In light of the foregoing, the Bank has treated this contingency, in keeping with the criterion outlined in Note 2.18.1, 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).

Until 31 December 2018, and as a result of the developments described above, the Bank had utilised provisions in the amount of EUR 1,871 million, EUR 767 million of which corresponded to Bankia (EUR 551 million in respect of nullity of the share purchase contract and EUR 216 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.

At 31 December 2018, there are a total of 700 civil proceedings ongoing with respect to shares purchased in the IPO and subsequently.

Civil proceedings by institutional investors

Elsewhere, until 14 January 2019, 75 sentences have been handed down to institutional investors (14 natural persons and 70 legal persons), of which 21 were favourable at first instance (17 legal persons and 4 natural person), 57 were unfavourable (46 legal persons and 11 natural persons). On appeal, a total of 34 judgements have been delivered by the provincial courts of Spain, 26 of which were unfavourable (relating to five natural persons and 21 legal persons) and 8 adverse (all relating to legal persons).

11 appeals have been lodged (four by high-profile investors, which have been duly contested by Bankia in due time and form, and seven have been lodged by Bankia, given the high profile of the investors)

The Bank's directors consider, at 31 December 2018, that the provision is sufficient to cover the amounts that the Bank would have to pay as a result of the civil proceedings. 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 2.18.2., the Bank has recognised the provisions it estimates will be necessary as of the reporting date.

The change in provisions in 2018 related mainly to the utilisation of provision for the class action lawsuits described in Note 2.18.2 to the accompanying financial statements.

Other provisions

As indicate in Note 19, to the 2017 financial statements, "Other provisions" mainly includes provisions for contingencies deriving from the business combination (see Note 2) and the EUR 445,000 thousand provision recognised to cover the headcount restructuring the enlarged Bank has to undertake.

Lastly, the Bank used a total of EUR 55 million in restructuring provisions in the first half of 2018 mainly to cover the amounts paid to the employees who left the Bank as a result of the collective redundancy agreement signed by Bankia with the workers' representatives in February 2018. The directors consider that the provisions currently set aside are enough to cover the amount the Bank will have to pay as a result of the restructuring process. In addition, approximately EUR 248 million was transferred to "Pensions and other post-employment defined benefit obligations" after assuming the commitments of the Bankia Mapfre Vida restructuring plan explained previously.

In the first half of 2018, the Bank terminated the service contracts for the management of unpaid debts and a set of real estate assets, as signed between BMN and various other companies. The process has required the Bank to pay out EUR 108 million to those companies, for which it used the provisions specifically recognised to cover the termination of the contracts.

On 2 January 2018, the Bank terminated the agreement between BMN and another company for the management and marketing of collective investment schemes, which was undertaken by Bankia Fondos, S.G.I.I.C., S.A. The cancellation required payment of EUR 15 million, which the Bank made using provisions set aside for the same amount. This new arrangement is part of a wider process of restructuring the asset management business following the merger with BMN in a bid to become more efficient. The deal had no significant impact on the income statement for 31 December 2018.

As described in Note 17.5.2, the merger by absorption of Banco Mare Nostrum, S.A. led to the reorganisation during the year of the bancassurance alliances of Bankia Group companies. The restructuring of the Bankia Group's bancassurance alliances will not have a material impact on the Group's equity after the derecognition of the investments in Caja Murcia Vida and Caja Granada Vida (see Note 17.5.2) following authorisation by the regulators and the pertinent competent authorities, considering the provisions already set aside, and the recognition of additional provisions amounting to EUR 49 million under "Other provisions" during the year. Recognition of the reorganisation of the bancassurance activity resulted in the use of EUR 108 million of provisions in the year.

(20) Other liabilities

The detail of this heading in the balance sheet at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Transactions in transit	108,678	73,156
Other items	997,703	794,430
Total	**1,106,381**	**867,586**

"Other items" includes mainly transactions in transit, accruals associated with other operating expenses, and interest receivable and unaccrued prepayments.

(21) Equity

(21.1) Capital

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 2), were registered with the Valencia Companies Register on 8 January 2018.

At 31 December 2018, the Bank's share capital amount to EUR 3,084,963 thousand, represented by 3,084,963 fully subscribed and paid up registered shares with a par value of EUR 1 each of the same class and series.

During 2018 and 2017, no transaction costs were recognised for the issuance or acquisition of own equity instruments.

Bankia, S.A.'s main shareholders at 31 December 2018 and 2017 were as follows:

	Number of shares		% Ownership interest	
Shareholder	31/12/2018	31/12/2017	31/12/2018	31/12/2017
BFA, Tenedora de Acciones, S.A.U.	1,893,698,598	1,881,195,830	61.385%	60.980%

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 treasury shares

In the years 2018 and 2017, 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:

	31/12/2018		31/12/2017	
ITEM	No. Shares	Amount (thousands of euros)	No. Shares	Amount (thousands of euros)
Account balance at the beginning of the year	**20,023,158**	**79,837**	**52,059,789**	**44,758**
+ Purchases during the year	37,119,377	122,241	71,208,722	132,559
- Sales and other changes (1)	(27,598,698)	(105,432)	(103,245,353)	(97,480)
Account balance at the end of the year	**29,543,837**	**96,646**	**20,023,158**	**79,837**
Net incomes on transactions with treasury shares (reserves)		(6,429)		8,645

(1) Includes the reverse split explained in Note 21.1 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 2018 and 2017 follow :

Acquisitions of treasury shares

- Number of treasury shares acquired in 2018: 37,119,377 (71,208,722 shares at 31 December 2017).
- Par value of treasury shares acquired in 2018: EUR 37,119 thousand of EUR 1 par value (EUR 41,232 thousand at 31 December 2017 and EUR 19,668 thousand of EUR 1 par value).
- Average price of treasury shares acquired in 2018: EUR 3,293 of EUR 1 par value (EUR 1.020 of EUR 0.8 par value and EUR 4,067 of EUR 1 par value at 31 December 2017).
- Total amount charged to equity in 2017: EUR 122,241 thousand (EUR 132,559 thousand at 31 December 2017).

Disposals of treasury shares

- Number of treasury shares sold in 2018: 27,598,698 (56,970,353 shares at 31 December 2017).
- Par value of treasury shares sold in 2018: EUR 27,599 thousand of EUR 1 par value (EUR 33,520 thousand of EUR 0.8 par value and EUR 15,070 thousand of EUR 1 par value at 31 December 2017).
- Average selling price of treasury shares sold in 2018: EUR 3.587 of EUR 1 par value (EUR 1.044 of EUR 0.8 par value and EUR 4.139 of EUR 1 par value).
- Amount charged to equity for sales in 2018: EUR 105,432 thousand (EUR 97,480 thousand at 31 December 2017).

Treasury shares held at 31 December 2018 and 2017:

- Number of treasury shares held: 29,543,837 (20,023,158 shares at 31 December 2017).
- Par value of treasury shares held: EUR 29,544 thousand of EUR 1 par value (EUR 20,023 thousand of EUR 1 par value at 31 December 2017).
- Average acquisition price of treasury shares held: EUR 3,271 (EUR 3.987 at 31 December 2017).
- Amount charged to equity for acquisition of treasury shares: EUR 96,646 thousand (EUR 79,837 thousand at 31 December 2017).

(21.3) Other reserves

The Bank's statement of changes in total equity for the years ended 31 December 2018 and 2017 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 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.This reserve is recognised under "Equity - Other reserves" under equity in the balance sheet and totalled EUR 616,993 thousand at 31 December 2018 (EUR 575,866 thousand at 31 December 2017).

(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 10 April 2018, 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) Accumulated other comprehensive income

Items that may be reclassified to profit or loss. Fair value changes of equity instruments measured at fair value through other comprehensive income

This item in the accompanying balance sheet includes the net amount of the changes in fair value of available-Financial assets at fair value through other comprehensive income 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 2018 and 2017:

31 December 2018

(Thousands of euros)

Total Gross	Gains	Losses	Amounts Net Of Tax Effect	Gains	Losses
Quoted debt securities	161,283	(71,920)	Quoted debt securities	112,898	(50,344)
Unquoted debt securities	-	-	Unquoted debt securities	-	-
Total	**161,283**	**(71,920)**	**Total**	**112,898**	**(50,344)**
Total Gains (Gross)	**89,363**		**Total Gains (Net)**	**62,554**	

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	(454)	Unquoted debt securities	320	(318)
Total	**402,340**	**(24,270)**	**Total**	**281,638**	**(16,990)**
Total Gains (Gross)	**378,070**		**Total Gains (Net)**	**264,648**	

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 12).

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 2.13.1 and 34.3).

The statement of recognised income and expense for 2018 and 2017 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 issued is the bid price and that for an asset to be purchased or an issued liability is the asking price. 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 scantly 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 scantly 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 Group 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 2018 was EUR 103 million for CVA (EUR 119 million at 31 December 2017), and EUR 5 million for DVA (EUR 7 million at 31 December 2017). The impact registered in the caption "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 8 million profits (EUR 54 million profits at 31 December 2017).

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	31/12/2018 Total Balance	31/12/2018 Fair value	31/12/2017 Total Balance	31/12/2017 Fair value
ASSETS				
Cash, cash balances at central banks and other demand deposits	4,354,390	4,354,390	3,755,070	3,755,070
Financial assets held for trading	6,320,607	6,320,607	6,719,052	6,719,052
Non-trading financial assets mandatorily at fair value through profit or loss	9,348	9,348	-	-
Financial assets at fair value through other comprenhensive income	15,622,815	15,622,815	22,725,897	22,725,897
Financial assets at fair value at amortised cost	156,747,204	168,261,447	159,027,488	171,144,360
Non-current assets and disposal groups classified as held for sale – Other equity instruments	127,851	127,851	239,770	239,770
Derivatives – Hedge accounting	2,619,883	2,619,883	3,058,341	3,058,341
LIABILITIES				
Financial liabilities held for trading	6,078,800	6,078,800	7,449,989	7,449,989
Financial liabilities at amortised cost	184,060,914	184,686,173	190,916,511	192,662,203
Derivatives – Hedge accounting	182,331	182,331	377,469	377,469

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 "Financial assets at amortised cost"" and "Financial liabilities 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.

  The fair value of debt instruments classified as "Financial assets at amortised cost" is considered to be the quoted value of the investments in active markets, with the sole exception of SAREB bonds (see Note 11), 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).

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)

	31/12/2018			31/12/2017		
ITEM	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Financial assets held for trading	**285,997**	**5,946,073**	**88,537**	**9,782**	**6,622,103**	**87,167**
Debt securities	281,569	-	-	2,001	-	-
Equity instruments	3,901	-	-	4,324	-	-
derivatives	527	5,946,073	88,537	3,457	6,622,103	87,167
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**187**	**9,161**	-	-	-
Debt securities	-	187	-	-	-	-
Equity instruments	-	-	-	-	-	-
Loans and advances	-	-	9,161	-	-	-
Financial assets at fair value through other comprehensive income	**15,452,686**	**127,884**	**42,245**	**22,552,582**	**135,576**	**37,739**
Debt securities	15,452,686	103,645	-	22,552,582	116,125	-
Equity instruments	-	24,239	42,245	-	19,451	37,739
Non-current assets and disposal groups classified as held for sale – Other equity instruments	**42**	**-**	**127,809**	**31,773**	**-**	**207,997**
Derivatives- Hedging accounting	**-**	**2,619,879**	**4**	**-**	**3,058,341**	**-**
LIABILITIES						
Financial liabilities held for trading	**122,121**	**5,952,700**	**3,979**	**343,435**	**7,101,572**	**4,982**
Derivatives	40	5,952,700	3,979	6	7,101,572	4,982
Short positions	122,081	-	-	343,429	-	-
Derivatives- Hedge accounting	**-**	**182,331**	**-**	**-**	**377,469**	**-**

Below are the amounts recognised in the income statement for 2018 and 2017 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 2018 and 2017:

At 31 December 2018

(Thousands of euros)

	Unrealized gains or losses booked in the income statement			Accumulated fair value changes booked in the balance sheet		
ASSETS	Level 2	Level 3	Total	Level 2	Level 3	Total
ASSETS						
Financial assets held for trading	**(1,855,225)**	**15,435**	**(1,839,790)**	**5,256,051**	**83,257**	**5,339,308**
Debt securities	-	-	-	-	-	-
Derivatives	(1,855,225)	15,435	(1,839,790)	5,256,051	83,257	5,339,308
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**-**	**-**	**(221)**	**-**	**(221)**
Equity instruments	-	-	-	-	-	-
Debt securities	-	-	-	(221)	-	(221)
Loans and advance	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**17,154**	**20,134**	**37,288**
Equity	-	-	-	10,930	20,134	31,064
Debt Securities	-	-	**-**	6,224	-	6,224
Derivatives – Hedge accounting	**(406,184)**	**(2)**	**(406,186)**	**2,261,489**	**2**	**2,261,491**
TOTAL ASSETS	**(2,261,409)**	**15,433**	**(2,245,976)**	**7,534,473**	**103,392**	**7,637,866**
LIABILITIES						
Financial liabilities held for trading	**3,185,917**	**206**	**3,186,123**	**5,932,998**	**(2,686)**	**5,930,312**
Derivatives	3,185,917	206	3,186,123	5,932,998	(2,686)	5,930,312
Deriatives- Hedge accounting	**101,669**	**-**	**101,669**	**106,827**	**-**	**106,827**
TOTAL LIABILITIES	**3,287,586**	**206**	**3,287,792**	**6,039,825**	**(2,686)**	**6,037,139**

31 December 2017

(Thousands of euros)

	Unrealized gains or losses registered in the income statement			Accumulated fair value variation registered in the balance sheet		
ASSETS	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	-	-	-	-	-	-
Derivatives	(3,897,151)	12,673	(3,884,478)	5,947,988	78,260	6,026,248
Financial assets at fair value through other comprehensive income	-	**-**	**-**	**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**
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**

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 2018:

<table>
<tr><td colspan="5" align="right">(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)
Libor Model Market (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), considering: 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: 104</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: 24</td></tr>
<tr><td rowspan="5">Derivatives</td><td>Interest rate derivatives: Black and Libor Market Model</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: 5,946

Liabilities: 5,953

Hedging Derivatives:

Assets: 2,620

Liabilities: 182</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. Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.	• Prepayment rates • Credit spread • Default correlation • Interest rate correlation	Debt securities: (*) Loans and advances: 9
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: 42
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: 89 Liabilities: 4
	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 2018.

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 during 2018 and 2017 were as follows:

At 31 December 2018

(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	-	-	-	4,488	-	66
Financial assets at fair value through other comprehensive income	35,323	-	-	-	-	-
Liabilities						
Financial liabilities held for trading – Derivatives	-	-	-	9	-	6

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
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
Liabilities						
Financial liabilities held for trading – Derivatives	-	-	-	21	-	3

The amount of financial instruments transferred between measurement levels in 2018 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 4 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 0.1 million: As relevant observable inputs that represent key assumptions (credit risk) used in the valuation technique to measure certain derivatives have been found.
- Transfer from Level 1 to Level 2 for EUR 35 million: As certain Level 1 debt instruments were delisted.

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 2018 and 2017 follow:

(Thousands of euros)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Opening balance	**124,906**	**4,982**	**105,717**	**7,069**
Gains (losses)	1,156	(1,324)	28,116	(4,917)
To profit and loss	(3,786)	(1,324)	12,904	(4,917)
Reserves for sale	21	-		
Valuation adjustments of equity	4,921	-	15,212	-
Purchases, sales and settlements	(4,757)	(3)	(33,303)	2,824
Net inflows/(outflows) in Level 3	18,642	324	11,846	6
Addition due to business combination	-	-	12,530	-
Closing balance	**139,947**	**3,979**	**124,906**	**4,982**

Gains and losses in 2018 and 2017 on disposals of financial instruments categorised within Level 3 recognised in the accompanying income statement were not significant.

The table below shows, for measurements of the fair value of Level 3 instruments in the fair value hierarchy, recognised on the balance sheet as "Non-current assets and disposal groups classified as held for sale", a reconciliation of balances recognised at 31 December 2018 and 2017:

(Thousands of euros)	2018	2017
Opening balance	**207,997**	**4,442**
Gains (losses)	8,208	7,982
To profit and loss	8,208	7,982
Other net variations	(88,396)	(12,235)
Addition due to business combination	-	207,808
Closing balance	**127,809**	**207,997**

(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 2018 and 2017:

(Thousands of euros)	31/12/2018		31/12/2017	
ITEM	Carrying amount	Fair value	Carrying amount	Fair value
Tangible assets	1,870,161	2,162,571	2,099,415	2,494,561
Own use-Buildings and other structures	1,356,421	1,451,944	1,442,382	1,594,457
Investment property	513,740	710,627	657,033	900,104

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 depreciation of property, plant and equipment amount recognised in the 2018 and 2017 income statements were EUR 112,380 thousand and EUR 89,958 thousand, respectively. And reversions amounts were EUR 22,970 thousand and EUR 38 thousand, recognised in the "Impairment or (-) reversal of impairment on non-financial assets – tangible assets", respectively.

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 2018 and 2017 of the Bankia Group's property, plant and equipment for own use classified under "Non-current assets held for sale" at those dates were EUR 303,083 thousand and EUR 265,765 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 ECO805/2003 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 2.19).

During 2018 and 2017, the companies or agencies that preformed the appraisals are as follows:

(% appraised)

Appraiser companies or agencies	2018	2017
Gesvalt	5.25%	8.65%
Tecnitasa	13.44%	12.07%
Tinsa	56.54%	56.42%
UVE	-	8.27%
Arco Valoraciones	24.60%	13.95%
Others	0.17%	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 2018 and 2017:

(Thousands of euros)

	2018			2017		
ITEM	Level 2	Level 3	Total	Level 2	Level 3	Total
Accounting balance at the end of the year	-	255,937	255,937	-	41,697	41,697

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)

ITEM	31/12/2018	31/12/2017
Balances at the beginning of the year	**41,697**	**19,292**
Gains (losses)	9,805	(3,151)
To impairment losses or gains (see Note 42)	8,895	(3,151)
To sale losses or gains	910	-
Purchases	164	75
Settlements/Sales	(24,850)	(2,866)
Transfers	229,121	-
Additions due to business combination	-	28,347
Balances at the ending of the year	**255,937**	**41,697**

(24) Tax matters

(24.1) Tax group

The Company is the parent of Tax Consolidation Group number 559/11 created on 1 January 2011, comprising in 2018, 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
BMN MEDIACIÓN OPERADOR BANCA SEGUROS VINCULADOS
CENTRO DE SERVICIOS OPERATIVOS E INGENIERIA DE PROCESOS, S.L.U.
CORPORACIÓN EMPRESARIAL MARE NOSTRUM S.L.U
CORPORACIÓN INDUSTRIAL BANKIA, S.A.U.
GESMARE SOCIEDAD GESTORA S.L.U.
GESNOSTRUM SOCIEDAD GESTORA S.L.U.
GESTION Y RECUADACIÓN LOCAL S.L.
INMOGESTIÓN Y PATRIMONIOS, S.A.
INNOSTRUM DIVISION INMOBILIARIA S.L.U
INVERSIÓN GENERAL DE GRANADA 2, S.L.
INVERSIONES PROGRANADA, S.A.U.
MEDIACIÓN Y DIAGNÓSTICOS, S.A.
NAVIERA CATA, S.A.
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.
PUERTAS DE LORCA DESARROLLOS EMPRESARIALES S.L.U
SECTOR DE PARTICIPACIONES INTEGRALES, S.L.
SEGURBANKIA, S.A. CORREDURÍA DE SEGUROS DEL GRUPO BANKIA
SUMMA SEGURIDAD S.L.U.
VALENCIANA DE INVERSIONES MOBILIARIAS, S.L.U.
VECTOR CAPITAL S.L.U
VALORACIÓN Y CONTROL, S.L.

(24.2) Years open for review by the tax authorities and provisions recognised

At 31 December 2018, 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 2013
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).

On 26 September 2018, the scope of the income tax inspections for 2013 was expanded.

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
Value added 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.

On 11 April 2018, the assessment of income tax for 2008, 2009 and 2010 was signed in agreement. This did not result in an additional amount payable. In light of the outcome of the tax inspections disciplinary proceedings were initiated in respect of the revised amounts. Following the issuance of the corresponding penalty agreement of EUR 6.2 million the debt was paid on 23 May 2018.

In addition, on the same date, 11 April 2018, the assessment of income tax for 2008, 2009 and 2010 was signed in protest for differing opinions on the criteria used in the inspection in the item of business combinations, certain items of earned income, and the deduction for R&D applied by the Bank.

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.

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 14,998 thousand euros, which was signed by the Bank under protest; on that same date it was notified of the start of disciplinary proceedings, which contain a fine proposal of 6,546 thousand euros; 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 Bank lodged the corresponding appeals. The Bank 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 Bank 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 1.15, 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 income statements for 2018 and 2017 to the 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	31/12/2018	31/12/2017
Accounting profit/(loss) before tax	**1,036,216**	**549,401**
Adjustment to profit	**(178,416)**	**(171,409)**
Return on equity instruments	(411,015)	(61,632)
Permanent differences	232,599	(109,777)
Profit before adjusted tax	**857,800**	**377,992**
Tax expense (Taxed income * 30%)	**(257,340)**	**(113,398)**
Deductions	**57,086**	**40,469**
Income tax expense	**(200,253)**	**(72,929)**
Income tax adjustments	**(55,967)**	**(67,047)**
Profit or (-) loss of the tax rates of gains or (-) losses on the continuing operations	**(202,548)**	**(80,649)**
Income tax for the year (income/(expense)	(256,220)	(139,976)
Effective rate	24.73%	25.48%
Income tax for previous years (income/(expense)	11,180	(453)
Other movements of deferred tax	42,492	59,780

(24.4)Tax recognised directly in equity

In addition to the income tax recognised in the income statement for 2018 and 2017, the Bank recognises in equity the taxes relating basically to “Accumulated other comprehensive income" (which includes Financial assets at fair value through other comprehensive income, 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 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Iitems that will not be reclassified to proft or (-) loss	**8,068**	**(2,632)**
Actuarial gains or (-) losses on defined benefit pension plans	8,068	(2,632)
Items that may be reclassified to profit or (-) loss	**78,443**	**57,054**
Currency translation	(181)	525
Hedging derivatives. Cash flow hedges	84,059	51,187
Financial assets at fair value through other comprehensive income	(3,370)	3,948
Non-current assets and disposal groups held for sale	(2,065)	1,394
Total	**86,511**	**54,422**

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 Law 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 will report 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, 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 next years.

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 2018 was EUR 87,561 thousand (EUR 67,047 thousand in 2017, excluded BMN) and recognised in the caption “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 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.

Royal Decree Law 27/2018, of 28 December

On 28 December, Royal Decree Law 27/2018 (the "RDL") was approved, adapting the Law on Corporate Income tax to the new Bank of Spain Circular 4/2017 regarding the application for the first time of Circular 4/2017, with effect from 1 January 2018.

The RDL includes, among others, the following measures:

Impacts of first-time application (Transitional provision thirty-nine)

The memorandum of the RDL states that "to reduce the tax effects of this accounting requirement, transitional rules have been put into place, whereby the aforementioned credits and debits are included in the gross income tax base as soon as they have tax effects in accordance with regulations of income tax in equal parts in each of the first three periods beginning on or after 1 January 2018".

Credits and debits to reserve accounts arising from adjustments for the first-time application of Circular 4/2017 (when arising from the application of tax regulations) will have tax effects, i.e. they must be taken into consideration for determining the gross corporate income tax base in the 2018 tax period. The law affects credits and debits that do have tax effects, so they are deductible/taxable, and due to the integration by thirds, the provisions of article 130 on monetisation of DTAs will not apply and the deferral by thirds will not give rise to monetisable DTAs.

This inclusion in equal parts will remain applicable even if the element concerned is retired from the balance sheet. Only if the taxpayer is dissolved over the three tax periods concerned will the remaining amount be included in the gross tax base of the last tax period, unless it is dissolved as a result of a restructuring operation eligible for the tax neutrality regime.

In accordance with this legislation, the Entity included an amount of EUR 7,526 thousand in 2018. It still has EUR 15,053 thousand for next two years.

Accounting for equity instruments under Circular 4/2017 (Article 17.1 of the TRLIS)

With the new Circular, investments in equity instruments must be measured at fair value through profit and loss unless the Entity elects irrevocably at inception to present these changes in fair value in other comprehensive income. If this option is elected, a major change in Circular 4/2017 is that the accumulated gains and losses recognised in other comprehensive income on the disposal are not reclassified to profit or loss (as previously with available-for-sale financial assets), but rather to reserves.

Accordingly, the RDL, to guarantee the inclusion in the tax base on the disposal, amends article 17.1 of the Spanish Corporate Income Tax Law, so that not only changes in value arising from the application of the fair value criterion are included when they should be taken to profit or loss, but also when they should be recognised in a "reserve account if established by a legal or regulatory standard".

Adaptation of regulations on corporate income tax to Circular 4/2017

Regarding Circular 4/2017 and the terminology and credit risk loss model adopted, it should be remembered that the deductibility is set out in the regulations on corporate income tax and so far there have been no amendments thereto.

However, in its introduction, the RDL states: "Lastly, until approval is given for adaptation of the regulatory provisions for credit risk allowances and provisions of financial institutions, prevailing provisions are considered to be applicable, but with the terms used in the new Circular."

Deferred tax assets and liabilities

Pursuant to the tax legislation in force in the countries in which the companies are located, 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 2018 and 2017, bearing in mind the impact of the retroactive application of article the article 11.12 of the TRLIS, are as follows:

(Thousands of euros)

ITEMS	31/12/2018	31/12/2017
Monetisable:	**6,866,834**	**6,924,030**
Allowances for credit impairment	5,364,945	5,406,140
Impairment losses on foreclosed assets	1,221,078	1,237,079
Provisions for pension funds	280,811	280,811
Non-monetisable:	**3,122,355**	**2,994,216**
Allowances for credit impairment	399,590	68,731
Impairment losses on foreclosed assets	11,691	-
Provisions for pension funds	7,875	9,751
Impairment losses recognised on financial assets	76,650	89,448
Other charges	172,515	386,859
Tax assets relating to unused tax credits and tax relief	88,327	88,334
From loss on financial assets	27,347	43,578
Recognised unused tax losses	2,338,360	2,307,515
Total deferred tax debtors	**9,989,189**	**9,918,246**

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Unrealised gains on financial assets	378,829	493,451
Unrealised gains on real estate assets	148,923	151,879
Other items	8,442	39,441
Total deferred tax creditors	**536,194**	**684,771**

The movements in 2018 and 2017 were as follows:

31 December 2018

(Thousands of euros)

ITEM	Balances at 31/12/2017	(Charged)/credited to the income statement (**)	(Charged)/credited to equity (*)	Other movements	Balances at 31/12/2018
Deferred tax assets	9,918,246	(170,797)	238,182	3,558	9,989,189
Deferred tax liabilities	(684,771)	78,350	73,785	(3,558)	(536,194)
Total	**9,233,475**	**(92,447)**	**311,967**	**-**	**9,452,995**

31 December 2017

(Thousands of euros)

ITEM	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	7,354,382	(105,734)	14,367	2,734	2,652,497	9,918,246
Deferred tax liabilities	(642,468)	37,987	46,182	-	(126,472)	(684,771)
Total	**6,711,914**	**(67,747)**	**60,549**	**2,734**	**2,526,025**	**9,233,475**

The detail of both recognised tax loss carryforwards of the Bank at 31 December 2018 of the Bank's tax loss carryforwards, including the year in which they arose:

(Thousands of euros)

Year giving rise to the tax loss	Amount of the tax loss available for offset	Amount of the deferred tax asset recognised (tax credit)
2010	571,490	120,747
2011 (*)	1,229,403	362,423
2012 (*)	8,702,554	1,771,091
Subtotal	**10,503,447**	**2,254,261**
Other tax losses originating from the merger of BMN		
2010	143,201	42,960
2011 (*)	8,892	2,668
2016	33,686	10,106
2017	94,550	28,365
Subtotal	**280,329**	**84,099**
TOTAL	**10,783,776**	**2,338,360**

(*) 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 2018, 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	23,192	-
2008- Deduction for R&D&I	246	-
2009- Deduction for R&D&I	2,560	-
2009- Other deductions	387	-
2009-Deductions for donations (Law 49/2002)	419	-
2010- Deduction for reinvestment	28,503	-
2010- Deduction for R&D&I	1,595	-
2010- Other deductions	303	-
2010- Deductions for donations (Law 49/2002)	459	-
2011- Deduction for R&D&I	1,202	-
2011- Other deductions	450	-
2011- Deductions for donations (Law 49/2002)	140	-
2012- Deduction for R&D&I	1,502	-
2013- Deduction for R&D&I	3,536	-
2013- Deductions for donations (Law 49/2002)	212	-
2014- Deduction for internal double taxation	59,194	-
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	1,647	-
2015- Deduction for R&D&I	3,783	-
2015- Other deductions	801	-
2016- Deduction for international double taxation	1,371	-
2016 – Deduction for R&D&I	4,144	-
2016 – Deductions for donations (Law 49/2002)	1,651	
2017- Deduction for R&D&I	3,536	-
2017 - Deduction for international double taxation	2,318	-

2017- Deductions for donations (Law 49/2002)	1,729	-
TOTAL	**151,264**	**-**

Other tax credits originating from the merger of 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 international 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 international 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 international 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
Total	**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 Grupo at 31 December 2018, amounting to EUR 9,453 thousand (EUR 9,234 thousand at 31 December 2017), 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 Group, 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 2018, the Bank had deferred tax assets amounting to EUR 6,866 million 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 performed various securitization transactions whereby it transferred loans and credits in its 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 2.2.2) are shown in the table below.

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Derecognised out balance sheet (Note 11)	**197,625**	**341,778**
Of which mortgage assets securitised through:	197,352	341,728
Mortgage participations	61,639	150,735
Mortgage transfer certificates	135,713	190,993
Other securitised assets	-	50
Foreclosed assets from securities mortgage-backed assets	273	-
On balance sheet (Note 11)	**10,496,141**	**11,946,922**
Of which mortgage assets securitised through	10,147,246	11,603,686
Mortgage participations	439,357	447,582
Mortgage transfer certificates	9,707,889	11,156,104
Other securitised assets	3,910	727
Foreclosed assets from securitised mortgage assets	344,985	342,509

Appendix IV to these financial statements shows detail of securitization transactions at 31 December 2018 and 2017.

(25.1.2) Repurchase and resale agreements

At 31 December 2018, the Bank had sold financial assets under outstanding repurchase agreements amounting to EUR 14,801,225 thousand (13,654,501 thousand at 31 December 2017), and had purchased financial assets under outstanding resale agreements amounting to EUR 2,143,478 thousand (EUR 738,062 thousand at 31 December 2017), as follows:

(Thousands of euros)

ITEM	31/12/2018		31/12/2017	
	Repurchase agreement	Resale agreement	Repurchase agreement	Resale agreement
Government debt securities	8,624,769	75,043	5,408,230	238,062
Other debt securities	6,176,456	2,068,435	8,246,271	500,000
Total	**14,801,225**	**2,143,478**	**13,654,501**	**738,062**

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 2018, the average term of these repurchases and, accordingly, of the assets provided as collateral was 9 months (4 months at 31 December 2017).

(25.1.3) Assets assigned to other own and third-party obligations

At 31 December 2018 and 2017, the Bank had significant assets guaranteeing their own obligations amounting to EUR 82,977 million and EUR 87,780 million, respectively. These amounts corresponded mainly to loans linked to the issue of long-term mortgage covered bonds (see Note 11 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) Off-balance exposures

Off-balance sheet exposures include loan commitments, financial guarantees and other commitments given, including both revocable and irrevocable commitments.

Loan commitments are irrevocable commitments, or revocable only in the event of a significant adverse change, to provide financing under certain previously stipulated terms and conditions, such as balances drawable by third parties within the limits defined previously by the Bank.

Financial guarantees are contracts that require the Bank, when it acts as issuer in the ordinary course of its business, to make specified payments to reimburse a creditor for a loss it incurs, because a specified debtor fails to make payment where due in accordance with the original or modified terms of a debt instrument, irrespective of its legal form, which may include, among others, a guarantee, a financial surety, an insurance contract or a credit derivative.

Contingent obligations are the off-balance sheet exposures included in Annex 1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June 2013, that do not meet the definition of loan commitment or financial guarantee. They include, among others, non-financial guarantees.

The detail of these guarantees provided and drawable by third parties at 31 December 2018 and 2017 is as follows:

(in thousand of euros)

ITEM	31/12/2018	31/12/2017
Loan commitments given	**21,070,128**	**18,699,632**
Immediately drawable	15,636,379	14,598,822
Conditionally drawable	5,433,749	4,100,810
Financial guarantees given	**427,621**	**414,912**
Contingent commitments given	**12,550,826**	**12,801,026**
Other guarantees, indemnities and other contingent risks	7,436,512	8,062,117
Irrevocable documentary credits issued	-	17,003
Irrevocable documentary credits confirmed	426,209	386,787
Other contingent risk	67,872	49,335
Other commitments given(1)	4,620,233	4,285,784
Total	**34,048,575**	**31,915,570**

(1) Includes mainly commitments to purchase financial assets and documents presented for collection in the various clearing systems.

Note 3.1.2 shows the maximum credit risk assumed by the Bank in relation to these instruments at 31 December 2018 and 2017, 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 entities. 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).

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	31/12/2018	31/12/2017
Commitments and given loan	21,070,128	18,699,632
Of which, classified as normal in special surveillance	673,937	-
Of which, classified as doubtful	447,095	429,073
Recognised as liabilities in the balance sheet	76,423	25,477
Total commitments and given loans	**21,070,128**	**18,699,632**
Financial guarantees	427,621	414,912
Of which, classified as normal in special surveillance	31,850	-
Of which, classified as doubtful	80,683	108,302
Recognised as liabilities in the balance sheet (1)	17,624	28,533
Total commitments and given guarantees	**427,621**	**414,912**
Other guarantees and indemnities and other contingent liabilities	12,550,826	12,801,026
Of which, classified as normal in special surveillance	963,637	-
Of which, classified as doubtful	603,267	687,109
Recognised as liabilities in the balance sheet (1)	279,072	326,412
Other commitments	**12,550,826**	**12,801,026**
Total guarantees issued provided by the third party	**34,048,575**	**31,915,570**

(1) Amount related to "Provision - Commitments and guarantees given" (Note 19).

(25.3) Third party funds managed and marketed by the Bank

The breakdown of off-balance sheet funds managed and commercialized by the Bank at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Investment companies and funds	17,210,417	15,726,404
Pension funds	7,363,721	6,737,809
Discretionally managed customer portfolios	2,118,813	58,745
Total	**26,692,951**	**22,522,958**

In addition, the Bank markets off-balance-sheet customer funds managed by third parties outside the Bank. These amounted to EUR 11,023,117 thousand at 31 December 2018 (EUR 13,473,188 thousand at 31 December 2017).

(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 1,162,034 thousand at 31 December 2018 (EUR 1,122,888 thousand at 31 December 2017), recognised under "Financial assets at amortised cost- Loans and advances - Customers" in the balance sheet at that date, Impairment losses recognised on these transactions amounted to EUR 78,358 thousand at 31 December 2018 (EUR 82,466 thousand at 31 December 2017).

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	31/12/2018	31/12/2017
Present value of minimum lease payments receivable (1)	1,022,513	972,699
Residual values not guaranteed	139,521	150,189
Total gross investment in finance leases	**1,162,034**	**1,122,888**

(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 68,757 thousand at 31 December 2018 (EUR 65,503 thousand at 31 December 2017).

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 2018

(Thousands of euros)

MATURITY	Gross investment	Present value of minimum payments receivable
Up to 1 year	317,627	311,629
1 to 5 years	615,047	536,724
More than 5 years	229,360	174,160
Total	**1,162,034**	**1,022,513**

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**

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 73,362 thousand for the year ended 31 December 2018 (EUR 60,404 thousand at 31 December 2017).

(25.5) Exchanges of assets

In the years ended 31 December 2018 and 2017, 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 2018 and 2017 is as follows:

(Thousands of euros)

ITEMS	Income / (Expenses) 31/12/2018	31/12/2017
By counterparty		
Debt securities	424,309	607,763
Public sector	380,438	466,283
Credit institutions	10,449	86,114
Other financial corporations	21,933	34,320
Non-financial corporations	11,489	21,046
Loans and advances (1)	2,061,986	1,741,825
Public sector	56,554	70,293
Credit institutions	48,201	45,828
Other financial corporations	10,590	16,356
Non-financial corporations	763,977	643,592
Households	1,182,664	965,756
Other assets (2)	92,284	107,109
Derivatives – Hedge accounting, interest rate risk	(107,225)	(140,868)
Total	**2,471,354**	**2,315,829**

(1) Of which interest income from, the doubtful assets profit at 31 December 2018 was EUR 173,969 thousand (EUR 133,334 thousand at 31 December 2017).

(2) At 31 December 2018, includes EUR 55,905 thousand of interest accrued on deposits taken under the framework of the TLTRO II programme (EUR 46,931 thousand at 31 December 2017) (See Note 18)

(27) Interest expense

The breakdown of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEMS	Income / (Expenses) 31/12/2018	31/12/2017
By counterparty		
Deposit	(451,136)	(429,239)
Central Banks	(29)	(405)
Public sector	(2,463)	(3,263)
Credit institutions	(45,124)	(48,481)
Other financial corporations	(345,410)	(289,450)
Non-financial corporations	(24,795)	(26,184)
Households	(33,315)	(61,456)
Debt securities issued	(532,955)	(574,848)
Other financial liabilities	(100)	(14)
Derivatives – Hedge accounting, interest rate risk	553,387	618,628
Other assets	(11,954)	(6,420)
Total	**(442,758)**	**(391,893)**

(28) Dividend income

The breakdown of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEMS	31/12/2018	31/12/2017
Financial assets held for trading	104	230
Financial assets at fair value through other comprehensive income	10,271	9,136
Investments in subsidiaries, joint ventures and associates	400,641	52,266
Total	**411,016**	**61,632**

(29) Fee and commission income

The breakdown of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	Income	
ITEMS	31/12/2018	31/12/2017
Contingent liabilities	69,223	62,090
Contingent commitments	32,476	27,152
Collection and payment services	409,725	295,203
Securities services	57,075	56,543
Non-banking financial product sales	228,412	220,947
Other fees	245,151	204,132
Total	**1,042,062**	**866,067**

(30) Fee and commission expense

The breakdown of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEMS	31/12/2018	31/12/2017
Fees and commissions assigned to other entities and correspondents	(43,565)	(34,835)
Brokerage fees on asset and liability transactions	(12,893)	(19,527)
Other commissions	(21,632)	(20,929)
Total	**(78,090)**	**(75,291)**

(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 2018 and 2017 by financial instrument portfolio, is as follows:

(Thousands of euros)

	(Expenses) / Income	
ITEMS	31/12/2018	31/12/2017
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	399,874	309,811
Financial assets at fair value through other comprehensive income	398,352	176,545
Financial assets at amortised cost-Loans and advances	1,539	57,558
Financial liabilities measured at amortised cost	(17)	75,708
Gains or (-) losses on financial assets and liabilities held for trading, net	48,036	95,613
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	(429)	-
Gains or (-) losses from hedge accounting, net	(28,534)	(29,627)
Total	**418,947**	**375,797**

The most significant gains and losses were the financial assets at fair value through other comprehensive income related to public and private debt securities, for EUR 398 million in 2018 (EUR 174 million in 2017).

(32) Other operating income

The breakdown of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	Income	
ITEMS	31/12/2018	31/12/2017
Income from investment property (Note 14.2)	22,654	13,077
Financial fees and commissions offsetting direct costs	25,709	21,602
Other items (*)	8,738	17,899
Total	**57,101**	**52,578**

(33) Other operating expenses

The breakdown of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEMS	31/12/2018	31/12/2017
Contribution to Deposit Guarantee Fund and Resolution Fund (Note 1.10)	(221.215)	(179,070)
Other operating expenses	(76,347)	(61,834)
Total	**(297,562)**	**(240,904)**

(34) Administrative expenses – Staff costs

The detail of this item in the accompanying income statement for the years ended 31 December 2018 and 2017, by type of cost, is as follows:

(Thousands of euros)

¤	(Expenses) /Income	
ITEMS	31/12/2018	31/12/2017
Wages and salaries	(863,489)	(675,786)
Social security costs	(215,014)	(179,503)
Contributions to defined contribution pension plans (Note 34.3)	(31,189)	(44,006)
Contributions to defined benefit pension plans	(591)	(2,166)
Termination benefits	(4,999)	(6,556)
Training costs	(8,117)	(7,339)
Other staff costs (1)	(1,041)	(458,593)
Total	**(1,124,440)**	**(1,373,949)**

(1) Includes at December 2017 EUR 445,000 thousand corresponding to the estimated cost to attend the restructuring due to the merger through absorption of BMN (see Notes 2.13.2.6 and 19).

(34.1) Composition and distribution by gender of employees

The numbers of Group employees, by gender and professional category (including executive directors and senior executives at the Bank), at 31 December 2018 and 2017, and the average headcount for the years ended 31 December 2018 and 2017 are as follows:

	Headcount at 31 December 2018				
REMUNERATION LEVELS	Men	Women	Year-end headcount	Average headcount for 2017	Average headcount with disabilities >= 33% 2017 (1)
Directors	**4**	**-**	**4**	**4**	**-**
Senior executives	**4**	**1**	**5**	**5**	**-**
Other employees by remuneration level	**6,763**	**8,714**	**15,477**	**16,170**	**194**
Level I	80	9	89	127	1
Level II	437	134	571	656	6
Level III	703	286	989	1,096	10
Level IV	1,025	765	1,790	1,898	20
Level V	1,085	1,154	2,239	2,359	25
Level VI	946	1,323	2,269	2,401	34
Level VII	554	932	1,486	1,537	19
Level VIII	463	1,015	1,478	1,528	22
Level IX	295	685	980	983	12
Level X	760	1,667	2,427	2,402	16
Level XI	391	712	1,103	1,122	28
Level XII	9	23	32	35	-
Level XIII	8	8	16	16	-
Level XIV	-	-	-	-	-
Group 2 and others	7	1	8	10	1
Total Bankia, S.A.	**6,771**	**8,715**	**15,486**	**16,179**	**194**

(1) Bankia has adopted alternative measures for complying with the reserve quota for employees with disabilities.

REMUNERATION LEVELS	Headcount at 31 December 2017			Average headcount for 2016	Average headcount with disabilities >= 33% 2016 [(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 1.15).

(2) 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 2.13, 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)

ITEMS	31/12/2018	31/12/2017
Post-employment benefits	**939,337**	**819,736**
Other long-term employee benefits	**313,469**	**43,798**
Obligations assumed from the labour agreement entered into as a result of the incorporation of the BFA Group (See Note 2.15)	9,088	32,422
Other long-term benefits	304,381	11,376
(Less) – Plan assets to commitments	**(195,615)**	**(475,688)**
Total obligations net of associated assets	**1,057,191**	**387,846**
Other obligations	**-**	**-**
Total obligations for pensions funds and similar obligations	**1,057,191**	**387,846**
of which:		
Debit balances - Assets (1)	(23,631)	(54,561)
Credit balances - Liabilities (2)	1,080,822	442,407
Insurance contracts linked to pensions (defined-benefit)	772,825	423,937
Insurance contracts linked to other long-term obligations	261,205	9,044
Total insurance contracts (3)	**1,034,030**	**432,981**

(1) Included in "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 2018 and 2017 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 2018

(Thousands of euros)

	Post-employment benefits			Pre-retirement and other long-term commitments			
ITEMS	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"	785,746	11,061	774,685	313,469	7,331	306,138	1,080,823
Commitments for which the value of the obligations is less than the value of the plan assets recognised under "Other assets – Other"	153,591	177,222	(23,631)	-	-	-	(23,631)
Total at 31 December 2018	**939,337**	**188,283**	**751,054**	**313,469**	**7,331**	**306,138**	**1,057,192**

31 December 2017

(Thousands of euros)

	Post-employment benefits			Pre-retirement and other long-term commitments			
ITEMS	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**

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 2.13 above, the entities 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 46,607 thousand in 2018, of which EUR 15,418 thousand were covered by the employee pension plan and EUR 31,189 thousand were recognised under "Administrative expenses - Staff expenses", in the 2018 income statement. The Bank made contributions to external pension funds in the amount of EUR 44,006 thousand in 2017, recognised in full under "Administrative expenses - Staff expenses" (see Note 34).

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 2018 and 2017, 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)

ITEMS	31/12/2018	31/12/2017
Present value of the obligations	**939,337**	**819,736**
Obligations covered by plan assets	178,100	364,878
Obligations covered by non-qualifying assets	761,237	454,858
Less - Fair value of plan assets	**(188,283)**	**(443,729)**
Recognised under "Provisions – Provisions for pensions and similar obligations" on the balance sheet	**774,685**	**424,541**
Recognised under "Other Assets" on the balance sheet	(23,631)	**(48,534)**
Fair value of non-qualifying assets	**772,825**	**423,937**

“Fair value of non-qualifying assets” in the above table includes the fair value of insurance policies arranged with Bankia Mapfre Vida (EUR 570,876 thousand) and Caser (EUR 201,949 thousand). The fair value of these insurance policies was calculated in accordance with the provisions applicable in section 16 of Rule Thirty-Five of Bank of Spain Circular 4/2017 and paragraph 115 of IAS 19; therefore, the present value of the insured pensions was considered fair value. The expected return on these policies was calculated using an interest rate of 1.65%, established in accordance with IAS 19 and the actuarial assumptions specified in prevailing legislation in Spain as they are obligations with employees subject to Spanish labour law covered with funds set up in accordance with Royal Decree 1588/1999, of 15 October, as required by Rule Thirty-five, indent 14 c), of Bank of Spain Circular 4/2017.

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	Year 2018	Year 2017
Technical interest rate (1)	1.65%	1.50%
Mortality tables	PERMF-2000	PERMF-2000
Estimated return on reimbursement rights recognised as assets	1.65%	1.50%
Expected return on plan assets	1.65%	1.50%
Social security pensions costs growth rate	1.00%	1.00%
Rate of pension increase according to the Savings Bank collective wage agreement	1.00%	1.00%
Rate of pension increase according to the CPI	2.00%	2.00%
Cumulative inflation	2.00%	2.00%
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 11.36 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, 31/12/2018, no active employee had a defined-benefit scheme.

The reconciliation of the balances recognised at 31 December 2018 and 2017 for the present value of the Bank's defined-benefit obligations is as follows:

(Thousands of euros)

ITEMS	Year 2018	Year 2017
Balance at 1 January	**819,736**	**673,849**
Expected interest on obligation	11,919	5,441

Gains and losses recognised immediately in equity (*):	4,133	(79,839)
(a) (Gain)/loss arising from changes in financial assumptions	*(11,115)*	*(56,702)*
(b) Others (Gain)/loss arising from changes	*15,248*	*(23,137)*
Benefits paid	(50,290)	(33,802)
Additions to obligation due to new commitments	174,663	404
Adittions to obligation - business combination	0	257,090
Curtailments	(20,824)	(3,407)
Balance at 31 December	**939,337**	**819,736**

(*) These amounts are recognised directly in “Accumulated Other Comprehensive Income” in equity in the balance sheets (see Note 2.13).

The reconciliation of the fair value at 31 December 2018 and 2017 of plan assets in defined-benefit obligations is as follows:

(Thousands of euros)

ITEMS	Year 2018	Year 2017
Fair value at 1 January	**443,729**	**305,028**
Expected interest on Fund	6,453	2,581
Gains and losses recognised immediately in equity (*):	(32,742)	(29,210)
a) Expected return on plan assets, excluding interest on the plan	*(32,742)*	*(29,210)*
Contributions by entity (1)	(34)	(967)
Benefits paid	(27,174)	(18,132)
Adittions to obligation - business combination	-	184,429
Reduction in plan assets – Reclassification of the value of the assets (transfer to linked insurance)	(201,949)	-
Fair value at 31 December	**188,283**	**443,729**

(*) These amounts are recognised directly in "Accumulated Other Comprehensive Income" in equity in the balance sheets (see Note 2.13).
(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 2018 and 2017 of reimbursement rights recognised on the balance sheet as assets under "Other assets - Insurance contracts linked to pensions is as follows:

(Thousands of euros)

ITEMS	Year 2018	Year 2017
Fair value at 1 January	**423,937**	**381,029**
Expected interest on insurance contracts linked to pensions	6,188	2,985
Gains and losses recognised immediately in equity (*):	4,052	(35,606)
a)Expected return on insurance contracts, excluding interest on insurance contracts linked to pensions	4,052	(35,606)
Net contributions/(reimbursements) (1)	(178)	(3,943)
Benefits paid	(23,090)	(15,485)
Adittions to obligation - business combination	-	94,957
Increase in reimbursement rights – Reclassification of the value of the assets (transfer to linked insurance)	376,591	-
Settlements	(14,675)	-
Fair value at 31 December	**772,825**	**423,937**

(*) These amounts are recognised directly in "Accumulated Other Comprehensive Income" in equity in the balance sheet (see Note 2.13).
(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 detail of the fair values of the main plan assets at 31 December 2018 and 2017 is as follows:

(Thousands of euros)

ITEMS	31/12/2018	31/12/2017
Insurance policies	13,480	124,624
Other assets(*)	174,803	319,105

(*) The fair value of plan assets classified as "Other assets", quantified at EUR 175 million, included assets covered by employee pension plans or insured by insurance policies that do not fit into the categories set out in section H) of ruling 59 of Circular 4/2017.

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 11.36 years (11.6 years for 2017), 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 2018 and 2017, 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)

ITEMS	31/12/2018	31/12/2017
Present value of the obligations	**313,469**	**43,798**
Obligations covered by plan assets	7,355	25,993
Obligations covered by non-qualifying assets	260,967	9,014
Internal fund	45,147	8,791
Less - Fair value of plan assets	**(7,331)**	**(31,959)**
Recognised under "Provisions – Pensions and other post employment defined benefit obligations"	**306,138**	**17,866**
Recognised under "Other assets – Other" of the balance sheet	**-**	**(6,027)**
Fair value of hedge assets for pre-retirement commitments and other long-term commitments	**261,205**	**9,044**

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 compitible. Specifically, the most significant actuarial assumptions used in the calculation were as follows:

Actuarial assumptions	Year 2018	Year 2017
Technical interest rate (1)	0.35%	0.10%
Mortality tables	PERMF-2000	PERMF-2000
Estimated return on reimbursement rights recognised as assets	0.35%	0.10%
Expected return on plan assets	0.35%	0.10%
Social security costs growth rate	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	-	-

(1) Assumptions based on the duration of other long-term commitments, which for this group is approximately 2.13 years (2.1 years in 2017), 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 2018 and 2017 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)

ITEMS	Year 2018	Year 2017
Balance at 1 January	**43,798**	**58,857**
Expected interest on the obligation	34	1
Gains and losses recognised immediately	(18,806)	(10,568)
a) (Gains)/losses arising on changes in financial assumptions	*(1,771)*	*(210)*
b) (Gains)/losses arising from other changes (data, experience, etc,)	*(17,035)*	*(10,358)*
Benefits paid	(35,641)	(14,025)
Increase in the obligation for new commitments	324,108	32
Adittion due to bussines combination	-	9,501
Settlements	(23)	-
Fair value at 31 December	**313,470**	**43,798**

The table below shows the reconciliation of the fair value at 31 December 2018 and 2017 of plan assets in pre-retirement commitments and similar defined-benefit obligations (all for Spanish companies):

(Thousands of euros)

	Plan assets	
ITEMS	Year 2018	Year 2017
Fair value at 1 January	**31,959**	**47,150**
Expected interest on the plan	29	-
Gains and loss recognised immediately	485	3,809
a)Expected return on plan assets, excluding interest on the plan	*485*	*3,809*
Net contributions/(reimbursements) (1)	(18,842)	(10,545)
Benefits paid	(6,300)	(8,455)
Fair value at 31 December	**7,331**	**31,959**

(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 2018 and 2017 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	
ITEMS	Year 2018	Year 2017
Fair value at 1 January	**9,044**	**17,375**
Expected interest on insurance contracts linked to pensions	3	-
Gains and losses recognised immediately	(16)	(288)
a) Expected return on insurance contracts, excluding interest on insurance contracts linked to pensions	*(16)*	*(288)*
Net contributions/(reimbursements) (1)	278,914	(2,046)
Benefits paid	(26,740)	(5,997)
Fair value at 31 December	**261,205**	**9,044**

(1) Contributions/(reimbursements) imply a change in the fair value of “Other assets- 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 2018 and 2017 for early-retirement and similar obligations:

(Thousands of euros)

ITEMS	31/12/2018	31/12/2017
Insurance policies	7,331	31,959

(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	2019	2020	2021	2022	2023	2024-2028
Pension commitments	56,167	55,219	54,068	52,986	51,898	238,754
Other long-term commitments	74,931	69,645	69,282	56,857	29,657	2,879

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 2018 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 2018 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	885,169	310,232
50bp decrease (*)	999,470	315,758
Annual salary increase (**)		
50bp increase	Not applicable	Not applicable
50bp decrease	Not applicable	Not applicable
Annual pension increase		
50bp increase	985,718	316,547
50bp decrease	896,893	313,439
Cumulative inflation		
50bp increase	961,653	313,469
50bp decrease	918,860	313,469

(*) As the interest rate for pre-retired employees was 0.35%, the measurement with the 0.5% decrease was not made, as a negative rate would then be used

(**) Annual salary increases only affect assets. As there were no defined-benefit assets at 31 December 2018, this change is not applicable.

These changes in actuarial assumptions would not have a significant impact, as 96.4% 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:

<u>Management Committee:</u>

- 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.

<u>Rest of the identified collective:</u>

- 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 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEMS	31/12/2018	31/12/2017
From property, fixtures and supplies	(127,690)	(109,392)
IT and communications	(189,608)	(158,614)
Advertising and publicity	(50,488)	(44,932)
Technical reports	(25,585)	(24,444)
Surveillance and security courier services	(18,154)	(14,451)
Insurance and self-insurance premiums	(3,454)	(3,600)
Contributions and other tax issues	(28,453)	(22,691)
Other expenses	(91,602)	(81,041)
Total	**(535,034)**	**(459,165)**

The detail of the fees paid by Bankia to firms belonging to the worldwide organisation of Ernst & Young (the auditor of Bankia, S.A.) in 2018 is as follows:

- For the audit of the annual financial statements of Bankia, S.A. and of the interim and annual financial statements of the Bankia Group for 2018: EUR 1,803 thousand (2017 : EUR 1,764 thousand)
- For other assurance and services similar to auditing required by regulations or supervisory authorities 2018: EUR 207 thousand. (2017: EUR 145 thousand)
- For other professional services rendered: EUR 892 thousand, none related tax advice. (EUR 1,184 thousand 2017).

The services engaged by the Bankia, S.A meet the requirements of independence stipulated in Law 22/2015 of 20 July and do not include any work that is incompatible with the auditing function.

(36) Depreciation

The detail of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses)	
ITEMS	31/12/2018	31/12/2017
Depreciation of tangible assets (Note 14)	(112,380)	(89,958)
Depreciation of intangible assets (Note 15)	(60,105)	(82,597)
Total	**(172,485)**	**(172,555)**

(37) Provisions or - reversal of provisions

The detail of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows (see note 19):

(Thousands of euros)

	(Expenses) / Income	
ITEMS	31/12/2018	31/12/2017
Commitments and guarantees given	51,158	27,252
Pensions and other post-employment defined benefit obligations	10,418	1,222
Pending legal issues and tax litigation	751	(125,223)
Other provisions	(45,572)	2,818
Total	**16,755**	**(93,931)**

(38) Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss or (-) modification gains, net

The net provision recognised for this item of the income statement for the years ended 31 December 2018 and 2017 relates to the following financial instruments, by category:

(Thousands of euros)

	Income / (Expenses)	
ITEMS	31/12/2018	31/12/2017
Financial assets at amortised cost (Note 11)	(428,610)	(269,852)
Financial assets at fair value through other comprehensive income(Note 10)	(971)	2,188
Total	**(429,581)**	**(267,664)**

(39) Impairment or reversal of impairment on investment on 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 2018 and 2017 is as follows:

(Thousands of euros)

	Income / (Expenses)	
ITEMS	31/12/2018	31/12/2017
Additions	252,020	59,134
Reversals	(91,498)	(127,263)
Total (Note 13)	**160,522**	**(68,129)**

(40) Impairment or reversal of impairment on non-financial assets

The detail of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	(Expenses) / Income	
ITEM	31/12/2018	31/12/2017
Tangible assets (Note 14)	12	(220)
Additions	-	(220)
Reversals	12	-
Investment property investments (Note 14)	(22,982)	182
Additions	(122,334)	(2,422)
Reversals	99,352	2,604
Others	-	-
Additions	-	-
Total	**(22,970)**	**(38)**

(41) Gains or (-) losses on the derecognition in nonfinancial assets and investments, net

The detail of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	Income / (Expenses)	
ITEM	31/12/2018	31/12/2017
Gain/(loss) on disposal of tangible assets	(1)	8,532
Gain/(loss) on disposal of investments in subsidiaries, joint ventures and associates	-	774
Other items	1,272	19
Total	**1,271**	**9,325**

(42) Profit or (loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The detail of this item in the accompanying income statement for the years ended 31 December 2018 and 2017 is as follows:

(Thousands of euros)

	Income / (Expenses)	
ITEM	31/12/2018	31/12/2017
Impairment losses	(71,389)	(122,924)
Plant and equipment foreclosed (Note 17)	(73,875)	(114,748)
Non-current assets - Tangible assets for own use (Note 17)	(6,409)	(5,025)
Non-current assets - Investments in joint ventures and associates (Note 17)	8,895	(3,151)
Other gains (losses)	(62,194)	(11,382)
Total	**(133,583)**	**(134,306)**

“Other gains/(losses)” includes gains or losses on the disposal of non-current assets, net of transaction costs

(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 2018 and the gains and losses recognised in the income statement for the year ended 31 December 2018 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	220,292	321,351	18,311	100,795	922	1,702
Impairment of financial assets	(1,866)	(113,869)	(16,272)			
Other assets	-	-	-	1,658	-	
Total	**218,426**	**207,482**	**2,039**	**102,453**	**922**	**1,702**
LIABILITIES						
Credit Institutions						
Deposits – Customers	1,893,048	433,298	25,647	35,701	3,168	85,292
Debt securities issued	-	-	-		-	-
Other liabilities	132,708					-
Total	**2,025,756**	**433,298**	**25,647**	**35,701**	**3,168**	**85,292**
OTHER						
Guarantees fiven	36,110	10,729	3	2,196	9	2,543
Contingent commitments granted	3,029	2,285	36	-	158	273
Total	**39,139**	**13,014**	**39**	**2,196**	**167**	**2,816**
PROFIT OR LOSS						
Interest income (2)	10,710	2,711	3,343	52	1	27
Interest expense (2)	(10,037)	(4,699)	-	(102)	-	(144)
Dividend income	353,116	47,525	10,375		-	-
Commission income/expense	1,355	917	1	21,650	109	614
Provision for impairment of financial assets	2,909	(215)	(16)	-	-	5

(1) Transactions between Bankia and shareholder BFA only.

(2)Income and expense are presented gross.

The detail of balances recognised in the Bank's balance sheet at 31 December 2017 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 (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						
Guaranteed given	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)
Dividend income	29,123	15,504	7,639	-	-	-
Commission income/expense	832	306	(3)	6,153	89	44
Other gains and losses	26,016	(481)	-	-	-	-

(1) Transactions between Bankia and shareholder BFA only.

(2) Interest income and expense are presented gross.

Appendices I, II and III to these financial statements show the details of 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 2018, the FROB, through BFA, held a 61.38% (61.98% 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 2018 are disclosed in the following notes to the financial statements:

- Note 11 Loans to the Spanish public sector.
- Notes 8, 9 and 10 Investments in Spanish government debt securities.
- Note 18 Spanish public sector deposits.

The income and expense recognised in the income statements for 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
Spanish government agencies interest incomes (*)	51,268	55,219
(Spanish government agencies interest expenses) (*)	(2,376)	(3,199)

(*) 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'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 2018 include:

– "Loans and advances –customers". The balance relates to reverse repurchase agreements entered into with BFA for EUR 101 million;

– "Deposits-customers" on the liability side of the balance sheet includes a demand deneposit (interest-bearing) made by BFA for EUR 36 million;

– "Other assets" includes the balance related to the accrual of fees and commissions explained below**;**

– **"**Guarantees given" 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.

- An agreement for managing the FROB's indirect stake in Bankia, through BFA, signed following approval by Bankia's Board on 24 January 2019.

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 2018 are as follows

Company	Business activity	Location	% Ownership interest owned by the Bank		
			% Current interest		Total ownership interest
			Direct	Indirect	
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 MEDIACIÓN OPERADOR DE BANCA-SEGUROS VINCULADO, S.L.U.	Insurance intermediary-Bancassurance operator	Madrid – Spain	100.00	-	100.00
CAJAGRANADA VIDA, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A. (1)	Life Insurance	Granada – Spain	100.00	-	100.00
CAJAMURCIA VIDA Y PENSIONES DE SEGUROS Y REASEGUROS, S.A. (1)	Life Insurance	Murcia – 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 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
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	-	99.75	99.75
INMOGESTIÓN Y PATRIMONIOS, S.A.	Corporate management	Madrid - Spain	0.10	99.90	100.00
INVERSION GENERAL DE GRANADA 2 , S.L. EN LIQUIDACION (1) (2)	Real Estate development	Granada - Spain	75.00	-	75.00
INVERSIONES Y DESARROLLOS 2069 MADRID, S.L.U., IN SETTLEMENT (2)	Real Estate	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. IN SETTLEMENT (2)	Real Estate development	Madrid - Spain	100.00	-	100.00
SEGURBANKIA, S.A. CORREDURÍA DE SEGUROS DEL GRUPO BANKIA	Insurance intermediary	Madrid - 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

(1) Classified under "Non current assets and disposal group classified as held for sale".
(2) Companies in the process of liquidation

Appendix II –Associates and Joint ventures

The key details on associates and jointly-controlled e at 31 December 2018 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Bank			Thousands of euros		
						Investee information (*)		
			% Current interest		Total ownership interest	2017		
			Direct	Indirect		Asset	Liabilities	Profit/(loss)
Associates								
AVALMADRID, S.G.R.	SEMs funding	Madrid - SPAIN	25.36	-	25.36	118,881	67,873	-
BANKIA MAPFRE VIDA, S.A., DE SEGUROS Y REASEGUROS	Life insurance	Madrid - SPAIN	19.39	29.61	49.00	8,001,175	7,687,863	77,781
CAJA DE SEGUROS REUNIDOS, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A., "CASER"	Insurance	Madrid - SPAIN	15.00	-	15.00	7,966,377	6,764,286	89,250
NETTIT COLABORATIVE PAYMENT, S.L.	Other services	Madrid - SPAIN	30.00	-	30.00	8,769	678	(1,078)
REDSYS SERVICIOS DE PROCESAMIENTO, S.L.	Payment methods	Madrid - SPAIN	15.94	-	15.94	122,035	59,993	11,308
Joint ventures								
CA CF- Bankia, S.A.	Life insurance	Murcia - SPAIN	49.00	-	49.00	10,123	2,330	(2,207)

(*) Latest available data unaudited.

Appendix III – Joint ventures and associates classified under Non-current assets and disposals group classified held for sale

The key details on joint ventures and associates classified under "Non-current assets held for sale" at 31 December 2018 are as follows:

			% Ownership interest owned by the Bank			Thousands of euros Investee information(*) 2017		
			% Current interest					
Company	Business activity	Location	Direct	Indirect	Total ownership interest	Asset	Liabilities	Profit/(loss)
Joint ventures								
CARTERA PERSEIDAS, S.L.	Corporate management	Madrid – Spain	11.82	-	11.82	212	12	(54)
INMACOR DESARROLLOS, S.A. DE CV	Real estate development	Playa del Carmen, Quintana Roo, México	-	72.57	72.57	8,834	8	(542)
INMOBILIARIA PIEDRA BOLAS, S.A. DE CV	Real estate development	Playa del Carmen, Quintana Roo, México	55.93	16.64	72.57	128,597	218,066	4,905
METRO HOUSE INVEST, S.L.	Real estate development	Palma de Mallorca (Baleares) – Spain	-	50.00	50.00	-	6,902	-
PLAYA PARAISO MAYA, S.A. DE CV	Real estate development	Playa del Carmen, Quintana Roo, México	58.03	14.54	72.57	181,450	87,569	6,319
PROMOCIONES Y PROYECTOS MURCILOR, S.L., IN SETTLEMENT	Real estate development	Lorca (Murcia) – Spain	50.00	-	50.00	9,650	29,272	(16,259)
PROYECTOS Y DESARROLLOS HISPANOMEXICANOS. S.A., DE CV	I Real estate	Playa del Carmen, Quintana Roo, México	-	72.57	72.57	58,337	59,871	(1,075)
QUIMANNA HORTAL, S.L. IN SETTLEMENT	Real estate development	Barcelona – Spain	50.00	-	50.00	4,678	11,571	(280)
SOL EDIFICAT PONENT, S.L.	Real estate development	Villafranca del Penedés (Barcelona) – Spain	50.00	-	50.00	11,330	36,526	(4,093)
Associates								
ALAZOR INVERSIONES, S.A., IN SETTLEMENT	Other activities related to road transport	Villaviciosa de Odón (Madrid)- Spain	-	20.00	20.00	1,086,675	1,324,938	(5,639)
ARRENDADORA FERROVIARIA, S.A.	Purchase and lease of trains	Barcelona – Spain	29.07	-	29.07	275,800	276,380	2
CARTAGENA JOVEN, S.L., IN SETTLEMENT	Real estate development	Cartagena (Murcia) – Spain	30.00	-	30.00	11,771	11,619	(935)
CIUTAT SAVALL, S.L. IN SETTLEMENT	Real estate development	Palma de Mallorca (Baleares) - Spain	-	45.00	45.00	4,377	10,502	(0)
FALSTACEN, S.L.	Hotel development	Motril (Granada) – Spain	24.10	-	24.10	18,670	15,011	1,766
FERROMOVIL 3000, S.L.	Purchase and lease of trains	Madrid – Spain	30.00	-	30.00	416,034	392,857	(919)
FERROMOVIL 9000, S.L.	Purchase and lease of trains	Madrid – Spain	30.00	-	30.00	270,681	252,995	(696)
GESTIO DE MITJANS DE PAGAMENT, S.L. IN SETTLEMENT	Payments methods	Palma de Mallorca) – Spain	20.00	-	20.00	-	2	-
MONTEBLANCO DESARROLLO INMOBILIARIO, S.L.	Real estate development	Sevilla – Spain	35.00	-	35.00	5,823	13,896	(8,884)
MURCIA EMPRENDE, SOCIEDAD DE CAPITAL RIESGO DE REGIMEN SIMPLIFICADO, S.A.	Private equity	Murcia – Spain	28.68	-	28.68	4,079	31	(61)
NEWCOVAL, S.L.	Real estate	Valencia – Spain	-	50.00	50.00	-	(87)	(7)
NUEVA VIVIENDA JOVEN DE MURCIA, S.L. IN SETTLEMENT	Real estate development	Murcia – Spain	49.89	-	49.89	59	1	60
PLAN AZUL 07, S.L.	Purchase and lease of train equipment	Madrid – Spain	31.60	-	31.60	278,798	247,804	5,811
ROYACTURA, S.L.	Real estate	Las Rozas de Madrid (Madrid) – Spain	-	45.00	45.00	-	7,850	-
SERALICAN, S.L., IN SETTLEMENT	Foods	Ingenio (Las Palmas de Gran Canarias) – Spain	40.00	-	40.00	-	-	-
SHARE CAPITAL, S.L. IN SETTLEMENT	Real estate	Paterna (Valencia) – Spain	-	43.02	43.02	15,127	90,383	(3,538)
URBANO DIVERTIA, S.L.	Real estate development	Cabezo de Torres (Murcia) – Spain	25.00	-	25.00	11,477	10,157	(111)
VEHÍCULO DE TENENCIA Y GESTIÓN 9, S.L. IN SETTLEMENT	Real estate development	Madrid – Spain	22.87	19.79	42.66	-	-	11,328

(*) Latest available data unaudited.

Appendix IV – Securitization funds

(Thousands of euros)

ITEM	31/12/2018	31/12/2017
BANCAJA 5 loan securitization	-	98,014
BANCAJA 6 loan securitization	197,625	232,591
AyT.11 F.T.H	-	11,173
Total derecognised	**197,625**	**341,778**

(Thousands of euros)

ITEM	31/12/2018		31/12/2017	
	Total	Maturity		Total
RMBS I loan securitization	716,345	2049	767,551	2049
RMBS II loan securitization	626,121	2049	676,669	2049
RMBS III loan securitization	1,261,612	2050	1,338,979	2050
RMBS IV loan securitization	944,875	2050	1,017,216	2050
MADRID RESIDENCIAL I loan securitization	419,692	2051	446,662	2051
MADRID RESIDENCIAL II loan securitization	381,321	2049	402,838	2049
BANCAJA 7 loan securitization	264,158	2034	304,094	2034
BANCAJA 8 loan securitization	316,239	2034	354,149	2034
MBS BANCAJA 2 loan securitization	103,866	2035	121,549	2035
BANCAJA 9 loan securitization	486,530	2040	538,871	2040
MBS BANCAJA 3 loan securitization	163,133	2040	185,580	2040
BANCAJA 10 loan securitization	963,616	2046	1,042,921	2046
MBS BANCAJA 4 loan securitization	463,010	2050	523,296	2050
BANCAJA 11 loan securitization	837,811	2047	897,592	2047
BANCAJA 13 loan securitization	1,565,662	2048	1,660,790	2048
MBS BANCAJA 6 loan securitization	388,935	2048	429,623	2048
BANCAJA-BVA VPO 1 loan securitization	115,897	2047	138,022	2047
MBS BANCAJA 8 loan securitization	-	-	279,969	2060
AYT Mortgage MIX II	22,753	2036	26,921	2036
AYT C.MURCIA Mortgage I	51,385	2035	61,334	2035
AYT C.MURCIA Mortgage II	54,301	2036	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	62,759	2041	71,034	2041
AYT Mortgage Mix I, ASF	12,082	2033	13,903	2033
AYT Mortgage Mix III, ASF	-	-	37,411	2035
AYT C.GRANADA Collateral entities	107,707	2037	107,987	2037
TDA 22 - MIX, ASF	12,273	2044	14,965	2044
TDA 27, FTA	60,542	2047	68,164	2047
CEP 1 TDA	2,507	2043	2,940	2043
CEP 2 TDA	1,567	2045	1,748	2045
CEP FTGENCAT 1 TDA	3,857	2049	4,089	2049
CEP SEMs 1 TDA	5,697	2045	6,163	2045
TDA 20 - MIX, ASF	23,238	2036	144,548	2036
TDA SA NOSTRA Entities 1, ASF	10,870	2040	15,373	2040
TDA SA NOSTRA Entities 2, ASF	45,780	2051	54,269	2051
Total balance	**10,496,141**		**11,946,922**	

Appendix V - Financial liabilities at amortised cost - Debt securities issued

The breakdown of this item, as of 31 December 2018 and 2017 on the accompanying balance sheet is as follows:

(Thousands of euros)

			2018		2017		
TYPE OF DEBT SECURITY	Currency	Latest maturity	Nominal amount	Annual nominal interest rate	Nominal amount	Credit rating Issuer/Issue	Type of guarantee extended
Marketable debt securities							
CM EMTN 2008-2 14/05/18 bonds	Euro	2018	-	EUR 3M+0.98%	25,000	BBB (high)	Bankia Personal Guarantee
Bancaja 22/05/18 bonds	Euro	2018	-	1.50%	50,000	BBB (high)	Bankia Personal Guarantee
Bankia 2014-2 ICO facility bonds	Euro	2018	-	EUR 6M+3.50%	434	-	Bankia Personal Guarantee
Bankia 2014-4 ICO facility bonds	Euro	2018	-	EUR 6M+ 2.75%	435	-	Bankia Personal Guarantee
Bankia 2014-5 ICO facility bonds	Euro	2018	-	EUR 6M+3.00%	337	-	Bankia Personal Guarantee
Bankia 2014-7 ICO facility bonds	Euro	2018	-	EUR 6M+ 2.75%	1,857	-	Bankia Personal Guarantee
Bankia 2014-8 ICO facility bonds	Euro	2018	-	EUR 6M+ 2.35%	764	-	Bankia Personal Guarantee
Bankia 2014-14 ICO facility bonds	Euro	2018	-	EUR 6M+ 2.35%	1,937	-	Bankia Personal Guarantee
Bankia 2014-17 ICO facility bonds	Euro	2018	-	EUR 6M+ 2.35%	1,007	-	Bankia Personal Guarantee
Bankia 2014-19 ICO facility bonds	Euro	2019	1,000,000	3.50%	1,000,000	BBB (high)	Bankia Personal Guarantee
Bankia 2014-1 bonds	Euro	2020	1,050	EUR 6M+ 2.75%	1,576	-	Bankia Personal Guarantee
Bankia 2014-11 ICO facility bonds	Euro	2020	-	EUR 6M+ 2.75%	863	-	Bankia Personal Guarantee
Bankia 2014-15 ICO facility bonds	Euro	2020	2,522	EUR 6M+ 2.35%	3,782	-	Bankia Personal Guarantee
Bankia 2014-20 ICO facility bonds	Euro	2020	1,091	EUR 6M+ 2.35%	1,635	-	Bankia Personal Guarantee
Granada Senior Bonds	Euro	2022	30,000	Inflation-linked coupon	30,000	BBB (high)	Bankia Personal Guarantee
CM 16/06/23 bonds	Euro	2023	-	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	5,352	Variable and zero coupon	5,740	BBB (high)	Bankia Personal Guarantee
Securitization bonds	Euro	2018	-	4.25%	2,060,000	AAA	Mortgage Portfolio-Mortgage Law
CM 25/05/18 structured bond	Euro	2019	1,600,000	5.00%	1,600,000	AAA	Mortgage Portfolio-Mortgage Law
CM 28/06/19 structured bond	Euro	2019	1,300,000	EUR 12M + 5.00%	1,300,000	AAA	Mortgage Portfolio-Mortgage Law
BMN 4ª structured bond	Euro	2019	500,000	3.125%	500,000	AAA	Mortgage Portfolio-Mortgage Law
BMN 5ª structured bond	Euro	2021	1,000,000	0.88%	1,000,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2016-1 structured bond	Euro	2022	1,500,000	4.50%	1,500,000	AAA	Mortgage Portfolio-Mortgage Law
CM 26/04/22 structured bond	Euro	2022	1,250,000	1.125%	1,250,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2015-2 structured bond	Euro	2023	2,500,000	EUR 1M+1.40%	2,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-1 structured bond	Euro	2023	1,000,000	1.00%	1,000,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia2016-2 structured bond	Euro	2025	2,000,000	4.00%	2,000,000	AAA	Mortgage Portfolio-Mortgage Law
CM 03/02/25 structured bond	Euro	2025	1,285,500	1%	1,285,500	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2015-1 structured bond	Euro	2026	100,000	EUR 6M+0.18%	-	AAA	Mortgage Portfolio-Mortgage Law
BANKIA 2018-1 structured bond	Euro	2026	400,000	EUR 6M+0.28%	-	AAA	Mortgage Portfolio-Mortgage Law

(Thousands of euros)

			2018		2017		
TYPE OF DEBT SECURITY	Currency	Latest maturity	Nominal amount	Annual nominal interest rate	Nominal amount	Credit rating Issuer/Issue	Type of guarantee extended
BANKIA 2018-2 structured bond	Euro	2027	2,500,000	EUR 1M+1.40%	2,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-2 structured bond	Euro	2028	2,500,000	EUR 1M+1.40%	2,500,000	AAA	Mortgage Portfolio-Mortgage Law
Bankia 2014-3 structured bond	Euro	2036	2,000,000	4.13%	2,000,000	AAA	Mortgage Portfolio-Mortgage Law
CM 24/03/36 structured bond	Euro	2017	-	(3)	1,335,000	R-1 (low)	Bankia Personal Guarantee
Bankia 2014 Subordinated bonds-1	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%	500,000	BB+	Bankia Personal Guarantee
Bankia AT1 Bonds	Euro	PERP	750,000	6.00%	750,000	BB-	Bankia Personal Guarantee
BANKIA AT1 2018 Bonds	Euro	PERP	500,000	6.38%	-	BB-	Bankia Personal Guarantee
BMN Subordinated bonds	Euro	2026	175,000	9.00%	175,000	BB+	Bankia Personal Guarantee
Sum			**25,465,515**		**28,117,867**		
Own shares			(9,589,126)		(9,903,795)		
Valuation adjustments and other			873,501		1,074,156		
Balances at the end of the year (amortised cost)			**16,749,890**		**19,288,228**		

1. The ratings on the Bankia AT1 and Bankia AT1 Bonds are those assigned by S&P Global Ratings on 6 April2018.

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 6 February 2018.

The ratings for all of the covered bonds were assigned by DBRS on 21 September 2018.

The rest of the ratings were assigned by DBRS on 4 July 2018

2. As a result of the liquidation of Caymadrid.
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 2018 and 2017 by the Bank:

(Millions of euros)

Issuer information	Data concerning issuances, repurchases and repayments in 2018											
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-	XS1880365975	BANKIA AT1 Bonds	19/09/18	PERP	Dublín	euro	500	500	0.064	Bankia Personal Guarantee
Spain	Issue	AAA	ES0413307143	BANKIA 2018-2 Mortgage bonds	09/10/18	09/10/26	AIAF	euro	400	400	EUR 6M+0.28%	Mortgage Portfolio-Mortgage Law
Spain	Issue	AAA	ES0413307135	BANKIA 2018-1 Mortgage bonds	01/06/18	01/06/26	AIAF	euro	100	100	EUR 6M+0.18%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	BBB (high)	ES0214950190	CM 16/06/23 Bond	16/06/18	16/06/23	AIAF	euro	172	-	5.75%	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	XS0147547177	Caymadrid Bond	06/05/02	01/04/32	B.Luxemburg	euro	0,4	5	Cero cupon and irregular	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	ES0214977110	Bancaja 22/05/18 Bond	22/05/06	22/05/18	AIAF	euro	50	-	1.50%	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	XS0362375544	CM EMTN 2008-2 14/05/18 Bond	14/05/08	14/05/18	B.Londres	euro	25	-	EUR 3M+0.98%	Bankia Personal Guarantee
Spain	Repayment	AAA	ES0414950651	CM 25/05/18 Mortgage bonds	25/05/06	25/05/18	AIAF	euro	2.060	-	4.25%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	-	ES0313307029	Bankia 2014-2 ICO facility Bonds	10/05/14	10/05/18	AIAF	euro	0,4	-	EUR 6M+3.50%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307045	Bankia 2014-4 ICO facility Bonds	10/06/14	10/06/18	AIAF	euro	0,4	-	EUR 6M+2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307052	Bankia 2014-5 ICO facility Bonds	10/06/14	10/06/18	AIAF	euro	0,3	-	EUR 6M+3.00%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307078	Bankia 2014-7 ICO facility Bonds	10/07/14	10/07/18	AIAF	euro	1,9	-	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307012	Bankia 2014-8 ICO facility Bonds	10/07/14	10/07/20	AIAF	euro	0,5	1,1	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307102	Bankia 2014-11 ICO facility Bonds	11/08/14	10/08/18	AIAF	euro	0,9	-	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307136	Bankia 2014-14 ICO facility Bonds	10/10/14	10/10/18	AIAF	euro	0,8	-	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307020	Bankia 2014-15 ICO facility Bonds	10/10/14	10/10/20	AIAF	euro	1,3	2,5	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307151	Bankia 2014-17 ICO facility Bonds	10/11/14	10/11/18	AIAF	euro	1,9	-	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307177	Bankia 2014-19 ICO facility Bonds	10/12/14	10/12/18	AIAF	euro	1,0	-	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307038	Bankia 2014-20 ICO facility Bonds	10/12/14	10/12/20	AIAF	euro	0,5	1,1	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	1.335	-	Various	Bankia Personal Guarantee

(1) The ratings on the Bankia AT1 Bonds are those assigned by S&P Global Ratings on 6 April 2018.
The ratings for mortgage bonds (MB) were assigned by DBRS on 21 September 2018.
The rest of the ratings were assigned by DBRS on 4 July 2018

(Millions of euros)

Issuer information			Data concerning issuances, repurchases and repayments in 2017									
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 facility 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 Issue	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	Various	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.

Appendix VII – Information on the mortgage market

Mortgage-backed securities bonds, marketable and non-marketable, issued by the Bank and outstanding at 31 December 2018 are recognised in the balance sheet under "Financial liabilities at amortised cost" (Note 18). The Bank 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's “Credit Risk Document Structure” was approved by the Board of Directors in May 2018. It comprises the Credit Risk Policies, Methods and Procedures Framework, the Credit Risk Policies, the Specific Criteria Manuals and the Operating Manuals.

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

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

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

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

To ensure proper governance of the Credit Risk Policies Framework, the Board of Directors delegates authority to the Risks Committee to approve the Specific Criteria Manual for Credit Risk Policies, Methods and Procedures and authority to the Provisions Committee to approve the Specific Criteria Manual for Policies, Methods and Procedures for Classifying and Hedging Credit Risk.

The Risk Committee and the Provisions Committee exercise these powers by periodically reviewing and updating, over the course of the year, the Specific Criteria Manual for Credit Risk Policies, Methods and Procedures and the Specific Criteria Manual for Policies, Methods and Procedures for Classifying and Hedging Credit Risk. They adjust and tailor the specific criteria contained in both documents to the Bank's prevailing risk strategy and appetite and to regulatory requirements.

The criteria stipulated are binding upon the committee under whose remit the transaction falls, such that the committee in question shall be ultimately responsible for compliance with the transaction approval policies.

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. Additionaly, 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 of 9 July, 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 VI 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 2018 and 2017 issued by the Bankia , regardless of whether or not they are recognised as liabilities of the Group (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 2018 and 2017.

(Thousands of euros)

MORTGAGE SECURITIES	Nominal value 31/12/2018	Average residual maturity period (months) 31/12/2018	Nominal value 31/12/2017	Average residual maturity period (months) 31/12/2017
Mortgage bonds issued	-		-	
Of which: recognised on the liability side of the balance sheet	-		-	
Mortgage-backed securities issued	**27,683,354**		**30,496,742**	
Of which: recognised on the liability side of the balance sheet	18,087,604		20,585,292	
Debt securities. Issued through a public offering (1)	**12,035,500**		**14,095,500**	
Residual maturity up to one year	2,000,000		2,060,000	
Residual maturity over one year but not more than two years	-		2,000,000	
Residual maturity over two years but not more than three years	1,000,000		-	
Residual maturity over three years but not more than five years	3,750,000		3,750,000	
Residual maturity over five years but not more than ten years	3,285,500		4,285,500	
Residual maturity over ten years	2,000,000		2,000,000	
Debt securities. Other issues (1)	**9,400,000**		**8,900,000**	
Residual maturity up to one year	1,400,000		-	
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	-		-	
Residual maturity over three years but not more than five years	2,500,000		-	
Residual maturity over five years but not more than ten years	5,500,000		5,000,000	
Residual maturity over ten years	-		2,500,000	
Deposits (2)	**6,247,854**		**7,501,242**	
Residual maturity up to one year	1,012,829		1,138,387	
Residual maturity over one year but not more than two years	417,917		1,012,830	
Residual maturity over two years but not more than three years	1,025,000		417,917	
Residual maturity over three years but not more than five years	910,185		1,610,186	
Residual maturity over five years but not more than ten years	2,006,923		2,331,922	
Residual maturity over ten years	875,000		990,000	
Mortgage participation certificates issued	**439,357**	**150**	**447,582**	**111**
Issued in a public offering	430,005	150	442,891	111
Other issues	9,352	136	4,691	115
Mortgage transfer certificates issued	**9,707,889**	**228**	**11,156,104**	**244**
Issued in a public offering	33,578	129	371,061	132
Other issues	9,674,311	229	10,785,043	248

(1) These securities are recognised under "Financial liabilities at amortised cost - Marketable debt securities" in the accompanying balance sheet at 31 December 2018 and 2017 (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 2018 and 2017 (see Note 18).

The nominal value at 31 December 2018 and 2017 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) 31/12/2018	Undrawn balances (nominal value) (2) 31/12/2017
Mortgage loans that back the issuance of mortgage-backed securities (1)	**801,290**	**463,187**
Of which:		
Potentially eligible (3)	75,085	251,209
Not eligible	726,205	211,978

(1) At 31 December 2018 and 2017, the Bank 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 2018 and 2017 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 Bank 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)

	Nominal value	
ITEMS	31/12/2018	31/12/2017
Total loans	**81,620,240**	**86,829,591**
Mortgage certificates issued	**500,996**	**598,318**
Of which: loans maintained on the assets of the balance sheet	439,357	*447,582*
Mortgage transfer certificates issued	**9,843,602**	**11,347,071**
Of which: loans maintained on the assets of the balance sheet	9,707,889	*11,156,104*
Mortgage loans pledged as security for financing received	-	**-**
Loans that back the issue of mortgage bonds and mortgage-backed securities	**71,275,642**	**74,884,202**
Loans not eligible	15,878,578	17,201,071
Loans that meet the requirements to be eligible except for the limit established in Article 5.1 of Royal Decree 716/2009	7,978,562	8,958,092
Other	7,900,016	8,242,979
Eligible loans	55,397,064	57,683,131
Loans to cover mortgage bonds issues	-	-
Loans eligible to cover mortgage-backed securities issues	55,397,064	57,683,131
Ineligible amounts (1)	134,575	137,686
Eligible amounts	55,262,489	57,545,445

(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	31/12/2018	31/12/2017
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	55,262,489	57,545,445
Issue limit = 80% of eligible mortgage loans and credits	44,209,991	46,036,356
Mortgage-backed securities issued	27,683,354	30,496,742
Mortgage-backed securities issuance capacity (1) (Note 3,2)	16,526,637	15,539,614
Memorandum item:		
Percentage of overcollateralization of the portfolio	257%	246%
Percentage of overcollateralization of the eligible portfolio	200%	189%

(1) At 31 December 2018, EUR 9,595,750 thousand of mortgage-backed securities remained on the balance sheet, Therefore, the issuance capacity would be EUR 26,122,387 thousand (EUR 9,911,450 thousand at 31 December 2017, with a EUR 25,451,064 thousand issuance capacity).

The table below shows the detail at 31 December 2018 and 2017 of the nominal value of the loans and credits that back mortgage-backed securities issued by the Bank 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)

	Loans that back mortgage bonds and covered bonds		Of which: eligible loans	
ITEM	31/12/2018	31/12/2017	31/12/2018	31/12/2017
TOTAL	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
ORIGIN OF OPERATIONS	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Originated by Entity	70,610,703	74,402,981	54,766,906	57,209,670
Subrogated to other entities	664,939	481,221	630,158	473,461
Other	-	-	-	-
CURRENCY	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Euro	71,131,611	74,722,365	55,320,114	57,683,131
Other currencies	144,031	161,837	76,950	-
PAYMENT SITUATION	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Normal payment situation	64,974,214	68,449,406	54,528,909	57,092,516
Other situations	6,301,428	6,434,796	868,155	590,615
AVERAGE RESIDUAL MATURITY	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Up to ten years	11,774,482	11,471,291	9,475,651	8,105,231
More than ten years and up to 20 years	27,931,806	27,554,158	24,171,928	23,850,714
More than 20 years and up to 30 years	20,685,575	21,284,509	17,167,260	18,004,785
More than 30 years	10,883,779	14,574,244	4,582,225	7,722,401
INTEREST RATES	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Fixed	4,548,921	3,555,730	3,835,250	2,502,093
Floating	60,459,333	64,411,079	46,799,826	50,026,518
Mixed	6,267,388	6,917,393	4,761,988	5,154,520
OWNERS	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Legal entities and natural person entrepreneurs	9,361,442	11,037,176	5,186,908	6,095,942
Of which: construction and property developments (land included)	*680,928*	*822,421*	*258,661*	*280,387*
Other	61,914,200	63,847,026	50,210,156	51,587,189
TYPE OF COLLATERAL	**71,275,642**	**74,884,202**	**55,397,064**	**57,683,131**
Assets/completed buildings	69,752,202	73,569,774	54,891,326	57,306,077
Residential	63,005,419	64,227,196	50,762,529	51,999,393
Of which: government-subsidised housing	*2,364,210*	*2,344,421*	*1,952,266*	*1,986,143*
Commercial	2,786,781	4,900,714	1,850,632	3,179,507
Other buildings and constructions	3,960,002	4,441,864	2,278,165	2,127,177
Assets/buildings under construction	256,311	211,153	66,152	34,819
Residential	139,853	113,957	36,932	4,392
Of which: government-subsidised housing	*5,966*	*2,121*	*593*	*123*
Commercial	25,604	29,479	11,724	12,241
Other buildings and constructions	90,854	67,717	17,496	18,186
Land	1,267,129	1,103,275	439,586	342,235
Developed	446,864	410,832	66,135	127,945
Other	820,265	692,443	373,451	214,290

The nominal value of eligible mortgage loans and credits at 31 December 2018 and 2017, 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 2018

(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					**55,397,064**
Housing	15,839,206	20,890,927	14,069,327	-	50,799,460
Other assets	2,742,579	1,855,025			4,597,604

31 December 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

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	Non eligible loans	Eligible loans	Non eligible loans
	31/12/2018		31/12/2017	
Opening balance	**57,683,131**	**17,201,071**	**46,775,730**	**14,297,406**
Disposals at the period	**(8,050,053)**	**(4,272,389)**	**(4,983,519)**	**(2,438,343)**
Principal due cashed	(61,157)	(57,529)	(129,053)	(418,089)
Prepayments	(678,478)	(549,151)	(1,250,337)	(836,309)
Subrogation by other entities	-	-	-	-
Others	(7,310,418)	(3,665,709)	(3,604,129)	(1,183,945)
Additions at the period	**5,763,986**	**2,949,896**	**3,444,271**	**1,811,290**
Originated by the entity	5,712,464	2,931,118	1,990,789	1,387,254
Subrogation of other entities	28,484	2401	2,298	-
Other increase	23,038	16,377	1,451,184	424,036
Additions due to business combination	-	-	12,446,649	3,530,718
Closing balance	**55,397,064**	**15,878,578**	**57,683,131**	**17,201,071**

Finally, at 31 December 2018 and 2017 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 2018 and 2017 for the purposes of construction and property development and the respective credit risk coverage in place at that date (a):

31 December 2018

(Thousands of euros)

ITEM	Total gross (b)	Excess over value of collateral (c)	Specific coverage(d)
Loans recognised by credit institutions comprising the Bank (transactions in Spain)(e)	700,885	195,556	(133,623)
Of which: Doubtful	273,891	138,050	(119,389)
Memorandum item:			
Assets written off (f)	333,794		

Memorandum item

(Thousands of euros)

Item	Carrying amount
Loans to customers, excluding the public sector (transactions in Spain) (g)	112,559,558
Total assets (all transactions)	206,345,732
Impairment and provisions for performing exposures (all transactions) (h)	932,378

(a) Classification of financing in the table according to the purpose of the loans and not the borrower's industry classification (CNAE). Accordingly, if the borrower is a real estate company, but uses the financing granted for a purpose other than the construction or development of real estate, it is not included in this table. And if the borrower is a company whose core business is not real estate construction or development, but the financing granted is used for properties for real estate development, it is included in this table.

(b) Amount prior to the deduction of any impairment losses.

(c) Amount calculated as provided for in rule 64.16.k) of Circular 4/2017.

(d) Amount of allowances made by the company for these transactions..

(e Includes all types of financing in the form of loans, with and without mortgage collateral, debt securities for real estate construction and development related to the activity in Spain (businesses in Spain).

(f) Gross loans to fund real estate construction and development recognised by the Group (businesses in Spain) derecognised from asset due to classification as "written-off assets".

(g) Amount at which the asset is recognised in the balance sheet after deduction of any amount of provisions and allowances.

(h) Total amount of impairment provisions and allowances for credit risk for exposures classified as standard in accordance with Annex of Circular 4/2017, for total activity (all businesses).

31 December 2017

(Thousands of euros)

ITEM	Total gross(b)	Excess over value of collateral (c)	Specific coverage(d)
Loans recognised by credit institutions comprising the Bank (transactions in Spain) (e)	994,106	280,178	(319,507)
Of which: Doubtful	592,161	232,577	(300,932)
Memorandum item:			
Assets written off (f)	544,936		

Memorandum item (Group figures):

(Thousands of euros)

Item	Carrying amount
1. Total loans and advances to customers, excluding the public sector (transactions in Spain) (g)	116.578.641
2, Total assets (all transactions)	215,043,906
3. Total general coverage (all transactions) (h)	(797,931)

(a) 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.

(b) Amount prior to the deduction of any impairment losses Amount calculated as provided for in rule 64.16.k) of Circular 4/2017.

(c) Includes all types of financing in the form of loans, with and without mortgage collateral, debt securities for real estate construction and development related to the activity in Spain (businesses in Spain).

(d) Gross loans to fund real estate construction and development recognised by the Group (businesses in Spain) derecognised from asset due to classification as "written-off assets".

(f) Total amount of impairment provisions and allowances for credit risk for exposures classified as standard in accordance with Annex of Circular 4/2017, for total activity (all businesses).

(g) Amount at which the asset is recognised in the balance sheet after deduction of any amount of provisions and allowances.

(h) Total amount of impairment provisions and allowances for credit risk for exposures classified as standard in accordance with Annex of Circular 4/2017, for total activity (all businesses).

The table below breaks down construction and property development financing granted by Group credit entities at 31 December 2018 and 2017:

(Thousands of euros)

ITEM	Finance intended for construction and property development	
	31/12/2018	31/12/2017
1. Not mortgage-secured	22,840	63,769
2. Mortgage-secured (1)	678,045	930,337
2.1. Finished buildings (2)	434,794	698,686
2.1.1. Housing	224,881	403,724
2.1.2. Other	209,913	294,962
2.2. Buildings under construction (3)	101,285	39,993
2.2.1. Housing	71,607	29,754
2.2.2. Other	29,678	10,239
2.3. Land	141,966	191,658
2.3.1. Urban land	107,045	111,742
2.3.2. Other land	34,921	79,916
Total	**700,885**	**994,106**

(a) Amount prior to the deduction of accumulated impairment losses, if any.

(b) Includes all transaction secured by mortgages, regardless of the legal form of the guarantee or loan-to-value readings.(c) If a building serves more than one purpose (e.g. residential) and other uses, the related financing is included in the category representing the main use given to it.

2. Loans to households for home purchases. Transactions recognised by credit institutions (transactions in Spain)

The table below presents the detail at 31 December 2018 and 2017 of financing granted by the credit institutions comprising the Bank for the purpose of home purchase (business in Spain):

(Thousands of euros)

	Total gross	Of which: Doubtful	Total gross	Of which: Doubtful
ITEM	31/12/2018		31/12/2017	
Loans for home purchases	66,472,123	3,517,740	68,943,183	3,980,561
Non-mortgage-secured	556,937	7,293	619,923	23,739
Mortgage-secured	65,915,186	3,510,447	68,323,260	3,956,822

(a) Loans with or without mortgage collateral to finance home acquisitions for businesses in Spain.

(b) Amounts prior to the deduction of accumulated impairment losses, if any

(c) Includes all transaction secured by mortgages, regardless of the loan-to-value reading.

The table below presents the detail of mortgage-secured loans to households for home purchases mortgage-secured at 31 December 2018 and 2017, 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 2018

(Thousands of euros)

	LTV ranges (a)					
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 (b)	15,392,491	22,604,292	19,158,863	4,170,774	4,588,766	65,915,186
Of which: doubtful (b)	144,244	212,812	370,268	478,372	2,304,751	3,510,447

(a) The loan-to-value ratio is obtained by dividing the gross carrying amount of the exposure at the reporting date by the amount of the latest available appraisale.
(b) Amount prior to the deduction of accumulated impairment losses, if any.

31 December 2017

(Thousands of euros)

	LTV ranges (a)					
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 (b)	14,356,158	21,357,353	20,087,604	6,316,183	6,205,962	68,323,260
Of which: doubtful (b)	127,768	220,178	455,416	720,586	2,432,874	3,956,822

(a) The loan-to-value ratio is obtained by dividing the gross carrying amount of the exposure at the reporting date by the amount of the latest available appraisale.
(b) Amount prior to the deduction of accumulated impairment losses, if any.

3. Information concerning foreclosed property assets or received in payment of debts (transactions in Spain)

In order to dispose of its assets foreclosed or received in payment of debts ("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, including all portfolio from BMN.

In this respect, on 27 April 2018, the Group filed a material disclosure (hecho relevante) announcing the signing of non-performing debt and real estate assets servicing and management agreements. On 26 April 2018, an agreement was reached to cancel the agreements BMN had with other entities, and on 27 April 2018, a novation of the foreclosed assets management purchase agreement contract and the management service and real estate asset management contract signed on 3 September 2013 with Haya Real Estate, S.L. was subscribed. These arrangements are part of the process for restructuring the non-performing asset management business following the merger with BMN in a bid to become more efficient and speed up the reduction of NPLs in the Group's balance sheet.

In 2018, the Group devised an internal methodology for estimating discounts on the reference value and costs to sell of foreclosed real estate assets classified as non-current assets held for sale (see Note 2.20). In addition, more projects were successfully completed, while various new projects were designed to enhance the real estate portfolio by acquiring further knowledge of the assets and improving the information available, boosting sales in a bid to continue reducing the stock of foreclosed assets.

Among key milestones, in the first quarter of the year the Group completed the integration of all the information on the assets acquired from BMN into Bankia's systems, providing it with a comprehensive view of the activity and unified management of administrative and sales activities. Moreover, an agreement was reached with a third party to administer, develop and have available a portfolio of foreclosed assets and transfer a portfolio of non-performing mortgage loans (see Note 18.5.1).

As for recurring management and control of the assets, to maintain them in the best possible conditions for sale and ensure efficient control over the expenditure incurred in the process, technical monitoring is performed along with control and management of turnover and maintenance costs arising from their remaining on the balance sheet. Consideration is also given to maintaining lease contracts on assets in the portfolio and management of occupancy situations concerning the assets.

Moreover, the activities arising from the marketing process are carried out: customer care, review of the assets published and management of offers through various sales channels: branch network, brokers, web, events and trade fairs, etc.

The Group's general policies for managing its foreclosed assets are summarised as follows:

- The volume of foreclosed assets, irrespective of how they are managed (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 objective of disposing of the greatest amount of foreclosed 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, to obtain returns and address 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 2018 and 2017, classified by type (a):

(Thousands of euros)

ITEMS	Gross amount (b)	Impairment allowance	Gross amount (b)	Impairment allowance
	31/12/2018		31/12/2017	
1. Property assets from financing intended for construction and property development (c)	683,882	(291,416)	787,673	(312,211)
1.1. Finished buildings	313,079	(103,230)	350,615	(92,866)
1.1.1. Housing	242,296	(82,558)	290,539	(77,505)
1.1.2. Other	70,783	(20,672)	60,076	(15,361)
1.2. Buildings under construction	48,768	(21,330)	65,278	(32,844)
1.2.1. Housing	46,127	(20,601)	63,693	(32,703)
1.2.2. Other	2,641	(729)	1,585	(141)
1.3. Land	322,035	(166,856)	371,780	(186,501)
1.3.1. Urban land	115,003	(50,901)	159,319	(72,408)
1.3.2. Other land	207,032	(115,955)	212,461	(114,093)
2. Property assets from mortgage-secured financing granted to households for home purchases	2,409,705	(875,275)	2,930,388	(1,079,605)
3. Other property assets received in settlement of debt (d)	1,015,665	(227,581)	1,081,884	(261,795)
4. Equity instruments, investments and financing to companies holding such assets	0	-	9,383	(5,418)
5. Equity investments to entities holding the foreclosed property assets or assets received in payment of debts (e)	3,917,932	(3,145,421)	3,904,327	(3,120,862)
6. Financing to entities holding the foreclosed property assets or assets receive in payment of debts (e)	67	-	46	-

a. Includes foreclosed assets or assets received in payment of debts from financing granted in relation to businesses in Spain, as well as equity investments in and financing granted to the entities holding these assets.

b. Amount before the deduction of accumulated impairment losses. Includes all property assets 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.

c. Includes property assets arising in connection with loans for construction and property development, regardless of 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” and, to a lesser extent, under “Other assets - Inventory” 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 2018 and 2017, 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)

ITEM	31/12/2018	31/12/2017
Collaterals	832,321	720,618
Other collateral	-	-
Total	**832,321**	**720,618**

The detail of the guarantees extended at 31 December 2018 and 2017 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)

ITEM	31/12/2018	31/12/2017
Financial guarantees extended	6,921	42,539
Recognised in the liability of the balance sheet	32	3,059

Appendix IX – Refinancing and restructuring operations and other requirements of Bank of Spain Circular 4/2017

Refinancing and restructuring operations

As part of its credit risk management policy, the Bank 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 Bank'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 4/2017, which in general is compatible aligned with the ECB and the EBA. principles. These criteria set out certain rules for classification at source, as well as general criteria for a restructured or refinanced exposure to be considered cured, and therefore, reclassified to a lower risk level. 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 restructuring or refinancing is understood to exist at least in the following circumstances:

- When the transaction was classified as doubtful exposure before the modification or would be classified as doubtful exposure without the modification.

- When the modification implies partial cancellation of the debt.

- When simultaneously or nearly simultaneously with the granting of additional financing, the borrower has made payments of the principal or interest on another transaction classified as doubtful of that would be classified as doubtful had the additional financing not been granted.

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:

Financial effort	Grace period			Refinancing (2) with doubtful origin
	<=24 months		>24 months	
	Forgiveness (1) No	Forgiveness(1) Yes		
<= 50%	Watchlist	Doubtful	Doubtful	Doubtful
> 50%	Doubtful	Doubtful	Doubtful	Doubtful

(1) Forgiveness above % of the allowances and provisions established in article 140 of Annex IXof Bank of Spain Circular 4/2017
(2) It will be classified as doubtful if the refinance operation was doubtful at the moment of the refinancing or if the financed transaction was classified as doubtful on initial classification. Otherwise, the classification is based on the result of the general analysis applicable to all refinancing transactions.

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

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

- 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 .
  - 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.
    - Other particular dates
  - The borrower is current on its payments.
  - The customer has no other transactions under special monitoring or classified as doubtful or writen-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 purposes.

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 2018 and 2017:

At 31 December 2018

(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	28	32,902	2,313	63,501	62,360	-	(23,326)	19	4,752	2,308	54,214	53,406	-	(23,326)
Other financial institutions and natural person	44	30,453	15	2,142	2,130	12	(13,767)	27	13,439	9	798	786	12	(13,465)
Non-financial institutions and natural person entrepreneurs (financial business)	7,890	2,504,869	6,876	1,935,955	1,589,344	110,473	(1,533,144)	5,748	1,469,407	3,742	1,123,882	880,217	84,035	(1,418,701)
Of which: Construction and property developement	1,620	57,778	1,422	266,233	203,822	263	(114,493)	1,560	47,831	533	156,382	101,919	54	(108,449)
Other households	17,605	231,210	32,462	4,058,799	3,321,633	186	(562,113)	9,594	129,696	15,877	1,930,615	1,548,984	102	(472,457)
Total	**25,567**	**2,799,434**	**41,666**	**6,060,397**	**4,975,467**	**110,671**	**(2,132,320)**	**15,388**	**1,617,294**	**21,936**	**3,109,509**	**2,483,393**	**84,149**	**1,927,949**
Corrections of the collective impariment							874,997							
Corrections of the specific impairment							(1,257,323)							
ADITIONAL INFORMATION														
Financing classified as non-current assets and disposal groups that are classified as held for sale	11	135	5,818	811,753	570,892	7	(375,767)	11	135	5,813	811,034	570,352	7	(375,713)

At 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Movements at the year end of 2018 and 2017 were as follows:

(Thousands of euros)

Items	2018	2017
Opening balance	**9.241.383**	**6.956.722**
(+) Refinancing and restructuring	402.715	1.261.322
(-) Debt depreciation, transfers and other changes (1)	(2.772.672)	1.229.692
(-) Foreclosure	(95.874)	(145.369)
(-) Disposals (reclassified as written off)	(48.041)	(60.984)
Closing balance (*)	**6.727.511**	**9.241.383**

(*) The acumulated impairment at the year end 2018 was EUR 1,205,229 thousand (EUR 260,293 thousand at the year end 2017).

(1) In 2018 transfers to Disposal Groups.- Loans and real estate assets portfolio are included. In 2017 additions due to business combinatios are included (See Note 1.15)).

Other requirements of Bank of Spain Circular 4/2017

The table below shows information concerning sector and geographical concentration risk (a):

At 31 December 2018

(Thousands of euros)

ITEM	TOTAL	Spain	Other European Union country	America	Rest of the world
Central banks and credit institutions	13,349,101	6,245,844	6,748,969	153,616	200,672
Government agencies	34,954,322	28,463,294	6,377,666	883	112,479
Central Administration	29,601,929	23,143,933	6,377,666	883	79,447
Other	5,352,393	5,319,361	-	-	33,032
Other government agencies and individual companies (financial business activities)	25,877,778	24,275,638	1,565,352	24,239	12,549
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	44,611,862	41,766,709	2,050,029	572,210	222,914
Constructions and property developments (land included) (b)	1,845,536	1,840,604	3,254	1,678	-
Civil engineering construction	1,560,874	1,379,558	109,639	37,832	33,845
Other	41,205,452	38,546,547	1,937,136	532,700	189,069
Large enterprises (c)	22,363,430	20,238,532	1,551,476	432,025	141,397
SMEs and sole proprietors (c)	18,842,022	18,308,015	385,660	100,675	47,672
Other households (d) (by the purposes) (e)	77,023,200	75,614,537	1,004,200	97,452	307,011
Housing	67,213,599	65,847,503	974,288	93,310	298,498
Consumer	4,821,710	4,805,839	13,019	1,300	1,552
Other	4,987,891	4,961,195	16,893	2,842	6,961
TOTAL	**195,816,263**	**176,366,022**	**17,746,216**	**848,400**	**855,625**

(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 69.ª2.e) of Circular 4/2017.

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, excluding "Non-current assets and disposal groups classified as held for sale".
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 69.ª2.e) of Circular 4/2017.

At 31 December 2018

(Thousands of euros)

ITEM	TOTAL (*)	Autonomous communities									
		Andalucía	Canarias	Castilla y León	Cataluña	Madrid	Comunidad Valenciana	La Rioja	Murcia	Baleares	Others
Central banks and credit institutions	6,245,844	353,370	252	155	21,794	1,678,001	3,311,789	26	255	26	880,176
Government agencies	28,463,294	278,926	34,055	582,708	351,756	1,874,907	598,830	121,410	71,009	319,017	1,086,743
Central Administration	23,143,933		-	-							
Other	5,319,361	278,926	34,055	582,708	351,756	1,874,907	598,830	121,410	71,009	319,017	1,086,743
Other government agencies and individual companies (financial business activities)	24,275,638	19,334	1,470	2,963	42,888	23,868,390	269,659	354	3,390	3,659	63,531
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	41,766,709	3,028,518	1,460,562	1,197,110	4,963,664	15,683,700	5,583,435	360,605	1,680,385	1,400,364	6,408,366
Constructions and property developments (land included) (b)	1,840,604	204,048	51,003	49,205	186,442	731,204	289,833	14,021	69,927	70,087	174,834
Civil engineering construction	1,379,558	75,968	11,460	5,319	253,154	650,691	49,223	1,612	10,938	9,547	311,646
Other	38,546,547	2,748,502	1,398,099	1,142,586	4,524,068	14,301,805	5,244,379	344,972	1,599,520	1,320,730	5,921,886
Large enterprises	20,238,532	824,534	523,679	295,043	2,194,557	10,032,354	1,947,845	85,000	544,313	450,334	3,340,873
SMEs and sole proprietors	18,308,015	1,923,968	874,420	847,543	2,329,511	4,269,451	3,296,534	259,972	1,055,207	870,396	2,581,013
Other households (by the purposes)	75,614,537	9,597,162	3,136,708	2,322,783	8,578,886	23,675,251	11,857,195	659,977	4,539,036	4,191,203	7,056,336
Housing	65,847,503	8,509,121	2,577,578	2,041,440	7,846,113	20,231,537	10,183,210	557,033	3,966,936	3,552,957	6,381,578
Consumer	4,805,839	415,819	412,538	181,769	257,324	1,632,624	947,767	49,340	233,482	227,914	447,262
Other	4,961,195	672,222	146,592	99,574	475,449	1,811,090	726,218	53,604	338,618	410,332	227,496
TOTAL	**176,366,022**	**13,277,310**	**4,633,047**	**4,105,719**	**13,958,988**	**66,780,249**	**21,620,908**	**1,142,372**	**6,294,075**	**5,914,269**	**15,495,152**

(*) 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 2017

(Thousands of euros)

ITEM	TOTAL (*)	Autonomous communities Andalucía	Canarias	Castilla y León	Cataluña	Madrid	Comunidad Valenciana	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) (b)	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.

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 2018 and 2017.

At 31 December 2018

(Thousands of euros)

ITEM	TOTAL	Of which: Mortgage loans (b)	Of which: Other secured loans (b)	Secured loans. Carrying amount over last available appraisal value (Loan to value) (c)				
				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	5,053,739	213,992	186,949	114,234	173,892	78,892	26,177	7,746
Other government agencies and individual companies (financial business activities)	1,251,045	93,370	35,657	24,952	26,036	6,369	282	71,388
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	34,483,766	8,172,976	5,466,670	4,610,998	2,645,889	1,485,132	616,557	4,281,070
Constructions and property developments (land included)	611,075	443,430	109,756	197,780	135,215	133,585	33,418	53,188
Civil engineering construction	700,510	48,362	605,421	254,549	180,987	116,603	19,366	82,278
Other	33,172,181	7,681,184	4,751,493	4,158,669	2,329,687	1,234,944	563,773	4,145,604
Large enterprises (d)	16,134,888	1,310,648	4,088,160	1,255,651	348,085	163,539	219,978	3,411,555
SMEs and sole proprietors (d)	17,037,293	6,370,536	663,333	2,903,018	1,981,602	1,071,405	343,795	734,049
Other households (e) (by the purposes) (f)	76,824,747	69,499,567	73,841	17,700,167	24,026,793	18,676,710	4,274,254	4,895,484
Housing	67,213,599	66,728,276	5,602	16,680,795	23,217,517	18,262,727	4,120,171	4,452,668
Consumer	4,821,710	131,491	9,648	48,879	34,094	16,640	8,624	32,902
Other	4,789,438	2,639,800	58,591	970,493	775,182	397,343	145,459	409,914
TOTAL	**117,613,297**	**77,979,905**	**5,763,117**	**22,450,351**	**26,872,610**	**20,247,103**	**4,917,270**	**9,255,688**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	6,727,511	5,240,480	457,212	1,175,206	1,286,278	1,413,581	608,049	1,214,578

(a) The definition of customer loans is that used to prepare the balance sheet. Includes all transactions of this nature, regardless of the heading under which they are present for balance sheet purposes, excluding in “Non-current assets and disposal groups classified as held for sale”. The amount shown for the various figures is the carrying amount of the exposures; i.e. after deducting impairment recognised on the exposures.

(b) Includes the carrying amount of all transactions secured by properties or other collateral, regardless of their loan-to-value or legal form (e.g. mortgage, finance lease, reverse repurchase agreement).

(c) The loan-to-value ratio is obtained by dividing the carrying amount of each exposure at the reporting date by the value of the underlying collateral as of the latest appraisal or valuation available.

(d) Non-financial corporations classified as “Large enterprises” and “SMEs” in accordance with Commission Recommendation 2003/361/EC, 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.

(e) Households, including non-profit institutions serving households, but excluding business activity of individual entrepreneurs.

(f) The loans will be classified in accordance with their purpose under the criteria of rule 69.2.

At 31 December 2017

(Thousands of euros)

ITEM	TOTAL	Of which: Mortgage loans (b)	Of which: Other secured loans (b)	Secured loans, Carrying amount over last available appraisal value (Loan to value) (c)				
				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 (d)	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 (d)	18,071,577	7,528,713	659,817	2,947,516	2,370,048	1,372,339	556,289	942,338
Other households (e) (by the purposes) (f)	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

a) The definition of customer loans is that used to prepare the balance sheet. Includes all transactions of this nature, regardless of the heading under which they are present for balance sheet purposes, excluding in "Non-current assets and disposal groups classified as held for sale". The amount shown for the various figures is the carrying amount of the exposures; i.e. after deducting impairment recognised on the exposures.

(b) Includes the carrying amount of all transactions secured by properties or other collateral, regardless of their loan-to-value or legal form (e.g. mortgage, finance lease, reverse repurchase agreement).

(c) The loan-to-value ratio is obtained by dividing the carrying amount of each exposure at the reporting date by the value of the underlying collateral as of the latest appraisal or valuation available.

(d) Non-financial corporations classified as "Large enterprises" and "SMEs" in accordance with Commission Recommendation 2003/361/EC, 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.

(e) Households, including non-profit institutions serving households, but excluding business activity of individual entrepreneurs.

(f) The loans will be classified in accordance with their purpose under the criteria of rule 69.2…

Appendix X - Detail of agents and disclosures required by Article 21 of Royal Decree 584/2015 of 13 February

Information at 31 December 2018

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.	CTRA. 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)
EL IDEALISTA CREDITO Y FINANCIACION SL	CALLE MARQUES DE CUBAS 25 28014 Madrid (MADRID)
JCG ALLFINANZ MALLORCA SLU	C. TAMONER, 1, 2 7002 Palma (ILLES BALEARS)
KARL JOHN QUANE	PLAZA DE LA IGLESIA 3, PISO 2 C, SAN PEDRO 29670 SAN PEDRO ALCANTARA (MALAGA)
NICOLA KATE BUCHANAN	C7 DE SANT FELIU, 4 1º 7012 PALMA (ILLES BALEARS)
CLAYTON STEPHEN HOPLEY	CENTRO COMERCIAL L'AUBA, LOCAL 9, CTRA ILL 7181 Calvià (ILLES BALEARS)
SEIFERT INVEST SLU	C\ CAMAMIL.LA N 3 ESC. A 2 A 7011 PALMA (ILLES BALEARS)
CHRISTINE HEISE	C\ ALFABAGUERA 1 7560 CALA MILLOR (ILLES BALEARS)
DANIEL DA CONCEIAO PIRES	C/FONT I MONTEROS, N.6 2 7003 Palma (ILLES BALEARS)
FIRST CAPITAL SOLUTIONS SL	AVENIDA RICARDO SORIANO 65 29600 Marbella (MALAGA)
PLATINUM SPAIN SL	C/ PAIS VASCO 1-2 29610 Ojén (MALAGA)
OLENA KOLODYAZHNA	AVDA CONDE SALLENT, 29 PB 7003 PALMA DE MALLORCA (ILLES BALEARS)
BETTINA ELISABETH LORENZ	C/ ARPELLA 32 7817 SANT JORDI DE SES SALINES (ILLES BALEARS)

RAVENA RHYS-JONES	URB. AZALEA BEACH, CONJ. EL RÍO, CASA 77 29660 MALAGA (MALAGA)
THE RESORTS OF THE WORLD COMPANY SL	C\ ALARCE 26 30700 TORRE PACHECO (MURCIA)
IFACALP, S.L.	C/ ALICANTE, 35 3710 CALPE (ALICANTE)
INVESTMENT EDEN PROPERTIES, S.L.	C/ RAMON GALLUD, 1 3181 Torrevieja (ALICANTE)
ADAM DEAN HATTON	C/ OLIVA 931 3189 ORIHUELA COSTA (ALICANTE)
SOCIETY LAW AND TITLES (DARAN COOPER)	CENTRO COMERCIAL LOS DOLSES, 2º NIVEL, LOC 3189 ORIHUELA COSTA (ALICANTE)
FLUENT FINANCE ABROAD S.L.	C/ MARQUES DEL DUERO N76, 3C 29670 SaN PEDRO DE ALCÁNTARA (MALAGA)
LINDA FRANCINE VAN GINDERACHTER DE RIJCK	MOJIGATO 4620 (ALMERIA)
LS SOLICITORS & MANAGEMENT SOLUTIONS SL	JAIME I N-7, 2 30008 MURCIA (MURCIA)
SPAIN AND UK PB SL	PABLO NERUDA 5 30620 Fortuna (MURCIA)
EASYADS SL	C/ MAESTRO TORRALBA, 4 30007 MURCIA (MURCIA)
ILLESLEX, S.L.	C/ OLMOS 50, ESCALERA A, 1 7003 PALMA DE MALLORCA (ILLES BALEARS)
GOLF PROPERTY STORE S.L.	CALLE RASPALLON NUM. 3 30709 ROLDAN (MURCIA)
SKANDIAMAKLARNA S.L.	RAMON GALLUD 39, 2 3181 TORREVIEJA (ALICANTE)
NEIL DAVID COCKINGS	AMATISTA 30 30155 Torre Pacheco (MURCIA)
VILLA NORDIKA S.L.	CALLE BENIDORM NUM. 2 3710 Alicante/Alacant (ALICANTE)
PALM SPRINGS REAL STATE, S.L.	HELGA SOHNEL -STA CRI S/N BAJO 18690 (GRANADA)
CHRISTOPHE WILLY J CREVE	C/ACEBO Nº 2 29631 MALAGA (MALAGA)
FASTIGHETSBYRAN TORREVIEJA SL	TRITON CC TORREMARINA LOCAL 8 A2 BAJO 3183 TORREVIEJA (ALICANTE)
SAMAREALTY, S.L.	PLAZA HOSTALS 21-C 7320 SANTA MARIA DEL CAMI (ILLES BALEARS)
TIMOTHY FRENCH	Mar Rojo 3189 TORREVIEJA (Alicante)
COMPASS INDEPENDENT EUROPA SL	AVDA RICARDO SORIANO N 12 4 A 29600 MALAGA (MALAGA)
HOME FINANCE SPAIN S.L.	C/MAESTRO TORRALBA N 21 3189 Alicante/Alacant (ALICANTE)
SPANISH BEST HOMES 2010 SL	AVD REYES CATOLICOS 39 30820 Mazarrón (MURCIA)
ASPELX LACID SL	AVD ORIHUELA 1 3680 Orihuela (ALICANTE)
MARTORELL Y CANTACORPS SL	AV. CATALUNYA, 64 - 08290 (CERDANYOLA DEL VALLES-BARCELONA)
PROFEMA 2010	C/MALLORCA, 295 - 08037 (BARCELONA)
GRUPO VALIA	C/VELAZQUEZ, 86 - 28006 MADRUD
ESPACIO ASESOR	C/CIUTAT DE QUERETARO, 4 - 07007 (PALMA DE MALLORCA-BALEARES)

JM 2004 EMPRESISTES SL	C/FRANCESC MACIA TORRE MILE, 60 - 08208 (SABADELL-BARCELONA)
GESTORIA CRESPO GONZAGA	AV. M 40, 17 - 28925 ALCORCON (MADRID)
INNOSUNS COACHING & CAPITAL S.L.	C/FELIPE IV. 3 - 28014 MADRID
HI REAL ESTATE S.L.	PZA. EUROPA, 3 - 19002 GUADALAJARA
ASOCIACION GREMIAL DE AUTOTAXI DE MADRID	C/ SANTA ENGRACIA, 84 - 28010 MADRID
ASAJA CIUDAD REAL	AV. REY SANTO, 8 - 13001 CIUDAD REAL
IDF ALL FINANCING SL	C/ JESUS APRENDIZ, 23 - 28007 MARID
CETAFARMA	AV. MARQUES DE SOTELO 5 P 20, 5 - 46002 VALENCIA
MORTGAGE DIRECT SL	C/ CARRER DELS CAVALLERS, 37 - 46001 VALENCIA

Appendix XI – Other information

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 BFA 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 BFA 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 Bankia Group 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 main data on customer claims in 2018 and 2017 for Group entities subject to these duties and obligations are as follows:

At 31 December 2018

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 informing the customer
Bankia, S.A.	54,159	51,622	2,537	23,722	15,196	13,254

(1) Claims dismissed in 2018.

At 31 December 2017

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 informing the customer
Bankia, S.A.	104,434	102,905	1,529	72,090	12,321	18,703

(2) Claims dismissed in 2017.

The breakdown by type of all claims resolved and dismissed in 2018 and 2017 is as follows:

	Number of claims	
Type of claim	31/12/2018 (3)	31/12/2017 (3)
Asset transactions	19,987	80,116
Liabilities transactions	16,953	11,446
Other banking products	203	4,091
collection and payment services	7,409	1,958
Investment services	594	701
Insurance and pension funds	961	786
Miscellaneous	6,065	4,016
Total	**52,172**	**103,114**

(3) Not including those dismissed.

At last, the claims pending resolution by Group entities subject to these obligations at 31 December 2018 and 2017 are as follows:

	Number of claims pending resolution	
Company	**31/12/2018**	**31/12/2017** (4)
Bankia, S.A. (1)	1,451	1,890

(1) In addition, at 31 December 2017, there were 710 claims pending resolution deriving from the business combination between the Bank and BMN (Note 1.15).

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 the Bank 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 Bank’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 2017, there follows the information of 2018 and 2017 required by this regulation, to the scope defined in the preceding paragraph:

(days)

ITEM	2018	2017
Average payment period (days)	8.79	9.9
Average late-payment (days)	16.53	11.73
Average period of payment to suppliers	**8.88**	**9.98**

(Thousands of euros)

ITEM	2018	2017
Total payments	1,198,338	656,136
Total outstanding payments	13,967	26,675

Payments for payables and receivables among Spanish entities of the Bankia Group have been excluded from the above data.

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.

BANKIA, S.A.

MANAGEMENT REPORT

DECEMBER 2018

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This report was prepared in accordance with the criteria set out in Circular 3/2018 of 28 June, of the National Securities Market Commission (CNMV), on period reporting by issuers of securities admitted to trading on regulated markets related to half-year financial reports, interim management statements and, where applicable, quarterly financial reports.

1. - KEY EVENTS OF 2018

1.1. - Unveiling of the new strategic plan

On 27 February 2018, Bankia unveiled its new 2018-2020 Strategic Plan, which had been approved by the Bank's Board of Directors on 22 February 2018.

The new Strategic Plan seeks to continue increasing the Group's earnings by driving sales and commercial activity, while continuing to improve the quality of its balance sheet and improving shareholder remuneration. To accomplish these objectives, the 2018-2020 Strategic Plan targets four key areas:

- **Great potential to achieve synergies** following the merger with BMN by reducing overlapping costs (saving up to an estimated EUR 190 million by 2020) and increasing significantly customers in geographical areas where Bankia held a relatively small presence prior to the merger (Murcia, Granada, Balearic Islands).

- **Improvement in the cost-to-income ratio** to below 47% in 2020 after successfully achieving the cost synergies resulting from the merger with BMN.

- **Increased income through greater sales of high-value products**. This objective will be achieved through new lending (mortgages, consumer finance and business loans), fees and commissions from managing and marketing investment funds, payment services and insurance and the new lines of business that the Entity has been able to initiate, such as real estate financing, long-term funding to large companies via placements in the capital markets and other fee-bearing products (project finance and acquisition finance).

- **Accelerated reduction of problematic assets** organically and through portfolio sales. The plan contemplates further reductions in non-performing loans and foreclosed assets (NPAS) of EUR 8,800 million through to the end of 2020.

Accomplishing the objectives of the Strategic Plan will allow the Bankia Group to continue generating strong organic capital, while keeping its capital adequacy ratio above 12% (fully-loaded CET1).

1.2. - Bankia completes the integration of Banco Mare Nostrum

In March 2018, the Bank successfully completed the integration of the technology platforms of Bankia and Banco Mare Nostrum ("BMN"). Following the technological integration, BMN customers now have access to Bankia products and associated terms and conditions and all branches now operate under Bankia livery. Changes have also been made to over 1,000 ATMs across the country.

The branch closure process is now complete. At the end of 2018, the network comprised a total of 2,298 branches. Moreover, in April the Bank embarked on a headcount restructuring plan, which ended in November, resulting in 2,000 departures. The initial cost synergies from the branch and staff restructuring were realised in 2018, with a 8.7% year-on-year fall in Bank's operating expenses.

As regards the business organisation, the Bank entered into a number of agreements in 2018 designed to accelerate the synergies envisaged in the 2018-2020 Strategic Plan:

– As from April, Haya Real Estate began managing all of Bank's real estate-related activities after the contracts between BMN and other companies were cancelled and the agreement for the purchase and sale of the real estate management and service business entered into with Haya Real Estate, S.L., signed on 3 September 2013, was novated.

– In May, an agreement was signed with Crédit Agricole Consumer Finance covering the consumer lending business in Spain through a joint venture (51%-owned by Crédit Agricole Consumer Finance and 49% by Bankia), which will market its products exclusively in Spain through non-banking channels.

– In December, Bankia reached an agreement with Grupo Mapfre and Grupo Caser for the reorganisation of their bancassurance alliances. In the life business, this entailed the sale of 51% stakes in Caja Granada Vida and Cajamurcia Vida y Pensiones to Mapfre Vida, although Bankia maintains its exclusive bancassurance agreement with Caser in the Balearic Islands for the life insurance and pension business. In addition, in the non-life business, Bankia agreed to terminate its alliance with Grupo Caser covering certain general insurance branches, while extending the scope of the current alliance with Grupo Mapfre for general insurance in the network from BMN. The effectiveness of the sale of the 51% stakes in Caja Granada Vida and Cajamurcia is subject to clearance by the pertinent regulators and competition authorities.

– Lastly, also in December, Bankia reached an agreement with two subsidiaries of the Lone Star XI fund, in order to set up a company to administer, develop and have available a portfolio of foreclosed real estate assets and transfer a portfolio of non-performing loans, for a combined gross book value of approximately EUR 3,070 million (EUR 1,650 million of real state assets, mostly foreclosed and EUR 1,420 million of mortgage loans). The transaction is expected to be closed in the second quarter of 2019, when the assets will be derecognised from the balance sheet. The cost savings associated with the transaction are estimated at slightly over EUR 200 million before tax over the first three years following the closing of the transaction. This transaction, together with the organic reduction of non-performing loans and foreclosed assets expected for 2018, will result in a reduction of non-performing assets ("NPAs") with a gross book value of more than EUR 6 billion. This will accelerate by one year the NPA reduction target set in the 2018-2020 Strategic Plan.

1.3. - Earnings performance

Net profit in 2018 totalled EUR 834 million, up 77.8% from 2017. The increase was driven by the full integration of BMN's business, not to mention the increase of the income for dividend, the initial post-merger cost savings and the absence of the one-off staff costs incurred in 2017 arising from the integration.

The new commercial model has continued to create value for Bankia, increasing customer loyalty, making important progress in the multichannel distribution strategy and driving business volumes. These advances pushed up net fee and commission income by 231.9% year-on-year (1.3% on a like-for-like basis if we factor the totally of earnings at BMN of 2017).

Also contributing positively was the 8.7% fall in operating costs (administrative expenses and amortisation) in the year thanks to the initial cost synergies arising from the merger with BMN and the efficiency measures implemented by the Group.

1.4. - Positive commercial trends, underscored by rising activity volumes.

Digital customers continued to grow at a healthy pace over in 2018. At 31 December 2018, digital sales already accounted for 25.8% of total Bank sales, compared with 15.7% at December 2017.

The advances in commercial strategy were borne out in lending. The Bankia Group maintained a healthy pace of new loans, with increases compared to 2017 in businesses (+13%), as well as individuals through mortgages (+6%) and consumer loans (+13%).

Bankia also continued to step up transactional business with customers, delivering strong growth in the cards market (+12.8% in revenue at establishments from the year before) and in customers with direct-debit income (+103,000 since December 2017)

1.5. - Ongoing improvement in asset quality on the back of further declines in the balance of NPLs and foreclosed assets

The key variables related to the credit quality of assets continued to fare well in 2018. Non-performing loans (NPLs) fell by 30.6%, while the NPL ratio shed 2.4 percentage points to reach 6.5% at the end of December 2018, after discounting the NPLs transferred to the portfolio of non-current assets held for sale pursuant to the agreement reached with institutional investor Lone Star XI (see section 1.2). This solid performance is related to a reduction NPL inflows, an improvement in recoveries and active risk management at the Bank, all of which have led to further sales of non-performing assets in the year.

The Group's strategy for reducing problematic assets has also resulted in a reduction in the volume of foreclosed assets, the net value of which fell by 13.7% from December 2017,

1.6. - Capital strength

Bankia's Phase-in CET 1 ratio at 31 December 2018, including profit for the year less the dividend to be charged to reserves, stood at 13.80%. Once again in 2018, the Bankia Group showed an organic CET1 generation model (+83 bp), allowing it to offset negative one-off impacts arising in regulations and supervision of credit institutions (e.g. IFRS 9, TRIM), while continuing to meet the CET1 target set in the Corporate Risk Appetite and Tolerance Framework.

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 524 bps (EUR 4,313 million) above the minimum capital requirement for CET 1 SREP communicated by the ECB to the Group for 2018 (8.563%).

The Bankia Group's solvency strength is underpinned by the Group's organic capital generation model, in which the capitalisation of profits and selective growth in the business segments that are considered strategic by Bankia for their higher credit quality are the main cornerstones of its sound solvency position. At the same time, Bankia continues with a gradual process of optimization of its risk weighted assets, which have a positive impact on solvency. This underscores the Bankia Group's ability to continue generating capital while still paying dividends to shareholders.

1.7. – Solid Structure Funding and liquidity.

Bankia continues to enjoy an extremely sound financial structure, underpinned by the funding of its credit activity mainly through customer resources. In accordance with this retail banking model, customer deposits in 2018 represented 66.3% of external funding sources (63.2% at December 2017), leaving the Bank operating with a LTD ratio of 89.9%.

Additionally, Bankia taps capital markets in order to supplement its structural liquidity needs. The year's main highlight was the Entity's second AT1 bond issue for EUR 500 million in September, which enjoyed strong take-up in institutional markets and was more than five times oversubscribed.At 31 December 2018, wholesale debts issuances accounted for 9.1% of Bankia's borrowings and consisted primarily of mortgage covered bonds. At 31 December 2018 the Entity had sufficient available liquid assets to cover its entire wholesale debt maturities.

1.8. - Upgrades to credit ratings

The main rating agencies continued to upgrade Bankia's credit ratings.

On 6 April 2018, S&P upgraded Bankia's long term rating from BBB- Outlook Positive to BBB Outlook Stable. The move was prompted by the perceived improvement in the "economic climate and the state of the banking sector" in Spain, following the upgrade of sovereign rating. The agency expects Bankia's capital to continue improving on the back of organic capital generation and the issuance of hybrid instruments. It is also confident that non-performing assets will continue to fall over the next two years, while recurring profitability should improve following the integration of BMN.

On 6 February, Fitch upgraded Bankia's outlook from Stable to Positive, affirming its BBB- rating. After the end of the reporting period, on 30 January 2019, the agency upgraded Bankia's long-term rating to BBB, citing its strengthened national franchise following its merger with BMN, the reduced exposure to problem assets, sound post-merger capitalisation, adequate funding and liquidity and management's proven record in integrations.

1.9. - Shareholder payment

Increasing shareholder returns is one of the Bankia Group's top priorities. In this regard, approval was given at the Board of Directors meeting held on 24 January 2019 to submit a proposal to the General Meeting of Shareholders for the payment of a EUR 11.576 cents gross cash dividend out of 2018 profit, resulting in a total gross amount of EUR 357 million in dividends.

Additionally, on 20 April 2018, Bankia paid a dividend of EUR 338 million (EUR 0.11024 per share) out of 2017 profit. Of this amount, EUR 208 million was paid to BFA, Tenedora de Acciones, S.A.U., which held 61.175% of Bankia's capital at 20 April 2018.

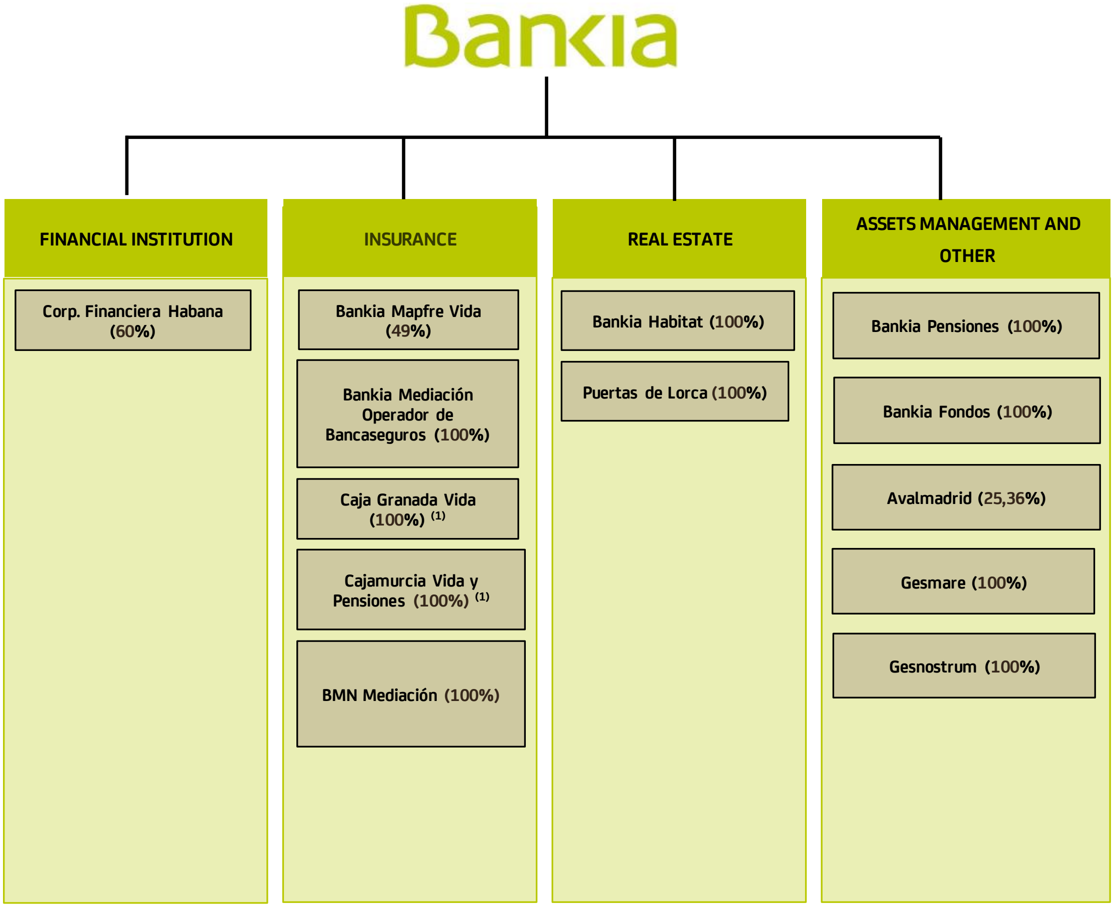
Underpinned by organic capital generation ability and an increasingly strong balance sheet, Bankia's goal is to maintain and improve shareholder remuneration in coming years as another step towards getting the business back to normal and repaying the public assistance received.

2. - ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

2.1. - Overview of Bankia Group and its organisational structure

Bankia, S.A. (hereinafter "Bankia") is the parent company of a financial group with a presence throughout all the national territory, with an activity that is mainly focused on traditional retail banking, corporate banking, asset management and private banking businesses.

BFA is Bankia's biggest shareholder, with a 61.38% stake at 31 December 2018. The participations in the companies that make up the perimeter of consolidation of the Bankia group are maintained directly in Bankia's own portfolio or, indirectly, through different holdings, highlighting the following as the most relevant:



(1) In December 2018, Bankia reached an agreement for the sale of 51% stakes in these companies to Mapfre Vida Sociedad Anónima de Seguros sobre la Vida Humana ("Mapfre Vida"). The transaction is subject to the pertinent regulatory and competition authorities' approvals.

Organisationally, Bankia is the Group's parent. At 31 December 2018, the consolidation scope comprised 63 companies between subsidiaries, associates and joint ventures, engaging in a range of activities, including the provision of finance, insurance, asset management, services, and real estate development and management. Bankia mainly does business in Spain. Bankia had total assets at 31 December after the integration of BMN of EUR 206,346 million. The Entity's branch network comprised 2,298 offices at the year-end. Section 2.3 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 and supervising the functioning of any committees it may have set up and the actions of the delegate bodies.

There are **five 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 15 meetings in 2018
(8 independent directors and 4 executive directors at 31 December 2018)

- Mr. José Ignacio Goirigolzarri Tellaeche. Executive Chairman
- Mr. José Sevilla Álvarez. Chief Executive Officer
- Mr. Antonio Ortega Parra. Executive Director
- Mr. Carlos Egea Krauel. 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
- Mrs. Laura González Molero. Independent Director
- Mr. Antonio Greño Hidalgo. Independent Director

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. It makes proposals to the Board of Directors for the selection, appointment, re-election and replacement of the statutory auditors. It also conducts the necessary relations with the external auditor and examines and supervises compliance with Bankia's governance and compliance rules, among other responsibilities.	**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 17 meetings in 2018.
Appointments Committee and Responsible Management Committee	
This committee has general authority to propose and report on the appointment and removal of directors and senior managers, determines the competencies, abilities, experience, diversity and knowledge required on the Board of Directors, and defines the functions to be performed and the aptitudes required of candidates to fill vacancies. It also assesses the time and commitment required for directors to be able to perform their duties effectively, examines and organises the succession plan for the governing bodies and reviews the corporate social responsibility policy. In addition, it monitors the strategy and practices for implementing that policy and assesses all aspects of the bank's social, environmental, political and reputational risks.	**Four external independent directors:** - Mr. Joaquín Ayuso García (Chairman) - Mr. Francisco Javier Campo García (Director) - Mr. Fernando Fernández Méndez de Andés (Director) - Mrs. Laura González Molero (Director) The Appointments Committee and Responsible Management Committee held 14 meetings in 2018.
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 9 meetings in 2018.

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 37 meetings in 2018.
Board Risk Committee	
It is an executive body with responsibility for approving risk-related decisions within the scope of authority delegated by the Board of Directors, and guides and administers the exercise of delegated authority by lower-ranking bodies. It approves important transactions and defines overall risk limits. It is also reports to the Board of Directors on any risks that may affect the Bank's solvency, 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 35 meetings in 2018.

In addition, at 25 January 2018, the Board of Directors resolved to terminate the **Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum ("BMN")**, amending the Board of Directors Regulations by the deletion of the final disposition to regulate the Committee's duties, functioning, composition and organisation. This Committee, which was set up in March 2017, was composed exclusively of independent directors: Mr. Joaquín Ayuso García (Lead Independent Director and Chairman of the Appointments and Responsible Management Committee), as Chairman, and Mr. Francisco Javier Campo García (Chairman of the Risk Advisory Committee), Mrs. Eva Castillo Sanz (Chairman of the Remuneration Committee) and Mr. Antonio Greño Hidalgo (Chairman of the Audit and Compliance Committee).

Its core mission was 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 reported to the Board of Directors on the development of all these tasks. In addition, it focused in particular on the interests of all Bankia shareholders, ensuring autonomy and independence in decision-making.

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 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.

On **director appointments**, in January 2018, pursuant to the merger between Bankia and BMN, Mr. Carlos Egea took a seat on the Board of Director with the category of other external director. He was subsequently appointed executive director.

Additionally, the General Meeting of Shareholders held on 10 April 2018, after hearing that an opening had arisen on the Board of Directors on 17 October 2017 following the resignation of independent director Mr. Álvaro Rengifo Abbad, agreed to keep the number of board members at 12, meaning that the vacancy remained open.

Given the importance of diversity in the composition of Bankia's Board of Directors and its commitment to have women directors occupy at least 30% of board places by 2020, on 25 October 2018, after obtaining the pertinent regulatory authorisations, the Board of Directors agreed to appoint, by co-option, Mrs. Laura González Molero as independent director of Bankia to fill this vacancy.

Accordingly, the Board of Directors comprised 12 members, eight external independent and four executive directors. This appointment favours the diversity of training, experience, knowledge and skills of board members and also promotes the Board of Directors' gender diversity.

Mrs. Laura González Molero was also appointed member of the Appointments and Responsible Management Committee.

In addition, Bankia also has a Management Committee, at the end of 2018 was 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 and investees and associates, Mr. Joaquín Cánovas. As described in section 15 (Events after the reporting period), on 24 January 2019, the Board of Directors approved a change in the Bank's organisation to drive its transformation and that of its businesses, creating four new general subdivisions –Financial, Credit Risk, People and Culture, and Digital Strategy and Transformation. Their members will have a seat on the Management Committee. This comes after the transfer of duties following the departure of the Deputy General Director of Investees and Associated Undertakings.

- **Advances in Corporate Governance**

One of Bankia's main priorities is to align its corporate governance with Spanish and international best practices. 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 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 Entity'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 of the listed companies.

A key part of the system of corporate governance is the set of rules and regulations, which provides as internal control framework for Bankia and his group. They comprise a set of internal rules that regulate the Company's corporate governance and the operational functioning, basically made up of corporate texts (Corporate Bylaws, General Meeting Regulations, Board of Directors Regulations and, more recently, the Regulations of the Audit and Compliance Committee), internal procedures and rules of conduct (including the Code of Ethics and Conduct, and the Internal Rules of Conduct for Securities Markets activities) and corporate policies.

The Board of Directors approved the **Regulations of the Audit and Compliance Committee** at a meeting held on 26 April 2018 so as to embrace and implement the principles and recommendations set out in CNMV Technical Guide 3/2017 on audit committees. Due to Bankia's status as a credit institution, the regulations also reflect the recommendations contained in EU banking industry publications, such as the Final Guidelines on Internal Governance (EBA/GL/2017/11), the guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12) and the Guide to Fit and Proper Assessments of the European Central Bank.The Regulations of the Audit and Compliance Committee were duly filed at the Companies Registry and reported to the CNMV and can be found on the Bank's corporate website (www.bankia.com).

Bankia reviewed its corporate governance system in 2018. This led to approval in the year by the Board of Directors, on a proposal by the Appointments and Responsible Management Committee, of **the Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers and Similar, and incumbents of other key positions in Bankia, S.A.** This policy sets out the core principles, criteria and main lines of the procedures for assessing the suitability of members of the Board of Directors and incumbents of other key positions, particularly Board of Director selection, diversity and integration, and training processes.

Ensuring that the members of Bankia's Board of Directors are suitable and have the right knowledge, skills and experience necessary to carry out their duties is the overriding principle of this policy.

It also promotes diversity in nationality, gender, knowledge and experience to enrich decisions and provide a broad range of viewpoints.

Therefore, the bodies overseeing the director selection process at Bankia must ensure that the selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and, in general, does not have implicit biases that could imply any discrimination, seeking a diversity of profiles in the Board of Directors. The Board of Directors and the Appointments and Responsible Management Committee shall ensure that the following areas of diversity are upheld at all times:

a) Academic and professional profile
b) Gender
c) Age
d) Geographic origin
e) Non-discrimination

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 long-term value, to respond to the expectations of its shareholders, customers, employees and society at large. Accordingly, Bankia's business model is characterized 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 commercial model of Bankia, is structured in three main business lines:

- Retail Banking
- Business Banking
- Corporate Centre.

Note 1.14 of the notes to the Bankia's financial statements provides a breakdown of the results of each business line at 31 December 2018 and 2017, 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 2,298 branches, distributed geographically as follows:

Autonomous communities	Branches number
Andalucía	326
Aragón	10
Asturias	11
Baleares	155
Canarias	104
Cantabria	20
Castilla - La Mancha	103
Castilla - León	125
Cataluña	134
Ceuta	5
Extremadura	9
Galicia	22
La Rioja	51
Madrid	636
Melilla	1
Región de Murcia	163
Navarra	3
País Vasco	17
Valencia	403
TOTAL BRANCHES	**2,298**

Retail Banking

Retail Banking includes retail banking activity 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 Directorate of Private Banking and Asset Management, as well as Insurance Banking Directorate.

Retail banking is a strategic business for Bankia; it is one of Spain's leading financial institutions in this segment. The Bank focus its efforts on traditional banking products, such as mortgages, consumer loans, direct deposit of salary and pension, credit cards, payments of bills, insurance, investment and pension funds, and other asset management services, in the latter case for high net worth customers requiring specialist financial and tax advice.

This area focuses on **retail activity** following a universal **banking model**. Its objective is to achieve customer satisfaction and loyalty, retaining customers and, providing them with added value in products and services, and in advisory, and service quality, thereby increasing its satisfaction rate with Bankia. For it, it segments his clients offering specialized attention, as well as products and services adapted to every segment that allow to realize an integral advice of the client depending on the needs of every type of client (particular clients, personal banking customers, private banking, self-employed workers, SMEs and trades). This segmentation allows Bankia to assign specific customers a specialised manager responsible for their overall relationship with the Bank, which increases satisfaction and generates new business opportunities. Moreover, with a view to offering families a comprehensive commercial service, ensuring that they are provided with the same quality as the biggest customers, all customers of each family group are assigned the same manager. This way, we simplify their dealings with Bankia, while at the same time enhancing the service we offer them.

The **main objectives and future strategies of the Bankia Group to continue driving retail banking activity** in the short and medium term focus on improvement margins and profitability, increasing lending to individuals, SMEs and self-employed professionals, controlling non-performing loans and deposit gathering. And all of this with a customer-centric approach.

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.

In 2018, Retail Banking continued to focus on a loyalty strategy with **retail customers** which began on January 2016, eliminating fees and commissions for customers with payroll and direct income deposit. The “We remove your fees” strategy has become a cornerstone for the Bank with retail customers. Following the merger with BMN, over 4.3 million retail customers no longer pay fees by benefiting from the advantages of this commercial strategy. This strategy also is applied to autonomous clients with social domiciled insurances.

Another strategic product for Bankia, which saw further improvements during 2018, is 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.

Bankia continued to pursue its commercial strategy of increasing engagement with individual customers by launching "Anticipo de nómina" (salary advance) in 2018, giving customers up to three months' advance on their salary or pension, and "Bankia Fácil" (Bankia Easy), a suite of services offered by the Bank to address specific day-to-day situations, making banking more user friendly for customers. This new suite of services will allow the Bank to troubleshoot problems that customers often encounter and ultimately make banking an easier task. With this new line of services, customers can find out how much they can borrow should needs arise, cancel products without having to pay additional costs provided they do so within two months of arranging the product, or speak with a manager if need be through a secure and private channel accessible via the app or Bankia Online.

In line with its growing multi-channel and digital banking strategy, one of the pillars of Bankia's commercial position, noteworthy is that Bankia was Spain's first bank to offer customers all the digital payment platforms available in the market, after reaching agreements with the leading players (Apple Pay, Samsung Pay, Google Pay, PayPal, Bizum).In this line, “Oficina Internet” (Internet Office) and the new Bankia app, with improved innovative features in 2018 to make it easier for customers to take out products and contact the Bank. Also, this year, Bankia has strengthened “Bankia online”, the net internet office for retail customers, which was launched in 2017 and continued promoting new business models through “Open Business”, and its main component, “Bankia Connect”. Several third-party platforms have been integrated through the latter, including PayPal, Zankyou and MTV, while the capability of taking out credit and debit cards from third-party platforms was also developed.

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, based on its relationship with customers, Bankia’s commercial model is based on a segmented branch network in which universal branches, business branches, private banking centres, +Valor offices (oriented to multichannel consumers) 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 allows it to deliver quality, fast service to the customers who execute the most transactions, to free up time for the rest of the branches, 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.

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. Amongst these are, the “Conecta con tu Experto” (“conect with your expert”) service, provided though multi-channel managers integrated in the multi-channel branches, that is directed to customers requiring a 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 **personal banking and private banking** business are 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 retail network.

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 have been 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 product for individuals (life, home, auto, health and saving) and businesses (comprehensive trade, credit insurance, general liability and comprehensive business).

The Bancassurance department defines the framework for relations with partner insurance companies based on the strategic alliances entered into, with the aim to boost the contribution from the sale of insurance products to the Entity's fees and commissions.

The distribution model is under constant development to bring marketing and sales processes in line with customer needs across the main sales channels (physical, assisted distance and digital) as the Bank seeks to unlock the value of an enhanced and more effective single distribution model for the entire network. The Bank is also driving new initiatives in a bid to maximise its results from this business.

On this front, as part of reorganisation of the bancassurance business started following the merger with BMN, in December 2018 Bankia, S.A. signed an agreement with Grupo Mapfre and Grupo Caser for the reorganisation of its insurance distribution alliances. In the life business, the agreement included the sale of 51% stakes held by in Caja Granada Vida, Compañía de Seguros y Reaseguros, S.A. and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. to Mapfre Vida for a total price of EUR 110 million, although Bankia maintains its exclusive bancassurance agreement with Group Caser in the Balearic Islands for the life insurance and pension business. The effectiveness of the sale is subject to the pertinent regulatory and competition authorities' approval. In addition, in the non-life business, Bankia agreed to terminate its alliance with Grupo Caser covering certain general insurance branches, while extending the scope of the current alliance with Grupo Mapfre for general insurance in the network from BMN.

At 31 December 2018, the activity focused on 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.

In addition to providing support and advice to the distribution networks and employee training, Bancassurance is continuing to improve support for in-branch sales and portfolio management, as well as after-sales service. Progress was also made in optimising commercialisation systems and in streamlining procedures for arranging insurance and managing the portfolio, not only through the traditional branch network but also new channels, which now have added features and functionalities to enhance the customer experience.

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 commerce, manufacturing and service sector followed by supply and construction. Bankia 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 Comunidad Valenciana. Bankia also has good penetration rates among companies in other regions where it is a strong player such as La Rioja, the Canary Islands or Castilla la Mancha.

Bankia's **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 (excluding 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 is 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 three centres, in Madrid and Barcelona, and Palma de Mallorca, the latter specialised in dealing with customers from the Hotel business. When selling products and services, Corporate Banking managers work alongside Capital Markets product 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 called BOL-E (Bankia On- Line Empresas) 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 (Risk adjusted Return) approach to transactions.

The prices offered to customers take into consideration the cost of funds, the customer's risk —which is determined through advanced internal models validated by the Bank of Spain— and their level of engagement with the Bank.

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, sanction 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 has opened 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 raised long-term finance again in 2018 for 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 increased 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 in short and middle-term.

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 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 Bankia'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.

Digitalisation is one of the key growth drivers in the 2018-2020 Strategic Plan for the coming years, above all in the area of payment methods. By the plan's conclusion, over 65% of bank customers will be digital and over 35% of purchases will be made via digital channels.

Significant strides were made in Bankia's multi-channel strategy in 2018, cementing many of the projects initiated in previous years, which have driven considerable growth in the multi-channel and digital customer bases. At the end of December 2018, digital customers were overcoming 3.2 million, one 19.8 % more than in December 2017.

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.

As part of Bankia's strategic digital transformation in 2018, Bankia has become the first financial institution in Spain to offer its customers the possibility of using all the digital payment platforms available on the market. This way, bank customers can may digital payments however it suits them best, via Apple Pay, Samsung Pay, Google Pay, PayPal or Bizum. The objective is to provide users with access to the full range of digital solutions so that both their e-commerce and in-store payments are easier, more convenient and more secure.

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 attract new customers to Bankia. While the results obtained in recent years are encouraging, more work needs to be done.

3. - ACTIVITY AND RESULTS

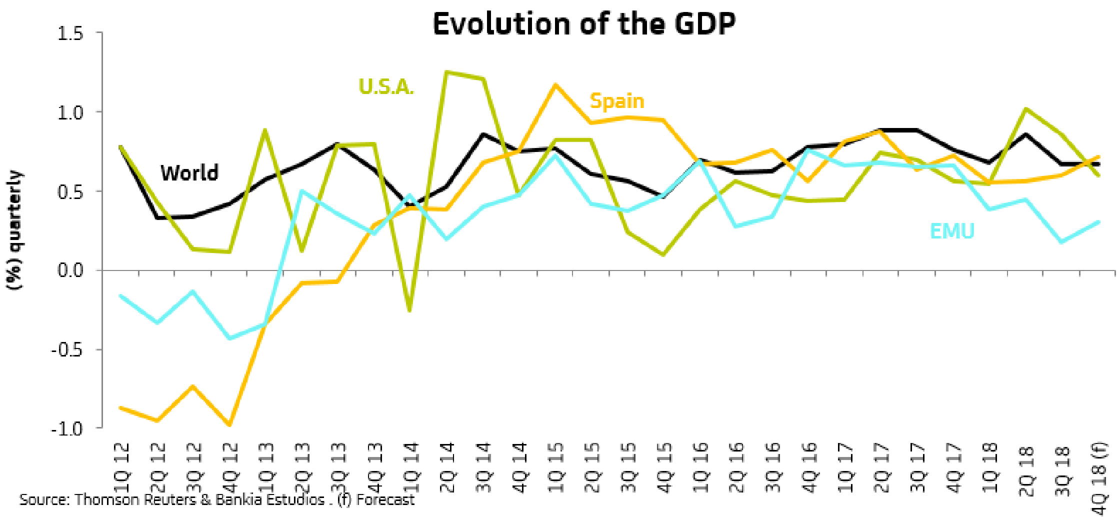
3.1. - Economic and financial backdrop

The macroeconomic scenario remained positive in 2018. Global growth topped 3%, exceeding the potential growth for the second year in a row. Nonetheless, in contrast to 2017, the performance of the leading economies, except the US, disappointed, with growth losing steam as the year progressed. Specifically, the EMU weakened more than expected, with the growth rate falling from 2.5% in 2017 to 1.9%. This was fuelled by the slowdown in global trade, the change in emissions regulations in the auto industry, the sharp spike in oil prices (until they slumped in October), Brexit, and the dispute over budgets between Italy and the European Commission. The US-China trade war and the tightening of US monetary policy also heightened global risks overall. This shook market sentiment in the latter months of the year and led to steep falls by the major stock markets.

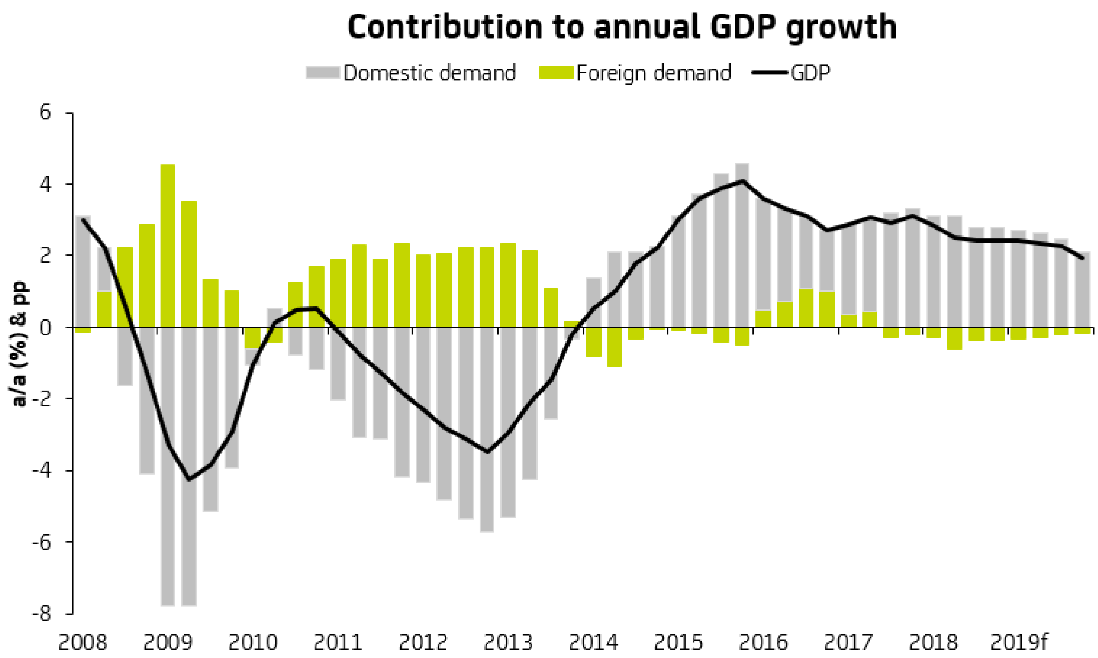
Turning to monetary policy normalisation, 2018 brought with it significant changes, with the Fed stepping up its rate tightening cycle and the ECB curtailing its asset purchase programme. Indeed, the US hike interest rates by a percentage point to a 2.25%-2.50% range, while reducing its balance sheet by nearly USD 400,000 million. In the EMU, the ECB went from buying EUR 60,000 million of assets in 2017 to halting the programme at the end of 2018. These decisions drove up US public bond yields, albeit to a smaller extent for longer-dated paper because of the myriad uncertainties and since they are somewhat less affected by changes in monetary policy. As a result, the spread between 10Y and 2Y bonds narrowed from 55 bp to a low of 10 bp, accentuating worries about a pending recession. In the EMU, 10Y bond yields decreased pretty much across the board (20 bp in Germany and 15 bp in Spain). Italy was an exception, notching up a 75 bp rise.

The Spanish economy continued to expand in 2018, but the pace of GDP growth eased slightly, to 2.5% (from 3% in 2017). This dip in activity was the result of factors, such as the constrained spending during the crisis, the tourism sector, and the positive effect of neighbouring economies and oil prices playing a less prominent role. Against this backdrop, the labour market continued to create jobs for the fifth consecutive year, and at a fast rate (564,000 new Social Security registrations). Activity was fuelled by domestic demand –both investment in capital goods and construction, and consumer spending– underpinned by the strong job creation. Meanwhile, external demand, unlike in previous years, made a negative net contribution to GDP growth, as the economies of our main trade partners slowed and tourism made a less positive contribution as the main competing destinations returning to normal. The balance of trade worsened, but the Spanish economy still generated net lending capacity (1.5% of GDP YOY to 3Q18), enabling it to pare back its trade deficit (80.6% of GDP).

The buoyant economy continued to benefit Spain's banking system, as evidenced by the uptick in transactions, the significant improvement in the balance sheet quality and the increase in profitability. Household lending was up in the year, driven especially by robust consumer lending. On the contrary, deleveraging by businesses continued, stoked by NPL portfolio sales, despite the increase in new lending. In terms of credit quality, there was a sharp fall in the volume of NPLs and, accordingly, in the NPL ratio, to its lowest level since 2010. On the savings side, the volume of deposits rose, in contrast to mutual funds, which were adversely affected by heightened market volatility in the second quarter. Sector profitability remains under pressure from the extraordinarily low interest rates, with banks having to search for efficiency gains through cost constraints, mergers and digitalisation. In November, the European Banking Authority released the results of its stress tests of the leading European banks, with the Spanish banking sector showing a high level of resilience. Lastly, on the regulatory front, the second phase of Basel III was completed, culminating in the regulatory framework championed by the G20 following the financial crisis. Work continued in Europe to complete the Banking Union, with the creation of a financial backstop for the Single Resolution Fund. That said, a common deposit guarantee scheme still needs to be introduced and MREL (loss absorption requirement) to be fully rolled out.



Source: Thomson Reuters & Bankia Estudios . (f) Forecast



Source: INE & Bankia Estudios. (f) Forecast Bankia Estudios.

3.2. - Financial performance in 2018

- **Note about comparative information**

When comparing financial information of 2017 and 2018, please take note of the following aspects and events:

1. **Merger with BMN:** since the merger between Bankia and BMN was completed for accounting purposes on 1 December 2017, the Bank's balance sheets at 31 December 2018 and 31 December 2017 already include all the assets and liabilities of the resulting entity. Meanwhile, the income statement only shows BMN earnings after the December 2017 statement. Accordingly, Bank's income statements of 2018 and 2017 are not expressed on a like-for-like basis. To provide a more meaningful comparison between both periods, this report indicates how the main items of the income statement would have changed on a like-for-like basis as if BMN had also contributed earnings by year end in 2017.

2. **Presentation of comparative information:** Bankia's condensed Annual Accounts at 31 December 2018 are presented in accordance with the financial reporting criteria set out in IFRS 9, which entered into force on 1 January 2018. Bankia has elected to apply the classification and measurement changes of IFRS 9 prospectively, without restating the information for previous periods as permitted under the standard. However, Bankia's balance and income statement sheet at 31 December 2017, which are presented as part of the annual accounts at 31 December 2018, have been adapted accordingly to reflect the criteria for presenting financial information set out in IFRS 9, thus providing a more meaningful comparison between two periods in like-for-like terms.

   The impacts of applying the financial reporting criteria contained in IFRS 9 to previous periods are described at length in Note 1.3 to the annual accounts at 31 December 2018. The most relevant of these are certain reclassifications made to fixed income portfolios and changes in their nomenclature, although none were material enough to have an impact on the final balances.

3. **Impacts of first-time adoption of IFRS 9**: The main impacts of the first-time adoption of IFRS 9 at 1 January 2018 were reported under impairment of financial assets at amortised cost, which were up EUR

653 million due to the recognition of provisions for expected losses, as opposed to the incurred losses model under the preceding IAS 39. New provisions were charged to reserves. Meanwhile, certain fixed-income assets have been reclassified between the amortised cost portfolio and the fair value portfolio through other comprehensive income. This process generated positive measurement adjustments of EUR 172 million in equity.

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 2018.

3.3. - Key figures

KEY FIGURES DATA - BANKIA, S.A.

Balance (Millions of euros) (*)	dec-18	dec-17	Variation
Total assets	206,346	215,044	(4.0%)
Loans and advances to customers (net)	118,463	123,201	(3.8%)
Loans and advances to customers (gross)	122,685	128,908	(4.8%)
Balance sheet customer funds	146,835	152,258	(3.6%)
Customer deposits	130,085	132,970	(2.2%)
Debt securities issued	16,750	19,288	(13.2%)
Total customer managed funds (1)	171,409	174,722	(1.9%)
Total turnover (2)	289,872	297,923	(2.7%)
Equity	12,534	12,792	(2.0%)
Risk management (Millions of euros and %) (*)	**dec-18**	**dec-17**	**Variation**
Total risk	130,031	136,488	(4.7%)
Doubtful loans	8,388	12,081	(30.6%)
Provisions for credit lose	4,605	6,102	(24.5%)
NPL ratio	6.5%	8.9%	(2.4) p.p.
Hedging ratio	54.9%	50.5%	+4.4 p.p.
Profit / Losses (Millions of euros) (*)	**dec-18 (3)**	**dec-17 (3)**	**Variation**
Net interest income	2,029	1,924	5.4%
Gross income	3,597	2,974	21.0%
Operating income /(expenses) before provisions	1,765	968	82.3%
Operating income /(expenses)	1,352	606	123.0%
Profit/ Loss before tax from continuing operations	1,036	549	88.6%
Profit/ Loss	834	469	77.8%
Key ratio (%)	**dec-18 (3)**	**dec-17 (3)**	**Variation**
Efficiency (4)	50.9%	67.5%	(16.6) p.p.
ROA (5)	0.4%	0.3%	+0.1 p.p.
RORWA (6)	1.0%	0.6%	+0.4 p.p.
ROE (7)	7.0%	4.1%	+2.9 p.p.
ROTE (8)	7.1%	4.1%	+3.0 p.p.
Bankia's share	**dec-18**	**dec-17**	**Variation**
Number of shares at the end of the period (millions)	3,085	3,085	0.0%
Market price at close	2.56	3.99	(35.8%)
Additional information	**dec-18**	**dec-17**	**Variation**
Number of employees	15,486	17,217	(10.1%)
Average payment period to suppliers (days)	8.88	9.98	(11.0%)

(*) Financial Statement amounts rounded to millions of euros

(1) Comprises customer deposits marketable debt securities and off balance sheet funds managed

(2) Comprises net loans and advances to customer, on and off balance sheet client managed funds

(3) Figures at 30 June 2018 are for the BANKIA, S.A. post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting accounting for accounting purposes from 1 December 2017.

(4) Administration and amortization costs / gross margin. The efficiency ratio in 2017 is affected by the non-recurring integration costs arising from the merger with BMN.

(5) Profit/ Loss/ average total assets

(6) Profit/ Loss attributable to owners of the parent/ risk weighted assets

(7) Profit/ Loss attributable to owners of the parent/ average own funds

(8) Profit/ Loss attributable to owners of the parent/ average tangible own funds

3.4. - Highlights and changes of the balance sheet

BALANCE SHEET - BANKIA, S.A.

(millions of euros) (*)	dec-18	dec-17	Variation dec-17 Amount	%
Cash, cash balances at central banks and other demand deposits	4,354	3,755	599	16.0%
Financial assets held for trading	6,321	6,719	(398)	(5.9%)
Derivatives	6,035	6,713	(678)	(10.1%)
Debt securities	282	2	280	-
Equity instruments	4	4	(0)	(9.8%)
Non-trading financial assets mandatorily at fair value through profit or loss	9	0	9	-
Debt securities	0	0	0	-
Loans and advances to customers	9	0	9	-
Financial assets at fair value through other comprehensive income	15,623	22,726	(7,103)	(31.3%)
Equity instruments	66	57	9	16.3%
Debt securities	15,556	22,669	(7,112)	(31.4%)
Financial assets at amortised cost	156,747	159,027	(2,280)	(1.4%)
Debt instruments	33,860	32,798	1,063	3.2%
Loans and advances to credit institutions	4,433	3,029	1,404	46.3%
Loans and advances to customers	118,454	123,201	(4,747)	(3.9%)
Derivatives – Hedge accounting	2,620	3,058	(438)	(14.3%)
Investments in joint ventures and associates	2,714	2,840	(127)	(4.5%)
Tangible and intangible assets	2,377	2,545	(168)	(6.6%)
Non-current assets and disposal groups classified as held for sale	3,459	3,118	341	10.9%
Other assets	12,122	11,255	867	7.7%
TOTAL ASSETS	**206,346**	**215,044**	**(8,698)**	**(4.0%)**
Financial liabilities held for trading	6,079	7,450	(1,371)	(18.4%)
Derivatives	5,957	7,107	(1,150)	(16.2%)
Short positions	122	343	(221)	(64.5%)
Financial liabilities measured at amortised cost	184,061	190,917	(6,856)	(3.6%)
Deposit from central banks	13,856	15,356	(1,500)	(9.8%)
Deposit from credit institutions	21,772	22,212	(440)	(2.0%)
Customer deposits	130,085	132,970	(2,885)	(2.2%)
Debt securities issued	16,750	19,288	(2,538)	(13.2%)
Others financial liabilities	1,599	1,090	508	46.6%
Derivatives – Hedge accounting	182	377	(195)	(51.7%)
Provisions	1,847	1,954	(107)	(5.5%)
Other liabilities	1,643	1,554	89	5.7%
TOTAL LIABILITIES	**193,811**	**202,252**	**(8,440)**	**(4.2%)**
Other comprehensive accumulated income	113	315	(202)	(64.1%)
Own funds	12,421	12,477	(56)	(0.4%)
TOTAL EQUITY	**12,534**	**12,792**	**(258)**	**(2.0%)**
TOTAL LIABILITIES AND EQUITY	**206,346**	**215,044**	**(8,698)**	**(4.0%)**

(*) Financial Statement amounts rounded to millions of euros

- **Summary of Bankia Activities**

Bankia ended December 2018 with EUR 206,346 million of total assets, 4% less than in December 2017.

Customer loans fell 3.8% as a result of natural maturities of the mortgage portfolio and the sustained reduction in doubtful assets. However, new loans continued to grow at a healthy pace in 2018, with gains reported in both loans to business and to individuals in the form of mortgages and consumer loans.

In customer funds, there was further growth in the most liquid and lower cost deposits (i.e. current accounts) which continued to attract large proportion of funds withdrawn by customers from deposits with set maturity. With reference to the resources out of balance sheet, investment funds grow by 9.4% due to the growing demand for these savings products and the organic growth of the Entity's assets under management.

We now briefly comment the trends of the Bankia Group's key balance sheet items in 2018.

- **Loans and receivables**

Note 3 and Appendices VIII and IX of the notes to the Bankia Group's annual accounts provide details on Bankia's loan approval policies, NPL monitoring, debt refinancing and recovery policies 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 2018 and the main movements therein.

Under this item, **loans and advances to customers reported as financial assets at amortised cost** amounted to EUR 118,454 million, down 3.9% on the figure at 31 December 2017, mainly in response to the reduction in doubtful loans and the stock of mortgage loans, which have continued to feel the effects of the household deleveraging process. Even so, new loans have continued to grow since December 2017 in both the mortgage segment and consumer and business loans, due to the unification of the commercial model after the merger with BMN and the improvement in macroeconomic indicators.

Gross non-performing loans (NPLs) extended the downtrend seen in 2017, falling by EUR 3,579 million, gross (-31.8%). The fall was both organic (lower gross NPL inflows and healthy pace of recovery), and due to credit portfolio sales in the year amounting to EUR 1,312million, gross. Part of the decrease in NPLs in the year was due to the transfer to non-current assets held for sale of doubtful mortgage loans for EUR 1,373 million, gross, following the sale of problem assets to an institutional investor, as described in section 1.2 of this report.

Stripping out non-performing loans and reverse repurchase agreements, the Group's performing loan portfolio has fallen by 2.1% from December 2017, underscoring the good performance of the Entity's new loans in the year, with an increasing impact of new loans, as shown by the good performance of commercial credit (+2.2%), other term loans (+3.4%) and other demand deposits (+13.5%).

LOANS AND ADVANCES TO CUSTOMERS BANKIA, S.A. BY MODALITY AND STATUS OF THE CREDIT

			Variation dec -17	
(millions of euros) (*)	dec-18	dec-17	Amount	%
Commercial credit	5,240	5,129	111	2.2%
Real guarantee debtors	75,083	78,740	(3,657)	(4.6%)
Storms assets acquisitions	14	256	(242)	(94.7%)
Other term debtors	30,769	29,112	1,657	5.7%
Other demand and miscellaneous debtors	2,852	2,597	256	9.8%
Other financial assets	853	1,620	(766)	(47.3%)
Doubtful assets	7,689	11,268	(3,579)	(31.8%)
Other fair value adjustements	175	186	(11)	(6.1%)
Gross loans and customer advances	**122,676**	**128,908**	**(6,232)**	**(4.8%)**
Impairment losses	(4,222)	(5,707)	1,485	(26.0%)
Net loans and customer advances	**118,454**	**123,201**	**(4,747)**	**(3.9%)**

(*) Financial Statement amounts rounded to millions of euros

- **Debt securities**

Debt securities at 31 December 2018, recognised under financial assets held for trading, “Financial assets at fair value through other comprehensive income” and “financial assets at amortised cost” amounted to EUR 49,698 million compared to EUR 55,468 million at December 2017. Of the total at the end of December 2018, EUR 19,155 million were SAREB bonds received as a result of the asset transfer carried out by the Entity in 2012. The remainder are comprises sovereign debt, mainly Spanish, and debt from other public and private issuers.

The debt securities held in these portfolios by Bankia by type of instrument, at 31 December 2018 and 2017 are as follows:

DEBT SECURITIES - BANKIA, S.A.

(millions of euros) (*)	Financial assets held for trading	Financial assets designated at fair value through other comprehensive income	Financial assets at amortised cost	TOTAL
Spanish goverment debt securities	94	12,406	10,817	23,318
Foreign goverment debt securities	182	2,633	3,559	6,375
Financials institutions	-	28	30	58
Other straight fixed income securities (**)	5	490	19,461	19,957
Impairment losses and other fair value adjustments	-	(1)	(8)	(9)
Total portfolio at 31 December 2018	**282**	**15,556**	**33,860**	**49,698**
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	21,334	21,927
Impairment losses and other fair value adjustments	-	(5)	(4)	(8)
Total portfolio at 31 Decembre 2017	**2**	**22,669**	**32,798**	**55,468**

(*) Financial Statement amounts rounded to millions of euros
(**) Financial assets at amortised cost includes securities received as consideration for assets transferred to the SAREB in December 2013.

The biggest change reported 2018 was seen in the portfolio of financial assets at fair value through other comprehensive income, which decreased EUR 7,112 million (-31.4%) on the figure reported at 31 December 2017 to reach EUR 15,556 million at 30 December 2018. This reduction can be explained by the sales made by the Group ahead of an expected change in market interest rates. Meanwhile, the portfolio of assets at amortised cost gained EUR 1,063 million to reach EUR 33,860 million after Bankia completed the reinvestment initially proposed and approved in January 2018.

Following the application of IFRS 9 for periods beginning on 1 January 2018, the Entity reviewed its business models and contractual terms and conditions on the portfolio of financial assets at year-end 2017. This process led to certain reclassifications of debt securities between financial assets at amortized cost and financial assets at fair value through other comprehensive income. These movements had the effect of valuation transfers and adjustments net amounting to EUR 246 million and pushing up equity by EUR 172 million in 2018.

- **Financial liabilities at amortised cost**

Financial liabilities at amortized cost at 31 December 2018 stood at EUR 184,061 million, decrease EUR 6,865 million (-3.6%) from December 2017. This performance was shaped by wholesale and retail debt maturities in the period and the Group's lower overall funding needs thanks to the liquidity raised from disposals of fixed-income assets.

FINANCIAL LIABILITIES AT AMORTISED COST - BANKIA, S.A.

(millions of euros) (*)	dec-18	dec-17	Variation dec-17 Amount	Variation dec-17 %
Deposits from central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**
Deposits from credit institutions	**21,772**	**22,212**	**(440)**	**(2.0%)**
Customer deposits	**130,085**	**132,970**	**(2,885)**	**(2.2%)**
Government agencies	6,608	5,678	930	16.4%
Other financial companies	9,533	9,430	103	1.1%
Non-financial companies	15,049	16,607	(1,558)	(9.4%)
Households	90,861	89,029	1,833	2.1%
Reserve repurchase agreement	44	2,668	(2,624)	(98.4%)
Single mortgage bonds	6,248	7,499	(1,251)	(16.7%)
Securities issued	1,742	2,060	(318)	(15.4%)
Debt securities issued	**16,750**	**19,288**	**(2,538)**	**(13.2%)**
Other financial liabilities	**1,599**	**1,090**	**508**	**46.6%**
Total financial liabilities at amortised cost	**184,061**	**190,917**	**(6,856)**	**(3.6%)**

(*) Financial liabilities amounts rounded to millions of euros

Deposits from central banks and deposits from credit institutions

Deposits from central banks totalled EUR 13,856 million at the end of 2018, decrease EUR 1,500 million on the figure at 31 December 2017 due to the early repayment of the ECB's TLTRO I facility that Bankia arranged during the period. At 31 December 2018, all ECB funding (EUR 13,856 million) comprised the amounts acquired at the TLTRO II auctions.

Deposits from credit institutions amounted to EUR 21,772 million at 31 December 2018, decrease 2% year-on-year, caused by the lower volume of reverse repurchase agreements with other entities.

Customer deposits

Customer deposits at the Group totalled EUR 130,085 million at 31 December 2018, down EUR 2,885 million (-2.2%) versus 31 December 2017. This change came in response to a reduction in repo transactions in the year (EUR -2,624 million) and in one-off non-marketable mortgage-backed securities (EUR -1,251 million) and securitisation (EUR -318 million), while strict customer funds were up EUR 1,308 million regarding the past year.

Within customer deposits, strict customer deposits excluding repurchase agreements, and one-off non-marketable mortgage-backed securities totalled EUR 122,051 million, marking a slight increase of 1.1% from the year before owing to the performance of on-balance sheet loans and receivables. Highlights in the year an increase in funds deposited by the public sector and growth in the most liquid and lower cost (current accounts) resources of the retail network (households), and financial corporations, 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. With low interest rates, the Bankia Group 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 9.4% after the integration of BMN and despite the adverse impact of market volatility on valuations. Investment funds continued to deliver the best performance of any product thanks to healthy subscription.

CUSTOMER DEPOSITS - BANKIA, S.A.

			Variation dec-17	
(millions of euros) (*)	dec-18	dec-17	Amount	%
Strict customer deposit	**122,051**	**120,743**	**1,308**	**1.1%**
Public sector	6,608	5,678	930	16.4%
Other financial companies	9,533	9,430	103	1.1%
Current accounts	7,240	6,126	1,115	18.2%
Term deposits (1)	2,292	3,304	(1,012)	(30.6%)
Non-financial companies	15,049	16,607	(1,558)	(9.4%)
Current accounts	12,549	12,611	(62)	(0.5%)
Term deposits	2,500	3,996	(1,495)	(37.4%)
Households	90,861	89,029	1,833	2.1%
Current accounts	59,632	53,677	5,955	11.1%
Term deposits	31,229	35,351	(4,123)	(11.7%)
Single mortgage bonds	**6,248**	**7,499**	**(1,251)**	**(16.7%)**
Securities issued	**1,742**	**2,060**	**(318)**	**(15.4%)**
Reserve repurchase agreement	**44**	**2,668**	**(2,624)**	**(98.4%)**
Total customer deposits	**130,085**	**132,970**	**(2,885)**	**(2.2%)**
Investment funds (2)	17,210	15,726	1,484	9.4%
Pension funds (2)	7,364	6,738	626	9.3%
Total off balance funds resources	**24,574**	**22,464**	**2,110**	**9.4%**

(*) Financial Statement amounts rounded to millions of euros.

(1) Excluded single mortgage bonds, showed in a separate epigraph.

(2) Excludes off-balance-sheet customer funds marketed by the Group but managed by third parties outside the BANKIA, S.A..

The combined balance of strict customer deposits and off-balance sheet funds was broadly steady in 2018, increasing by EUR 3,418million (+2.4%) from December 2017.

Debt securities issued and subordinated debt

Bankia has selective policy in fixed-income markets wholesale issuance, orientated to maintain the Bank financial soundness, to adapt deal sizes to its structural liquidity needs and maintaining an appropriate funding structure. 2018 featured a successful issuance of AT1 for EUR 500 million in September, which enjoyed strong take-up in institutional markets and was more than five times oversubscribed.

Despite the new senior and subordinate debt emissions made at 31 December 2018, the balance of debt securities issued by Bankia stood at EUR 16,750 million, down EUR 2,538 million on the figure reported at 31 December 2017. This reduction was a product of maturities and wholesale redemptions during the year, mainly in relation to mortgage covered bonds (mortgage bonds).

- **Provisions**

Provisions recognised on the Group's balance sheet at 31 December 2018 amounted to EUR 1,847 million, down EUR 107 million (-5.5%) from the amount recognised at 31 December 2017. This decrease was due mainly to the use of provisions set aside to cover payments related to floor clauses and the provisions set aside to cover payments relating to the Group's integration process following the merger with BMN (mainly for workforce restructuring and the cancellation of contracts).

- **Total equity**

At 31 December 2018 amounted to EUR 12,534 million, EUR 258 million less than at year-end 2017. This reduction was mostly concentrated in “accumulated other comprehensive income” (EUR -202 million due to the valuation of the fixed-income securities included in the portfolio at fair value) and own funds (EUR -56 million owing to the impact of the application of IFRS 9 on reserves and the payment of dividends out of 2017 profit).

3.5. - Evolution of the income statement

INCOME STATEMENT - BANKIA, S.A.

(millions of euros) (*)	dec-18	dec-17 (1)	Variation dec-17 Amount	Variation dec-17 %
Net interest income	**2,029**	**1,924**	**105**	**5.4%**
Dividend income	411	62	349	566.9%
Fee and comission income	964	791	173	21.9%
(Fee and comission expenses)	419	376	43	11.5%
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	400	310	90	29.1%
Gains or (-) losses on financial assets and liabilities held for trading, net	48	96	(48)	(49.8%)
Gains or (-) losses from hedge accounting, net	(29)	(30)	1	(3.7%)
Exchange differences [gain or (-) loss], net	15	10	5	51.3%
Other operating income and other operating expenses, net	(240)	(188)	(52)	27.7%
Gross income	**3,597**	**2,974**	**623**	**21.0%**
Operating expenses	(1,832)	(2,006)	174	(8.7%)
Administrative expenses	(1,659)	(1,833)	174	(9.5%)
Staff costs	(1,124)	(1,374)	250	(18.2%)
Other administrative expenses	(535)	(459)	(76)	16.5%
Depreciation	(172)	(173)	0	(0,04%)
Pre impairment income	**1,765**	**968**	**797**	**82.3%**
Provisions or reversal of provisions	17	(94)	111	-
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(430)	(268)	(162)	60.5%
Total operating income	**1,352**	**606**	**746**	**123.0%**
Impairment or reversal of impairment of investments in joint ventures and associates	(161)	68	(229)	-
Impairment or reversal of impairment on non-financial assets	(23)	(0)	(23)	-
Other gains and losses	(132)	(125)	(7)	5.9%
Profit or (-) loss before tax from continuing operations	**1,036**	**549**	**487**	**88.6%**
Tax expense or income related to profit or loss from continuing operations	(203)	(81)	(122)	151.1%
Profit or (-) loss after tax from continuing operations	**834**	**469**	**365**	**77.8%**
Profit or (-) loss after tax from discontinued operations (2)	-	-	-	-
Profit or (-) loss	**834**	**469**	**365**	**77.8%**

Main indicators				
Efficiency ratio (3)	50.9%	67.5%	(16.6) p.p.	(24.5%)
ROA (4)	0.4%	0.3%	+0.1 p.p.	61.4%
ROE (5)	7.0%	4.1%	+2.9 p.p.	71.6%

(*) Figures from the annual financial statements rounded to the nearest EUR million.
(1) Figures at end-December 2017 include just one month of BMN data, as the merger was effective for accounting purposes from 1 December 2017.
(2) Includes 100% of the profit/(loss) of Caja Murcia Vida and Caja Granada Vida from the acquisition of the entire share capital of the two companies on 10 June 2018. The share of their profit or loss until then was accounted for using the equity method.
(3) (Administrative expenses + Depreciation) / Gross income. The efficiency ratio in 2017 was affected by the non-recurring integration costs arising from the merger with BMN.
(4) Profit or (-) loss / Total assets.
(5) Profit attributable to owners of the parent / Own funds.

INCOME STATEMENT BANKIA, S.A. - QUARTERLY TREND

(millions of euros) (*)	4Q 18 (1)	3Q 18 (1)	2Q 18 (1)	1Q 18 (1)	4Q 17 (1)	3Q 17 (1)	2Q 17 (1)	1Q 17 (1)
Net interest income	**498**	**486**	**530**	**515**	**517**	**460**	**474**	**474**
Dividend income	178	24	208	1	23	1	32	6
Total net fees and commissions	242	236	246	240	209	192	200	190
Gain and losses on financial assets and liabilities	35	91	154	139	52	51	113	160
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	48	82	141	130	47	45	71	146
Gains or (-) losses on financial assets and liabilities held for trading, (net)	(3)	15	20	16	13	11	48	23
Gains or (-) losses from hedge accounting, (net)	(10)	(5)	(7)	(7)	(9)	(5)	(6)	(9)
Exchange differences [gain or (-) loss], net	4	5	5	0	3	3	2	2
Other operating income and other operating expenses, net	(164)	(5)	(69)	(3)	(127)	3	(61)	(3)
Gross income	**794**	**837**	**1,074**	**893**	**676**	**709**	**760**	**828**
Operating expenses	(463)	(441)	(450)	(478)	(869)	(383)	(373)	(380)
Administrative expenses	(420)	(399)	(410)	(430)	(822)	(339)	(331)	(340)
Staff costs	(272)	(271)	(283)	(298)	(695)	(226)	(222)	(231)
Other administrative expenses	(148)	(127)	(128)	(132)	(128)	(114)	(109)	(109)
Amortisation	(43)	(42)	(39)	(48)	(47)	(43)	(42)	(40)
Pre impairment income	**331**	**396**	**624**	**414**	**(193)**	**327**	**387**	**448**
Provisions or reversal of provisions	(21)	(0)	25	13	19	(81)	(4)	(29)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses, (net)	(145)	(73)	(94)	(117)	(52)	(66)	(66)	(84)
Total operating income	**164**	**322**	**555**	**310**	**(226)**	**180**	**317**	**335**
Impairment or reversal of impairment of investment in joint-ventures or associates	(194)	(14)	49	(2)	50	(14)	(20)	52
Impairment or reversal of impairment on non-financial assets	(16)	(1)	(3)	(3)	(0)	(1)	1	(0)
Other gains and losses	(28)	(39)	(23)	(42)	(63)	(22)	(13)	(27)
Profit or (-) loss before tax from continuing operations	**(74)**	**268**	**578**	**264**	**(238)**	**144**	**285**	**359**
Tax expense or income related to Profit or Loss from continuing operations	3	(56)	(90)	(59)	92	(23)	(73)	(77)
Profit or (-) loss after tax from continuing operations	**(71)**	**213**	**488**	**204**	**(146)**	**121**	**212**	**282**
Profit or (-) loss after tax from discontinued operations (2)	-	-	-	-	-	-	-	-
Profit or Loss	**(71)**	**213**	**488**	**204**	**(146)**	**121**	**212**	**282**

(*) Financial Statement amounts rounded to millions of euros.
(1) Data for 4Q18, 3Q18, 2Q18 and 1Q18 are for the resulting entity of the merger between Bankia and BMN. Data for 4Q17 include one month of BMN data, as the merger was effective for accounting purposes from 1 December 2017. Data for 3Q17, 2Q17 and 1Q17 are reported by the Bankia Group before the merger with BMN.
(2) Includes 100% of the profit/(loss) of Caja Murcia Vida and Caja Granada Vida from the acquisition of the entire share capital of the two companies in December 2017 and until June 10, 2018. Their profit or loss was accounted using the equity method.

INCOME STATEMENT BANKIA, S.A. - HIGHLIGHTS

(millions of euros) (*)	December 2018 Amount	December 2018 % of gross income	December 2018 % os average total net assets	December 2017 (1) Amount	December 2017 (1) % of gross income	December 2017 (1) % os average total net assets
Net income interest	**2,029**	**56.4%**	**1.0%**	**1,924**	**64.7%**	**1.0%**
Gross income	**3,597**	**-**	**1.8%**	**2,974**	**-**	**1.6%**
Operating expenses	(1,832)	(50.9%)	(0.9%)	(2,006)	(67.5%)	(1.1%)
Administrative expenses	(1,659)	(46.1%)	(0.8%)	(1,833)	(61.6%)	(1.0%)
Depreciation and amortization charge	(172)	(4.8%)	(0.1%)	(173)	(5.8%)	(0.1%)
Provisions or reversal of provisions	17	0.5%	0.0%	(94)	(3.2%)	(0.1%)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses, (net)	(430)	(11.9%)	(0.2%)	(268)	(9.0%)	(0.1%)
Total operating income	**1,352**	**37.6%**	**0.7%**	**606**	**20.4%**	**0.3%**
Impairment or reversal of impairment on non-financial assets Investments in joint ventures and associates	(161)	(4.5%)	(0.1%)	68	2.3%	0.0%
Impairment or reversal of impairment on non-financial assets	(23)	(0.6%)	(0.0%)	(0)	(0.0%)	(0.0%)
Other gains and losses	(132)	(3.7%)	(0.1%)	(125)	(4.2%)	(0.1%)
Profit or Loss before tax from continuing operations	**1,036**	**28.8%**	**0.5%**	**549**	**18.5%**	**0.3%**
Tax expense or income related to profit or Loss from continuing operations	(203)	(5.6%)	(0.1%)	(81)	(2.7%)	(0.0%)
Profit or (-) loss after tax from continuing operations	**834**	**23.2%**	**0.4%**	**469**	**15.8%**	**0.3%**
Profit or (-) loss after tax from discontinued operations	0	0.0%	0.0%	0	0.0%	0.0%
Profit or Loss	**834**	**23.2%**	**0.4%**	**469**	**15.8%**	**0.3%**

(*) Financial Statement amounts rounded to millions of euros
(1) Figures at 31 December 2017 only include BMN income statement of December, as the merger was effective for accounting purposes from 1 December 2017.

- **Overview of the earnings in 2018**

Bankia reported net profit of EUR 834 million in 2018, above the EUR 365 million reported in 2017. The full integration of BMN's earnings, the increase of the income for dividends, the initial post-merger with BMN cost savings and the absence of the one-off staff costs incurred in 2017 arising from the integration (EUR 445 million) are all factors explaining this result.

Main movements in Bankia’s income statement items of ended December 2018 are discussed below.

- **Net interest income**

Net interest income for the Bank totalled EUR 2,029 million, up EUR 105 million (+5.4%) year on year following the integration of BMN. If we include BMN's total earnings in 2017 so as to provide a like-for-like comparison, the Group’s net interest income would have fallen by 9.6% year on year due to the impact of the lower yield on fixed income securities following the sales and portfolio rotation carried out, as well as the natural maturities of the loans and the still-negative repricing of the mortgage portfolio in the year’s first half.

The following table shows trends in net interest income in 2018 and 2017, 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 2018.

STRUCTURE OF INCOME AND EXPENSES - BANKIA, S.A.

	December 2018			December 2017			Variation		Effect	
(millions of euros y %) (*)	Average balance (1)	Income/ expenses (1)	Type	Average balance	Income/ expenses	Type	Average balance	Income/ expenses	Type	Volume
Finance income										
Credit institutions (2)	6,681	88	1.31%	5,540	82	1.48%	1,141	6	(9)	15
Loans and advances to customers (a)	120,512	2,034	1.69%	104,216	1,749	1.68%	16,296	285	10	275
Debt securities	51,941	341	0.66%	49,219	482	0.98%	2,721	(140)	(158)	18
Other interest bearing assets	449	8	1.77%	391	3	0.82%	57	5	4	1
Other non interest bearing assets	28,167	-	-	24,920	-	-	3,247	-	-	-
Total assets (b)	**207,749**	**2,471**	**1.19%**	**184,287**	**2,316**	**1.26%**	**23,462**	**156**	**(124)**	**279**
Financial expenses										
Credit institutions (2)	37,509	47	0.12%	35,657	45	0.13%	1,853	2	(0)	2
Customer deposits (c)	129,335	209	0.16%	106,653	179	0.17%	22,683	30	(6)	37
Strict customer deposits	120,023	67	0.06%	99,313	95	0.10%	20,710	(28)	(39)	12
Repos	508	2.2	0.44%	416	0.0	0.00%	92	2	2	0
Singular bonds	8,805	140	1.59%	6,924	84	1.21%	1,881	56	26	30
Debt securities issued	17,193	177	1.03%	18,316	162	0.89%	(1,123)	15	27	(12)
Other interest bearing liabilities	1,203	10	0.79%	1,009	6	0.64%	194	3	2	2
Other non interest bearing liabilitites	9,986	-	-	10,598	-	-	(612)	-	-	-
Equity	12,523	-	-	12,055	-	-	468	-	-	-
Total Liabilities and Equity (d)	**207,749**	**443**	**0.21%**	**184,287**	**392**	**0.21%**	**23,462**	**51**	**1**	**50**
Customers margin (a-c)		**1,825**	**1.53%**		**1,571**	**1.51%**		**255**	**16**	**238**
Balance sheet differential (b-d)		**2,029**	**0.98%**		**1,924**	**1.04%**		**105**	**(124)**	**229**

(*) Financial Statement amounts rounded to millions of euros
(1) Bankia and BMN merged with effect for accounting purposes on 1 December 2017. Therefore, earnings and average balances for 2018 include the finance income, finance costs, interest-bearing assets and liabilities of the merged entities. Meanwhile, data for 2017 correspond to the Bankia Group pre-merger and BMN december 2017 income and expenses.
(2) Includes central banks and credit institutions. Loans and advances to credit institutions includes negative interest arising from deposits from credit institutions (mainly TLTRO II and repo transactions), since, according to accounting regulations, income arising from the application of negative interest rates is recognised in accordance with the nature of the item.The opposite occurs with deposits from credit institutions.

Finance income was up 6.7% (EUR 155 million) due to the positive impact of the full integration of BMN. However, on a like-for-like basis, i.e. if we work on the assumption that BMN contributed earnings over the entire 2017, finance income would have been down by an estimated 11.5% because of both prevailing rates (rotation of fixed income portfolios and mortgage repricings) and a reduction in volume (sales of fixed income portfolios and natural maturities of credit stock, which are still outpacing the growing contribution made by new loans).

The integration of BMN has pushed up the Bank’s finance costs by EUR 51 million (+13%) versus of 2017. Were we to include every earnings at BMN in 2017, total finance costs on a like-for-like basis would have fallen by an estimated 20.1%, mainly in response to the reduction in the average price of arranging new term deposits.

The lower finance cost of retail savings, along with the lower impact of the euro yield curve on the Group´s credit stock, has remained stable the customer´s margin, which stood at 1.53% at 31 December 2018 after the integration of BMN, lightly over 51% registered at 31 December 2017.

The Bank's net interest margin at 31 December 2018 stood 0.98% at the end of December 2018, down 6 basis points on the level seen in December 2017.

- **Gross income**

Gross income for Bankia amounted to EUR 3,597 million, up 21% year on year. Were we to include earnings at BMN in 2017, we would see a positive adjustment in like-for-like terms of 2.8%. Net interest income and fee and commission income accounted for 83.2% of the Group's gross income at 31 December 2018.

Dividends rose sharply compared to 2017 (+EUR 349 million), contributing EUR 411 million to Bankia's income statement in 2018. The increase was due to the receipt of special dividends by Corporación Industrial Bankia, Bankia Inversiones Financieras and Bankia Mapfre Vida.

Net commissions totalled EUR 964 million, 21.9% more than 2017 following the full integration of BMN and an increase in business and customer engagement at the Bank. This healthy showing was largely down to collections and payments (cards) and asset management activity (mainly sales of investment funds and insurance and impaired assets management of BFA), which offset the reduction in fees generated from transaction structuring and design services. Were we to include earnings at BMN in 2017, fee and commission income would have grown 1.3% year on year.

Gains and losses on financial assets and liabilities has totaled EUR 419 million, 11.5% more than in 2017. Mainly includes the gains obtained on fixed-income sales, mostly during the year based on the outlook for trends in market interest rates. In like-for-like terms, gains and losses on financial assets and liabilities would be down 1.9% on December 2017 if we include a full year BMN's earnings of 2017.

Other operating income and expenses showed a net expense of EUR 240 million at 31 December 2018, an increase of EUR 52 million from the last year, driven by lower income by leases, a larger contribution paid to the Deposits Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and higher tax on deposits following the integration of BMN.

- **Operating expenses**

Operating expenses (administrative expenses and depreciation) fell by 8.7 to EUR 1,832 million in 2018, due to the realisation of the initial cost synergies after the merger with BMN and the recognition in 2017 of one-off staff costs of EUR 445 million to cover the integration costs arising from the merger. This decrease was in line with the objective of controlling costs and managing efficiency as a core element of the Entity's strategy. In November 2018, Bankia completed its headcount restructuring set out in the collective redundancy agreement signed after the merger, resulting in the departure of 2,000 employees.

The Bank's efficiency ratio (operating expenses/gross income) at 31 December 2018 stood at 50.9% opposite to 67.5% registered in 2017.

- **Pre-provision operating income**

The evolution of operating income and expenses placed pre-provision profit´s margin in EUR 1,765 million at 31 December 2018, up EUR 797 million (+82.3%) on the amount reported in 2017. Of having joined a complete year of BMN's results in 2017, in terms of comparable there would have taken place a increase of the net margin estimated of 56.7%.

- **Provisions and write-downs**

Provisions, which include provisions for legal issues, tax litigation, guarantees and commitments extended, and other provisions, amounted to a positive EUR 17 million in 2018, compared to a negative EUR 94 million in 2017. This was due to the use of provisions set aside in previous years to cover contingencies related to pending legal issues and tax litigation and to the reversal of provisions for commitments and guarantees given.

Impairment of financial assets not measured at fair value through profit or loss, which includes mainly provisions for credit losses, increased by EUR 162 million in 2018 (+60.5%) to EUR 430 million. This was due mainly to inclusion of provisions recognised by BMN, which added more than EUR 20,000 million of loans and advances to customers to the Group's balance sheet as a result of the merger.

Impairments of investments in joint ventures and associates totalled EUR 161 million in 2018, owing to the remeasurement in the fourth quarter of the year of certain equity investments, mainly Corporación Industrial Bankia and BMN Mediación. Conversely, in 2017, Bankia recognised a positive amount of EUR 68 million, due mainly to the update of the carrying amounts of certain assets, which led to the partial reversal of impairment losses recognised in previous reporting periods.

Lastly, **impairment of non-financial assets** amounted to EUR 23 million, related mostly to investment properties owned by Bankia. The amount of this item in 2017 was immaterial.

The trends in the various items of provisions and impairments resulted in total charges in 2018 of EUR 596 million, EUR 303 million more than the amount endowed in 2017.

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 Group and the extraordinary results of the sale of property and share stakes. At 31 December 2018, it shows a negative figure of the EUR 132 million, up on the negative EUR 125 million reported in 2017 since the previous year's amount included the income from the deferred payment on the sale of Globalvia (EUR 47 million)

Profit or losses for the period

After the integration of BMN, the Bankia Group generated profit attributable to owners of the parent of EUR 834 million in 2018, up EUR 365 million from 2017, which was shaped by non-recurring restructuring costs related to the merger and only includes one month of profit or loss of BMN.

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 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.	1.5 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. — Customer deposits less repos.	1.7 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 non-trading financial assets mandatorily at fair value through profit or loss, 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.	3.5
Operating income before provisions	Gross margin less administrative expenses and depreciation	Sum of the flowing items of the income statement: — Gross Margin — Administration expenses — Depreciation	3.3 3.5

PERFORMANCE MEASURE	DEFINITION	CALCULATION METHOD AND ACCOUNTING DATA USED	SECTION OF MANAGEMENT REPORT
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 of the year divided by the average month-end balance of customer deposits in the year. Interest income and expense are annualised at the June accounting close.	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. Interest income and expense are annualised at the June accounting close.	3.5
ROA (%)	Measures the return on assets	Profit/(loss) for the year divided by average recognised assets at the end of the 12-month period. Earnings for the period are annualised at the June accounting close.	3.3 3.5
ROE (%)	Measures the return obtained from own funds	Profit/(loss) for the year divided by average equity at the end of the 12-month period. Earnings for the period are annualised at the June accounting close.	3.3
RORWA (%)	Measures the return obtained from the risk-weighted average assets	Profit/(loss) for the year divided by regulatory risk-weighted assets at the end of the period. Earnings for the period are annualised at the June accounting close.	3.3 3.5
ROTE (%)	Measures the return on equity excluding intangible assets	Profit/(loss) for the year divided by average equity less intangible assets at the end of the 12-month period adjusted for expected dividends. Earnings for the period are annualised at the June accounting close.	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

ACCOUNTING DATA (EUR million and %)	Dec-18 (1)	Dec-17
Resources managed by customers	**171,409**	**174,722**
— Customer deposits	130,085	132,970
— Marketable debt securities	16,750	19,288
— Investment companies and funds	17,210	15,726
— Pension funds	7,364	6,738
Total turnover	**289,872**	**297,923**
— Loans and advances - customers	118,463	123,201
— Customer deposits	130,085	132,970
— Debt securities issued	16,750	19,288
— Investment companies and funds	17,210	15,726
— Pension funds	7,364	6,738
NPL ratio (%)	**6.5%**	**8.9%**
— Doubtful risks of loans and advances to customers and contingent risks	8,388	12,081
— Total risks of loans and advances to customers and contingent risks	130,031	136,488
NPL coverage ratio (%)	**54.9%**	**50.5%**
— Loan impairment and customer advances and contingent risks	4,605	6,102
— Doubtful risks of loans and advances to customers and contingent risks.	8,388	12,081

LTD ratio (%)	**89.9%**	**93.7%**
— Loans and advances to customers	118,463	123,201
— Temporary Acquisitions of Assets	14	256
— Deposits of the customers	130,085	132,970
— Temporary Assignment of Assets	44	2,668
— Funds for mediation appropriations received from the EIB and ICO	3,424	3,007
Gains or losses on financial assets and liabilities (net)	**419**	**367**
— Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	400	310
— Gains or losses on financial assets and liabilities held for trading, net.	48	96
— Gains or losses on Non-trading financial assets mandatorily at fair value through profit or loss, 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	(29)	(30)
Operating income before provisions	**1,765**	**968**
— Gross income	3,597	2,974
— Administrative expenses	(1,659)	(1,833)
— Depreciation	(172)	(173)
Customer Margin (%)	**1.53%**	**1.51%**
Average interest rate on loans and advances to customers (%):	1.69%	1.68%
— Interest income on loans and advances to customers in period	2,034	1,749
— Average month-end balances of loans and advances to customers	120,512	104,216
Average interest rate paid on customer deposits (%):	0.16%	0.17%
— Interest expenses on customer deposits in the period	209	179
— Average month-end balances of customer deposits	129,335	106,653
Balance sheet diferential (%)	**0.98%**	**1.04%**
Average return on assets (%):	1.19%	1.26%
- Interest income in the period	2,471	2,316
- Interest income in the period annualised	207,749	184,287
Average cost of liabilities and equity (%):	0.21%	0.21%
- Interest expenses in the period	443	392
- Interest expenses in the period annualised	207,749	184,287
ROA (%) (2)	**0.4%**	**0.3%**
— Profit/(loss) of the period	834	469
— Average value of recognised assets at the end of the first half of the year	203,114	184,287
RORWA (%)(2)	**1.0%**	**0.6%**
— Profit/(loss) of the period	834	469
— Regulatory risk-weighted assets at the period end	84,551	84,956
ROE (%)(2)	**7.0%**	**4.1%**
— Profit/(loss) of the period	834	469
— Average value of equity of the 12 months preceding the period end adjusted for expected dividends	11,945	11,528
ROTE (%)(2)	**7.1%**	**4.1%**
— Profit/(loss) of the period	834	469
— Average value of tangible equity of the 12 months preceding the period end adjusted for expected dividends	11,765	11,392
Efficiency ratio (%)(2)	**50.9%**	**67.5%**
— Administrative expenses	1,659	1,833
— Depreciation for the period	172	173
— Gross income	3,597	2,974

(1) At the end of December 2017 profit and loss account data only include one month of BMN results, as the merger was effective for accounting purposes from 1 December 2017.

(2) In December 2017, the profitability and efficiency ratios were affected by the non-recurring integration costs arising from the merger between Bankia with BMN.

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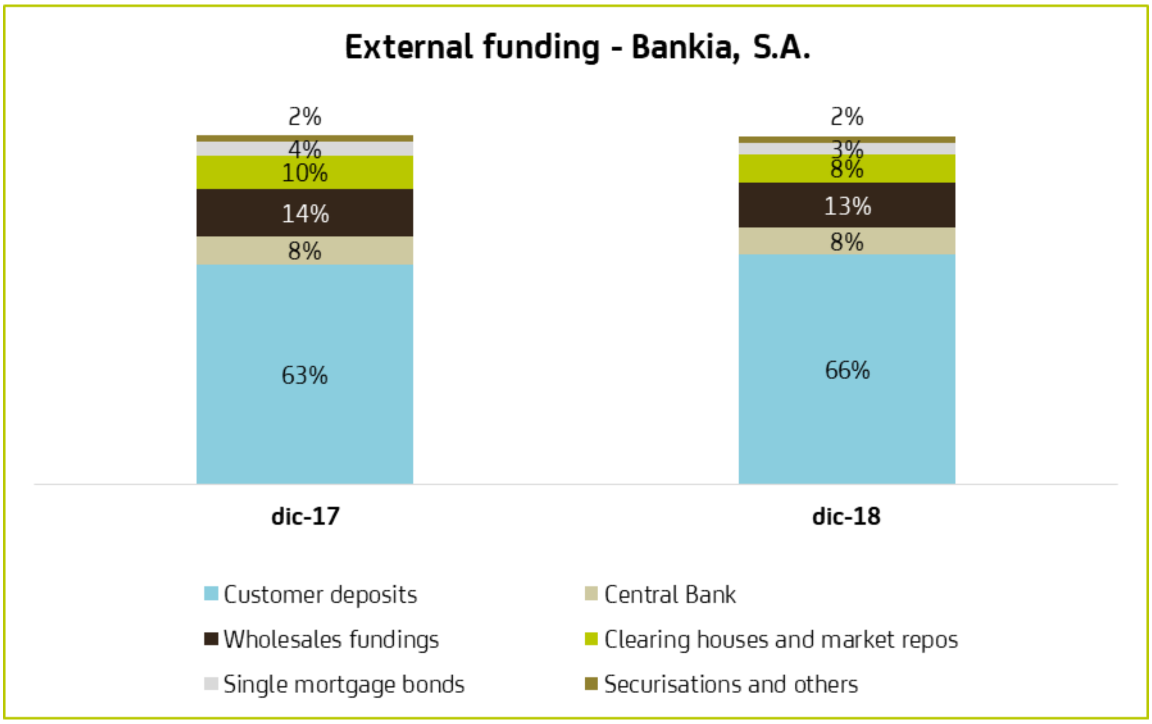
5. - FUNDING STRUCTURE AND LIQUIDITY

Note 3.2 and 3.3 to the annual accounts for the period ended 31 December 2018 describes Bankia's liquidity management policies and provide details on maturities of financial assets and financial liabilities that allows as to project its liquidity balance at different maturities. Accordingly, this section refers to the performance of the Group's main liquidity indicators and funding sources in 2018.

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 2018 Bankia continued to maintain a very comfortable liquidity position, with no material changes with regards to its liquidity and funding management policies.

According to the retail business model underpinning its banking activity, Bankia's main source of funding are strict customer deposits, which cover the whole of net loans and advances to customers at year end and provide great stability to the Bank's funding structure. Strict customer deposits arise mainly from business with retail customers (79.3% of customer deposits come from retail banking). Funds obtained through customer deposits are complemented by wholesale funding gearing towards the medium and long term (issuances), repos arranged in the market, balances with the ECB, securitisation and (non-marketable) single mortgage bonds.



In 2018, Bankia's external funding needs were down by EUR 6,856 million compared to 31 December 2017 thanks to the liquidity released from disposals of fixed-income securities and management of the commercial gap during the year.

FUNDING SOURCES- BANKIA, S.A.

(Millions of euros) (*)	dec-18	dec-17	Variation Dec-17 Amount	Variation Dec-17 %	% of the total dec-18	% of the total dec-17
Strict customer deposit	**122,051**	**120,743**	**1,308**	**1.1%**	**66.3%**	**63.2%**
Public sector	6,608	5,678	930	16.4%	3.6%	3.0%
Other financial companies	9,533	9,430	103	1.1%	5.2%	4.9%
Current accounts	7,240	6,126	1,115	18.2%	3.9%	3.2%
Term deposits	2,292	3,304	(1,012)	(30.6%)	1.2%	1.7%
Non-financial companies	15,049	16,607	(1,558)	(9.4%)	8.2%	8.7%
Current accounts	12,549	12,611	(62)	(0.5%)	6.8%	6.6%
Term deposits	2,500	3,996	(1,495)	(37.4%)	1.4%	2.1%
Households	90,861	89,029	1,833	2.1%	49.4%	46.6%
Current accounts	59,632	53,677	5,955	11.1%	32.4%	28.1%
Term deposits	31,229	35,351	(4,123)	(11.7%)	17.0%	18.5%
Wholesaler funding	**23,879**	**25,943**	**(2,064)**	**(8.0%)**	**13.0%**	**13.6%**
Deposits and credit institutions (1)	7,129	6,655	474	7.1%	3.9%	3.5%
Debt securities issued	16,750	19,288	(2,538)	(13.2%)	9.1%	10.1%
Single mortgage bonds	**1,742**	**2,060**	**(318)**	**(15.4%)**	**0.9%**	**1.1%**
Singular mortgage bonds	**6,248**	**7,499**	**(1,251)**	**(16.7%)**	**3.4%**	**3.9%**
Temporary assignment	**14,687**	**18,225**	**(3,538)**	**(19.4%)**	**8.0%**	**9.5%**
Central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**	**7.5%**	**8.0%**
Others	**1,599**	**1,090**	**508**	**46.6%**	**0.9%**	**0.6%**
Total external funding sources	**184,061**	**190,917**	**(6,856)**	**(3.6%)**	**100.0%**	**100.0%**

(*) Financial Statement amounts rounded to millions of euros

(1) Includes interbank deposits, collateral posted and other loans and deposits from credit institutions

Customer funds reached EUR 122,051 million, 66.3% of the Bank's external funding mix, compared to 63.2% in December 2017, with the following breakdown: (i) 49.4% households, (ii) 8.2% non-financial corporations, (iii) 5.2% other financial institutions and (iv) 3.6% public sector deposits. Customers continued to transfer savings to current accounts and short-term deposits in 2018, along with off-balance sheet products under management further illustrating the shift of funds by Bankia customers away from longer-term products earning lower interest.

Wholesale funding stood at EUR 23,879 million at 31 December 2018, representing 13% of external funding (13.6% at 31 December 2017), and comprising mainly mortgage-backed securities and deposits from credit institutions. The decrease of EUR 2,064 million is explained by maturities during 2018 mainly mortgage-backed securities.

Repos arranged through clearing houses and in the market stood at EUR 14,687 million, representing 8% of Bankia's external funding at December 2018 compared to 9.6% in 2017. This activity forms part of the Banl's strategy to diversify its funding sources, to reduce costs, and to maintain alternative external funding secured by liquid assets, other than that of the ECB.

ECB financing decreased by EUR 1.5 billion from 2017 owing to the early repayment on the undrawn amount of the TLTRO I, reaching EUR 13,856 million at 31 December 2018. As a result, the weight of central banks on Bankia's funding structure stands at 7.5% of external funding compared to 8.1% in December 2017. The total funding from central banks held by Bankia at 31 December 2018 was related to funds obtained in the TLTRO II programme.

Lastly, non-marketable mortgage-backed securities, securitisation and other funding sources amounted to a combined EUR 9,588 million at 31 December 2018. They are a residual component of the Group's funding structure, representing 3.4%, 0.9% and 0.9%, respectively, of Bankia's borrowings at year-end.

Core liquidity metrics remain at comfortable levels. The commercial gap, i.e. the difference between loans (excluding reverse repos) and strict customer deposits, plus funds received from the EIB and ICO to extend second-floor loans, was a negative EUR 7,025 million at the end of 2018 compared to a negative EUR 805 million at 31 December 2017. The “Loan to deposits” or LTD ratio (net loans less reverse repos divided by strict customer deposits less reverse repos plus funds received for second-floor loans) ended at 31 December 2018 in 89.9% (93,7% on December 2017), reflecting the balance achieved by the Group in funding its credit stock through customer deposits.

Bankia has a comfortable debt maturity profile, with EUR 4,769 million in 2019 and EUR 418 million in 2020, of which EUR 3,182 million are mortgage-backed securities. To cover these maturities and scheduled redemptions in the coming years, Bankia had EUR 31,938 million of available liquid assets at December 2018, equivalent to a 15.5% of the Bank's assets and covers its entire wholesale debt maturities.

Therefore, with manageable debt maturities in coming quarters and a favorable capital markets 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.

			Variation dec-17	
(Millions of euros) (*)	dec-18	dec-17	Amount	%
Highly liquid available assets [1]	17,678	19,703	(2,025)	(10.3%)
Undrawn amount on the facility	11,339	10,918	421	3.9%
Cash [2]	2,921	2,206	715	32.4%
TOTAL	**31,938**	**32,827**	**(889)**	**(2.7%)**

(*) Financial Statement amounts rounded to millions of euros

(1) Market value cut by ECB

(2) 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 Bankia 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 part of the Strategic Planning process to ensure that the capital plan in consistent, coherent and aligned with the strategic objectives, the Group's Risk Appetite Framework and the rest of the tactical plans comprising the financial plan for the forecast macroeconomic environment. The Financial Plan and the Capital Plan -as an integral part thereof- are updated annually by the management committee and submitted to the Board of Directors. Additionally, the capital planning process includes hypothetical stress scenarios created by applying a combination of adverse impacts to the projected situation, enabling the possible impacts on earnings and capital to be quantified in the event of an economic crisis. Bankia has mitigation plans in place to offset impacts in adverse economic scenarios.

Moreover, the Bankia Group, as part of its governance framework, formally documents its capital planning and management process and keeps it up to date in a series of reports approved by the Bank'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 governance framework to ensure the involvement 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.

These documents are reviewed at least annually to update the definition, number and calibration of the capital indicators to include the findings of the Internal Capital Adequacy Assessment Process (ICAAP) report submitted to the supervisor in April 2018.

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 with a monthly base, real capital adequacy ratios are compared 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 Group 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

At December 2017, the ECB notified the Bankia Group the minimum capital requirements of its SREP applicable to 2018 on a Phase-in basis (scheduled applied to capital buffers) of a minimum Common Equity Tier 1 ratio of 8.563% of transitional regulatory capital (Phase in), comprising 4.5% of Pillar 1, plus a 2% Pillar 2 requirement plus a combined buffer requirement of 2.063%, and a minimum Total Capital ratio of 12.063% of transitional regulatory capital (Phase in), comprising 8% of Pillar 1,plus a 2% Pillar 2 requirement plus a combined buffer requirement of 2.063%.

In February 2019, the European Central Bank notified the Bank Group of the minimum capital requirements in the SREP applicable to it for 2019. The Pillar 2 Requirement is unchanged from 2018, at 2%. Therefore, in 2019, after the end of the transitional period applicable to capital buffers, a minimum Common Equity Tier I capital ratio of 9.25% and a minimum Total Capital ratio of 12.75% are required, both measured in relation to its transitional (phase-in) regulatory capital.

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 has only required to maintain 75% of this buffer in 2018; i.e. 0.1875%, and in 2019, 100% of the buffer will be required, i.e. 0.25%.. Lastly, the Group's counter-cyclical capital buffer, calculated according to the geographical location of exposures, and set by Bank of Spain, has been 0% in 2018.

In December 2018, the Bankia Group achieved a Common Equity Tier 1 BIS III Phase-In ratio of 13.80% and a Total Capital BIS III Phase-in ratio of 17.58%. These capital levels imply surpluses of EUR 4,313 million and EUR 4,543 million above the minimum Common Equity Tier 1 and Total Capital ratios, respectively.

Once again in 2018, the Bankia Group employed an organic CET1 generation model (+83 bp), which allows it to offset the negative impact of regulatory changes on solvency, while continuing to meet the CET1 target set in the Corporate Risk Appetite and Tolerance Framework. The main factors explaining CET1 Phase-In capital performance in 2018 are the following:

– The **calendar effect** has had an impact of -**25 basis points**.

– **Full implementation IFRS 9** has had an impact of -**26 basis points**. The Bankia Group has not applied the transitional arrangements contemplated in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017.

– **"Targeted Review** of **Internal Models (TRIM)" process,** which had an impact of **-23 basis points**. The European Central Bank has begun reviewing banks' internal models for calculating capital requirements in order to eliminate any inconsistencies between banks. In 2018, Bankia underwent a review of its internal model for mortgages, resulting in this negative impact.

– **Decrease in unrealised gains** on financial assets at fair value, with a negative impact of **-44 bp** due mostly to market trends and the portfolio rotation strategy followed during the year.

– **Organic generation in the year of +83 bp,** including mostly profit attributable to the Group (EUR +703 million) net of the estimated dividend (EUR -357 million) and the decrease in risk-weighted assets excluding the impact of the TRIM on the mortgage portfolio, due mainly to credit and operational risk.

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 31 December 2018 and to comparative effects on 31 December 2017 applying the phase-in schedule for each period and includes profit or loss for each period to be taken to reserves.

BANKIA Group Solvency Basilea III

Eligible capital	December 2018 (*) (**)		December 2017 (*)	
Common Equity Tier I	11,367	13.80%	12,173	14.15%
Equity tier I	12,617	15.31%	12,856	14.94%
Equity tier II	1,863	2.27%	1,632	1.90%
Total Equity BIS III	**14,480**	**17.58%**	**14,487**	**16.84%**

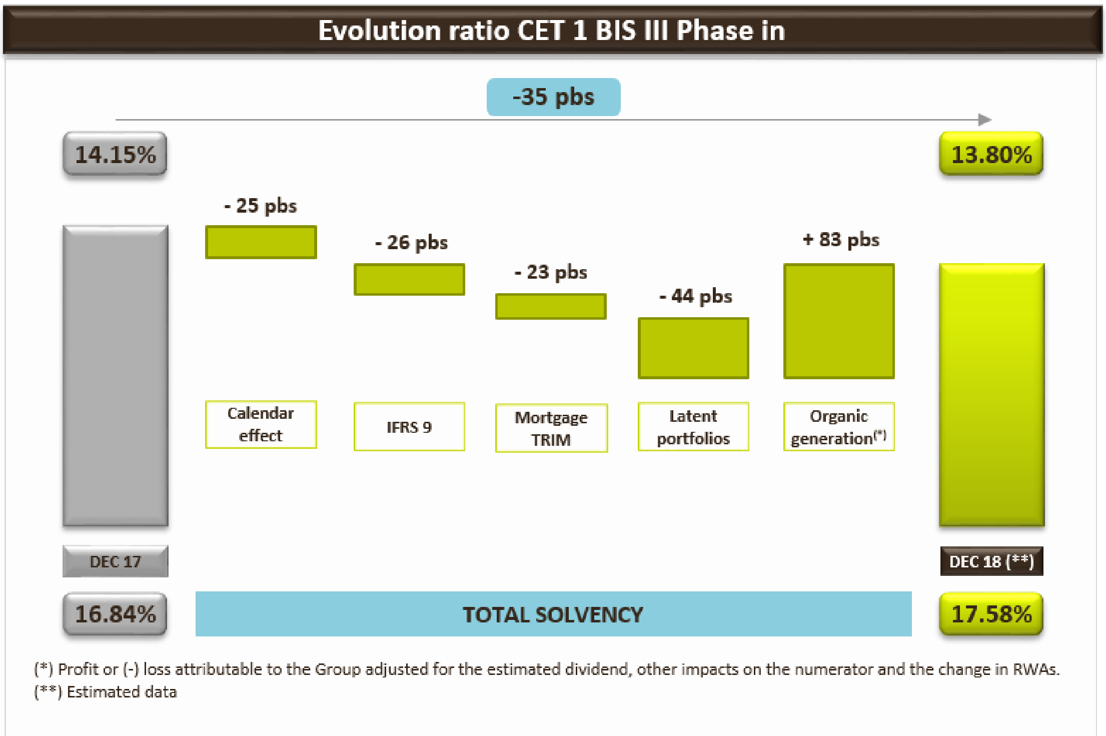
Risk weighted assets BIS III	Dec. 2018 (**)	Dec. 2017 (**)
Credit risk (include CVA)	74,921	77,958
Operational risk	5,881	6,476
Market risk	1,579	1,608
Total weighed assets BIS III	**82,381**	**86,042**

Excess/(Minimal regulatory defects)	December 2018 (*) (**)		December 2017 (*) (**)	
		minimum		*minimum*
Excess Common equity Tier I BIS III	**4,313**	**8.563%**	**5,398**	**7.875%**
Total Equitt Bis III	**4,542**	**12.063%**	**4,700**	**11.375%**

(*) Including the amount of net profit allocated to reserves
(**) Estimated at 31/12/2018

The Bankia Group's Phase-in Total Capital ratio increased by +74 bp in 2018, to 17.58%. Aside from this trend in Common Equity Tier I, September 2018 featured the issuance of contingent bonds convertible into Bankia shares for EUR 500 million eligible for inclusion as additional Tier 1 (AT1), with an impact on Phase-in Tier 1 Capital and Total Solvency of +60 bp. With this issue, the Bankia Group complied with the 1.5% minimum additional Tier I capital requirement of Pillar I, and increased its base of instruments with loss-absorbing capacity ahead of the future regulatory requirement of the MREL (minimum requirement for eligible liabilities) envisaged in the BRRD directive.

The following chart shows the trend in capital ratios:



It also presents reconciliation of equity in the balance sheet to regulatory capital, including profit of dividend for the year earmarked for reserves.

BANKIA Group reconciliation between Equity and Eligible Capital BIS III

(millions of € y %)

Eligible elements	Dec. 2018 (**)	Dec. 2017	Variation	% Variation
Own funds	13,030	13,222	(193)	(1%)
Other comprehensive accumulated income	147	366	(218)	(60%)
Non controlling interests	12	25	(12)	(50%)
Total Equity (Public Balance)	**13,189**	**13,613**	**(424)**	**(3%)**
Adjustment between public and regulatory balance	0.4	0.4	(0)	2%
Total Equity (Regulatory balance)	**13,190**	**13,614**	**(424)**	**(3%)**
Elementos patrimonio contable no computables	**(53)**	**(137)**	**83**	**(61%)**
Ineligible valuation adjustments as CE T-1	(24)	(104)	79	(76%)
Non controlling interests	(13)	(20)	8	(37%)
Regulatory autoportfolio adjustmets	(16)	(12)	(4)	29%
Regulatory capital deductions	**(1,770)**	**(1,304)**	**(466)**	**36%**
Intangible assets and other deductions (regulatory balance)	(530)	(342)	(189)	55%
Deferred tax assets	(847)	(587)	(260)	44%
Valuation adjustments due to prudent requirements (AVA)	(36)	(35)	(1)	2%
Dividends	(357)	(340)	(17)	5%
Common Equity Tier I	**11,367**	**12,173**	**(807)**	**(7%)**
Additional Equity Tier I	**1,250**	**682**	**568**	**83%**
Equity Tier II	**1,863**	**1,632**	**231**	**14%**
TOTAL REGULATORY EQUITY (*)	**14,480**	**14,487**	**(8)**	**(0%)**

(*) Including the amount of net profit earmarketed for reserves.
(**) Estimated at 31/12/2018.

The minimum capital requirements cover credit, foreign currency, market and operational risks.

At 31 December 2018, the capital requirements for credit risk, including equity and CVA, amounted to EUR 5,994 million (EUR 74,921 million risk-weighted assets). At present, the requirements for credit risk are calculated using both the standardised and internal rating-based approaches.

Currency and market risk exposures were calculated using internal models. In 2018, the requirements included an increase related to the calculation model and not merely to market activity.At 31 December 2018 capital requirements for this concept amounted to EUR 126 million (EUR 1,579 million risk-weighted assets).

Finally, the Bankia Group used the standardised approach to calculate the capital requirements for operational risk, totalling EUR 470 million at December 2018 (EUR 5,881 million risk-weighted assets).

Leverage ratio

The leverage ratio was implemented by 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 with the aim of including the leverage ratio as a binding Pillar I requirement.

The CRR does not require to comply with a minimum level, and there is only an indicative 3% of CET1 which was set by the BCBS starting January 2014. The proposed banking reforms, which will become effective in early 2019, in line with Basel recommendations, establish a binding leverage ratio requirement of 3% of Tier 1 capital.

The Bankia Group's (phase-in) leverage ratio at 31 December 2018 stood at 6.09%, above the 3% minimum reference level set by the Basel Committee. In 2018, the leverage ratio increased by +7 bp, due above all to the reduction in exposure (mostly for balance sheet deleveraging), with an impact on the ratio of

+19 bp. This was partly offset by the reduction in Phase-in Tier 1 capital, with an impact of -12 bp. In addition to the trend in Tier 1 capital explained previously, in September the Bankia Group issued EUR 500 million worth of contingent bonds convertible into Bankia shares eligible for inclusion as additional Tier 1, resulting in an increase in the Phase-in leverage ratio of +23 bp.

The following table provides a breakdown of the leverage ratio at 31 December 2018 and to comparative effects as 31 December 2017 along with a reconciliation of total assets on the balance sheet and leverage exposure measure:

BANKIA Group leverage ratio

Items (Millions of euros and %)	Dec. 2018 (*) (**)	Dec. 2017 (*)
Tier 1 Capital	12,617	12,856
Exposure	207,078	213,505
Leverage ratio	**6.09%**	**6.02%**
Reconciliation between Public Balance sheet and exposure for leverage ratio		
Total Assets Public Balance	**205,223**	**213,932**
(+/-) Adjustments difference between Public and Regulatory Balance	(330)	9
(-) Items already deducted from Tier 1 capital	(1,385)	(1,003)
(-) On-balance sheet derivatives assets	(8,649)	(9,765)
(+) Derivative exposure	721	210
(+) Add-ons for counterparty risk in securities financing transactions (SFTs)	3,925	3,255
(+) Off-balance sheet items (including use of CCFs)	7,574	6,867
Total exposure leverage ratio	**207,078**	**213,505**

(*) The data has been estimated based on Delegated Regulation 2015/62.
Including the amount of net profit earmarketed for reserves.
(**) Estimated at 31/12/2018.

7. - RISK MANAGEMENT

Risk management is a strategic cornerstone in the organisation which primary objective is to safeguard the Entity'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 past due exposures.

Note 3 to Bankia's annual accounts for the period ended 31 December 2018 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 the Bank 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 2018.

7.1. - Credit risk

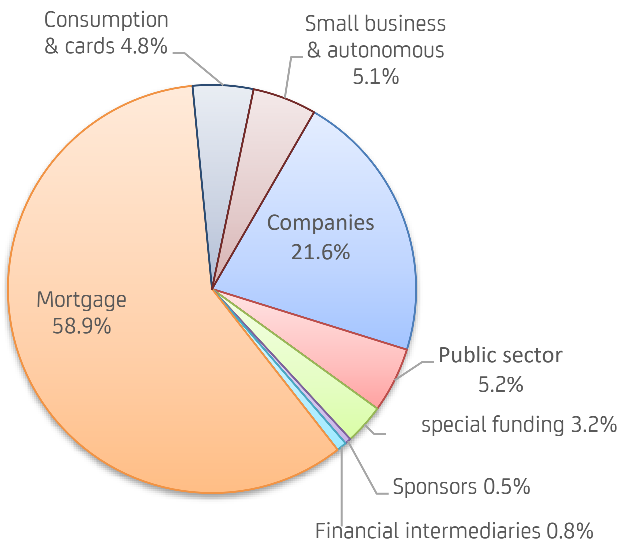
Credit risk is the risk of loss assumed by Bankia in the regular course of its banking business if its customers or counterparties fail to comply with their contractual payment obligations.

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 the Bank'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 Entity's credit risk profile and its performance in 2018 according to data from the audited portfolio (does not include positions in financial investees) are as follows:

– In the breakdown of loans and advances to customers, the weight of the retail segment increased from 67% December in 2017 to 69% at December 2018, to the detriment of the weight of the wholesale segment (including the public sector), which dropped from 33% in December 2017 to 31% at the end of 2018.

– The weight of the real estate portfolio over total loans is below 0.5%.

– The mortgage portfolio accounts for 58.9% of total loans and receivables. The second largest portfolio corresponds to companies representing 21.6% of the total, followed by loans to public institutions and bodies and loans to micro-enterprises and self-employed professionals accounting for 5.2% and 5.1% respectively of the total portfolio.

– As of December 2018 36% of non-performing loans was classified as such for subjective criteria or are in the "curing" period. This means that no loans in this portfolio are past-due and imply subjective arrears, or refinancing agreements have been reached with the customers and, therefore, there is an apparent willingness to paythat must be verified over a period of at least twelve months, but can be extended to the entire grace period when applicable.

The following table shows the distribution by portfolio of expected loss and regulatory capital for credit risk of Bankia at 31 December 2018:

MM€	dec-18	
Segment name	**Regulatory capital**	**Expected loss**
Entities	39.7	105.8
Banks and financial intermediaries	212.6	14.0
Companies	1,655.7	1,846.1
Promotors	84.5	278.1
Retail:	2,702.6	2,780.9
Mortgage	2,108.2	2,076.0
Consumption	*245.0*	*157.9*
Cards	*94.8*	*49.4*
micro enterprises and self-employed professionals	*254.6*	*497.6*
Equity	274.7	4.4
TOTAL	**4,969.8**	**5,029.3**

The maturity profile of credit exposure is detailed in Note 3.3 to the condensed annual accounts of 2018 (table on residual maturities). A significant portion of loans and advances to customers (58.5%) 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 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 2018.

At 31 December 2018, Bankia's doubtful exposures fell further, by 30.6% (EUR 3,692 million) from the end of 2017 to EUR 8,388 million at December 2018. 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, which resulted in the reclassification of EUR 1,373 million of non-performing loans as non-current assets held for sale due to the sale to institutional investor Lone Star XI described in section 1.2. As a result, the NPL ratio improved further, to 6.5% at 31 December 2018, 2.4 percentage points lower on a same-scope basis than at 31 December 2017.

At 31 December 2018, Bankia had counted a portfolio of refinanced operation of EUR 8,860 million in gross terms. The 53.4% of the refinanced credits had been classified as doubtful with a NPL ratio of 40.8%.

The improvement in the portfolio risk profile and satisfactory levels of provision coverage leave Bankia 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.

NPL and Coverage - BANKIA, S.A.

(Millions of euros and %) (*)	dec-18 (1)	dec-17	Variation dec-17 Amount	Variation dec-17 %
NPLs	8,388	12,081	(3,692)	(30.6%)
Total risk	130,031	136,488	(6,457)	(4.7%)
Total NPL Ratio (2)	**6.5%**	**8.9%**	**(2.4) p.p.**	**(27.1%)**
Total provisions	4,605	6,102	(1,497)	(24.5%)
Hedging ratio	**54.9%**	**50.5%**	**+4.4 p.p.**	**49.6%**

(*) Financial Statement amounts rounded to millions of euros

(1) NPL ratios and NPL coverage in 2018 discount the transactions reclassified to non-current assets held for sale arising from the sale agreement with Lone Star XI described in Note 18.5.1 to the annual financial statements.

(2) NPL ratio: non- performing loans and advances to customers and contingent liabilities/risk assets consisting of loans and advances to customers and contingent liabilities.

- **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 2018, there were 1,948 netting and 230 guarantee agreements (120 derivatives, 74 repos and 36 securities loans). The main figures regarding quantification of the derivatives activity at that date are as follows:

- Original or maximum exposure: EUR 15,008 million.
- Exposure applying mitigation techniques through netting: EUR 5,705 million.
- Net exposure after applying all mitigation techniques: EUR 1,517 million.

As shown, counterparty risk in derivatives trading is reduced by 89.89% 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.

Note 3.2 and 3.3 Bankia's annual accounts at December 2018 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 2018.

The Entity's 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, the Entity 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 Bank 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.

It is a question of a frame of action that it allows to anticipate and to manage tension events of liquidity. 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 Entity'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 2018, the regulatory LCR (163% for Bankia on a standalone basis) was at levels that are demonstrably higher than the regulatory requirements for 2018 (100%). The net stable funding ratio (NSFR) is still 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%. The Entity 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 Bank's results. Rate fluctuations affect both the Bank'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 Entity's level of risk tolerance.

Trends in interest rates depend on certain factors that are beyond 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 Entity'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**

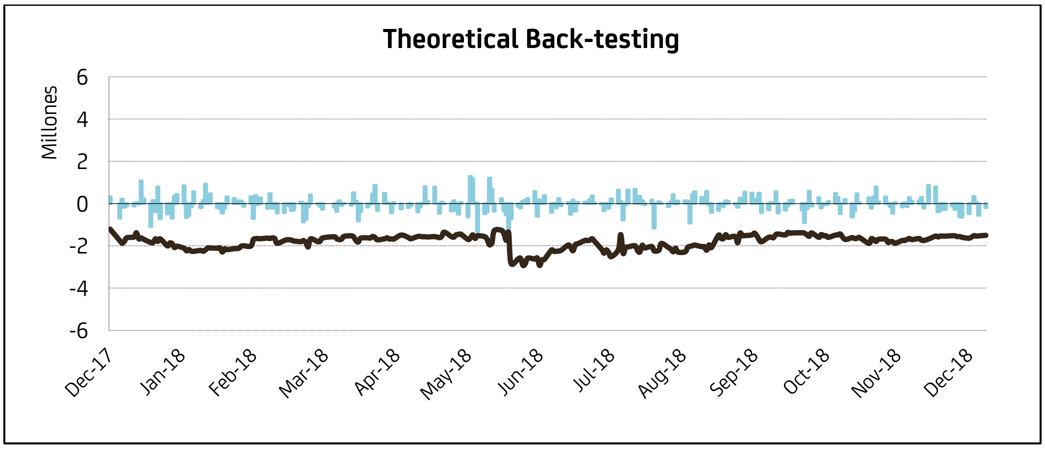
For market risk measurement used two metrics: VaR (value at risk), which provides a prediction of the maximum loss that can suffer in a time interval with a certain level of confidence and sensitivity, which expresses the impact on the valuation of financial instruments to the changes in various risk 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.

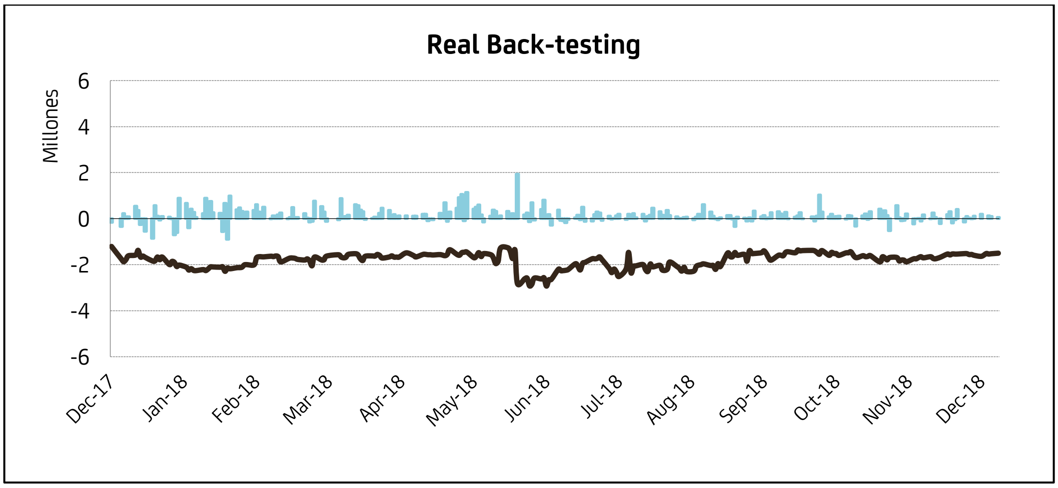
a) Value at Risk (VaR) and back-testing

VaR is measured by the historical simulation method using a 1-day time horizon and a 99% confidence level and a temporary horizon of one day, with 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 2018 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.

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 2018**

Bankia maintained an average VaR in 2018 of EUR 0.96 million, with a maximum of EUR 2.28 million and a minimum of EUR 0.36 million.

VaR	Financial assets and liabilities held for trading (Millions of euros)
Average	0.96
Maximum	2.28
Minimum	0.36

Distribution of VaR by risk category
(Millions of euros)

Risk category	Punctual	Average	Maximum	Minimum
Interest rate	0.31	0.48	1.08	0.18
Equity instrument	0.05	0.03	0.11	0.01
Exchange rate	0.14	0.36	0.84	0.05

Credit	0.02	0.08	0.29	0.00

- **Trading derivatives**

Bankia's 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 2018 are as follows:

VaR of derivatives activity *(Millions of euros)*	**Fixed income**	**Variable income**	**Exchange rate**	**Total**
Average	0.44	0.05	0.41	0.90
Maximum	1.13	0.18	0.91	1.99
Minimum	0.10	0.01	0.04	0.24

7.4. - 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.).

The 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 2018 was marginal due to the largely domestic bias of its operations, recognising a provision in this connection of EUR 5 million.

7.5. - 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 Group 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 2018, 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 Bank or from external events. This definition includes legal risk, but excludes strategic risk and reputational risk.

Bankia has the following operational risk management objectives:

- The Bank's operational and IT risk management not only covers the recognition of loss events and accounting of the losses, but also promotes control to minimise the potential negative impacts through continuous improvement to processes and the strengthening of 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 and Technological Risk Committee, whose responsibilities include approving policies and methods, is the natural channel for senior management participation in operational risk management. It is an executive committee and meets on a monthly basis. At its meetings, the Committee addresses issues such as the consumption of own resources, the performance of real and expected losses, risks in outsourcing processes, and all actions taken in the operational and technological risk management process.

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 2018, 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 2018 amounted to EUR 483.76 million (EUR 504.96 million at December 2017).

- **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 Entity'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 Bankia's solvency levels, other capital indicators, ability to generate future profit, business model, dividend policy, and capital and liability structure.

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.

Regulatory developments have been much more profound since the entry into force in January 2014 to the new prudential 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.

In this vein, to further strengthen the resilience of banks, on 23 November 2016, the European Commission presented a package of banking reforms to prevailing legislation on capital requirements (the CRR and CRD IV), and on the resolution of banks (Bank Recovery and Resolution Directive or BRRD). From that date, the package of banking reforms was subject to a public consultation, until in November 2018 it was submitted for consideration by the European Parliament and Council, and subsequently endorsed by the ECOFIN on 4 December 2018. The reforms are expected to become effective in early 2019 after final approval by the European Parliament and publication in the Official Journal of the European Union. The Bankia is taking measures to pre-empt and manage the potential impacts of these measures on its capital levels.

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).

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 took 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.

As noted previously, the package of banking reforms proposed by the European Commission, which are expected to enter into force in 2019, will introduce amendments to the BRRD; e.g. regarding minimum requirements of subordination of MREL eligible liabilities and the determination of a maximum distributable amount (MDA); i.e. limit on the discretionary distribution of capital, in terms of MREL. However, on 20

November 2018, the SRB published its annual policy paper on the MREL, which serves as a basis for setting minimum MREL requirements for banks not considered “complex” (subject to resolution colleges) and that, therefore, did not having binding targets in 2018, including the Bankia Group.

- **Reputational risk**

Since 2016, following the Board of Directors’ approval of the Reputational Risk Management Policies Manual (which is reviewed annually), Bankia has included reputational risks in its risks model, and meets regulatory and supervisory requirements for the management of this extra financial 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.

Sustainable management of reputational risk is crucial for carrying out the 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.

Spurred by these requirements, in year 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.

By drawing up a reputational risk map, Bankia is able to manage risk events, which are classified according to probability and financial impact by management centres and reputational risk coordinators. The identification of these centres also enables the reputational risk culture to be prioritised internally in business and management areas that are more sensitive due to their exposure to the events identified.

Bankia also has 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.Through this indicator, the Board of Directors is able to assess Bankia’s level of reputational risk and decide whether there is a need to implement measures or make any decisions relating to its internal management processes or its relations with stakeholders.

8. - FORECLOSED REAL ESTATE ASSETS

The net balance of Bankia's property assets foreclosed or received in payment of debt ended at 31 December 2018 at EUR 2,715 million (EUR 4,109 million gross), representing just 1.99% of the Group's assets. Most of the foreclosed properties are held by Bankia, S.A. and entail liquid assets (66.3% gross terms), mainly

FORECLOSED AND ACQUIRED ASSETS OF BANKIA, S.A.- SPAIN BUSINESS

(Millions of euros) (*)	December 2018 Gross value	Valuation adjustments	Net value	Coverage (%)
Real estate assets from construction and development	684	291	392	42.6%
Of which: finished buildings	313	103	210	33.0%
Of which: buildings under constructions	49	21	27	43.7%
Of which: land	322	167	155	51.8%
Property assets from loan for house purchase	2,410	875	1,534	36.3%
Other real estate assets	1,016	228	788	22.4%
Total foreclosed assets	**4,109**	**1,394**	**2,715**	**33.9%**

(*) Financial Statement amounts rounded to millions of euros

existing and newly built homes, which makes the disposal easier.

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 Entity engaged Haya Real Estate to manage, administer and sell its foreclosed assets including all portfolio from BMN. In a bid to improve its cost-to-income ratio following the merger with BMN, on 26 April 2018 Bankia terminated the service contracts in effect between BMN and a number of companies for the management of unpaid debts and certain real estate assets. Haya Real Estate is now solely responsible for managing all of Bankia's real estate assets. On 27 April 2018, Bankia and Haya Real Estate signed a novation to the agreement for the purchase and sale of the real estate management business and a further novation to the service contract for the administration and management of those assets.

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 30 June 2018 for foreclosed assets from Bank's business in Spain amounted to EUR 1,394 million, implying financial coverage of 33.9 % since the adjudication.

Bankia continued to pursue its strategy of reducing problem assets by selling a total of EUR 580 million in foreclosed real estate assets in 2018, up 50.1% on total proceeds from sales completed in 2017. This increase was down to a more buoyant real estate market, in which both demand and prices have continued to rise. In line with this strategy is the agreement reached with two subsidiaries of the Lone Star XI fund to administer, develop and have available a portfolio of foreclosed assets and transfer a portfolio of non-performing loans, for a combined gross book value of approximately EUR 3.07 billion, of which approximately EUR 1.65 billion are foreclosed assets. The transaction is expected to be closed in the second quarter of 2019, when the assets will be derecognised from the balance sheet (see section 1.2).

9. - INFORMATION ON CREDIT RATINGS

The ratings granted to Bankia by different rating agencies include the following:

Issuer ratings BANKIA				
	STANDARD & POOR'S	FitchRatings	DBRS	SCOPE
Long Term	BBB-	BBB-	BBB (high)	BBB+
Short Term	A-2	F3	R-1 (low)	S-2
Perspective	Stable	Stable	Stable	Stable
Date	04/06/2018	01/30/2019	07/04/2018	11/30/2017

Mortgage bonds ratings BANKIA				
	STANDARD &POOR'S	FitchRatings	DBRS	SCOPE
Rating	AA-	A	AAA	AAA
Perspective	Positive	Positive	---	Stable
Date	03/27/2018	03/23/2018	09/21/2018	07/12/2018

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.

Along 2018 the rating's agencies cited the strong economic recovery and progress made in recent years in reducing the fiscal deficit and have also believed that the structural improvements in the Spanish economy have increased the prospect of sustainable growth.

This triggered a one-notch upgrade to Spain's sovereign rating by S&P Global Ratings ("S&P"), Fitch Ratings ("Fitch") and DBRS Ratings Limited ("DBRS"), to "A-", "A-" and "A", respectively.

As for Bankia, its ratings are firmly in the "investment grade" category after a year marked by the consolidation of BMN's integration, the prompt realisation of cost synergies and the improvement in balance sheet quality thanks to rapid reduction of problem assets.

S&P took the following rating actions on Bankia during 2018:

– On 6 April, it upgraded Bankia's long-term rating from "BBB-" to "BBB", with a Stable outlook. The move was prompted by the perceived improvement in the "economic climate and the state of the banking sector" in Spain, following the upgrade in country's sovereign rating. The agency is confident that Bankia's capital will continue to improve on the back of organic capital generation and the issuance of hybrid instruments. It is also confident that problem assets will continue to fall over the coming two years, while recurring profit should improve following the integration of BMN. The agency affirmed the "A-2" short-term rating, which it upgraded from "A-3" on 6 April 2017.

– Regarding the rating of Bankia's mortgage covered bonds (cédulas hipotecarias), on 27 March, after the upward revision to its rating outlook on Spain on 23 March, S&P affirmed its rating on Bankia's mortgage covered bonds at "AA-", 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 6 February, it upgraded Bankia's outlook from Stable to Positive, while holding the rating at "BBB-". On the same date, Fitch affirmed Bankia's short-term rating at "F3" and its subordinated debt rating at "BB+".

– After the end of the reporting period, on 30 January 2019, Fitch upgraded Bankia's long-term rating from "BBB-" to "BBB", changing its rating outlook from positive to stable. It also raised its rating of Bankia's subordinated debt, from "BB+" to "BBB-", affirming its short-term F3 rating. The rating action reflects the reduction in exposure to problem assets and the challenge to rebalance its business mix and improve banking profitability. The rating agency also factored in Bankia's strengthened national retail franchise following its merger with BMN, sustained sound post-merger capitalisation, adequate funding and liquidity and management's proven record in integrations, as demonstrated BMN's speedy and trouble-free integration.

– Regarding the rating of Bankia’s mortgage covered bonds (cédulas hipotecarias), on 23 March, 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 positive.

– Early in the year, on 9 January, Fitch withdrew its rating of BMN following the completion of the legal merger and as BMN ceased to exist as a separate legal entity. At the time, the rating was “BB”, rating watch positive.

Turning to the ratings assigned by **DBRS**, the rating agency affirmed Bankia’s rating at “BBB (high)/Stable” 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 on 4 July 2018.

Regarding the mortgage covered bonds, on 21 September 2017, 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.

Regarding the mortgage covered bonds, on September 21 DBRS ratified the rating of Bankia's cards in "AAA", after the review carried out as part of the agency's ongoing monitoring.

With regard of **Scope Ratings**, Bankia keeps on maintaining the same ratings, all with stable outlooks from 30 November 2017:

- 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.

Finally, after the annual review of Bankia’s mortgage-covered bonds (cédulas hipotecarias) and on 12 July 2018, Scope affirmed its rating of “AAA” with Stable outlook.

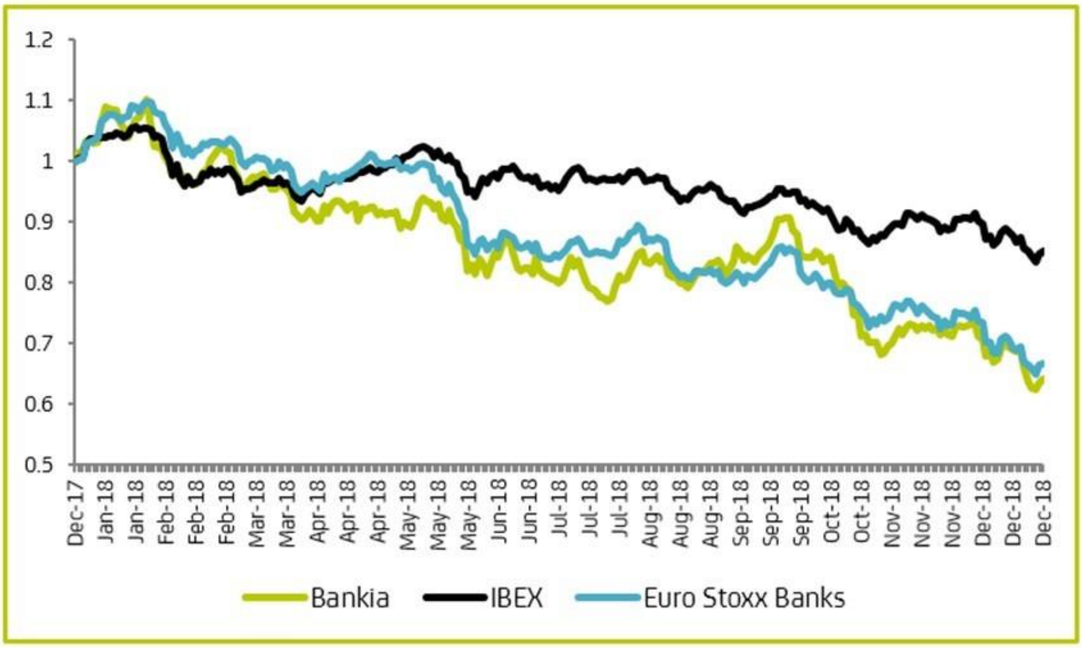
10. - SHARE PRICE PERFORMANCE AND SHAREHOLDER STRUCTURE

Markets were bearish in 2018, dragged down by: i) the protectionist policy imposed by the US on its trading partners, ii) political uncertainty in Europe stemming from Brexit, the spreading of populism and the end of an era in Germany’s chancellorship, and iii) the delay in interest-rate hikes. Against this backdrop, the Ibex 35 shed 15% and the Euro Stoxx 14%.

The financial sector fared even worse, with the Euro Stoxx Bank plummeting 33% by the end of the year. In Spain, the slowing economy, coupled with a highly competitive environment, spawned concerns over the sustainability of banks’ income statements, causing market volatility to rise and hitting share prices, especially in the last quarter of the year.

Against this backdrop, Bankia’s share price share price fell -35.8% in 2018. Average daily trading volume was 7.7 million shares, with amount of EUR 26.9 million.

SHARE PRICE



At year-end, there were 33 equity analysts covering the stock actively and issuing target prices for Bankia (average target price of EUR 3.38 per share at that date). 21.2% of analysts had buy recommendations, 33.3% sell and 45.5% hold. More than 350 research reports with references made to Bankia were published in 2018, with analysts updating their target prices over 120 times and their recommendations more than 15 times.

The main highlights regarding Bankia's share price in 2018 were as follows:

– On 27 February 2018, the Group unveiled its strategic plan for the 2018-2020 horizon, the main objectives of which are to boost earnings by driving sales, continue to enhance balance sheet quality and improve shareholder remuneration.

– A cash dividend of 11.02 euro cents per share was paid on 20 April 2018 out of 2017 profit, giving a total outlay of EUR 340.1 million, gross.

Moving to Bankia's share capital, a total of 205,630,814 shares were registered in 2018 as a result of the rights issue completed following the merger with BMN. Share capital now amounts to 3,084,962,950 euros, represented by 3,084,962,950 registered shares each with a par value of EUR 1. At the end of December 2018, Bankia had a total of 184,643 shareholders. BFA remained the Entity's main shareholder with a stake of 61.38%.

11. - <u>INFORMATION ON TREASURY SHARES</u>

Entity 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 Bank 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.

At 31 December 2017, Bankia held 20,023,158 treasury shares, with a par value of EUR 1 each and a combined carrying amount of EUR 79.8 million. Along 2018, a total of 37,119,379 shares were acquired while 27,598,698 shares were sold, bringing the total number of treasury shares held at 31 December 2018 to 29,543,839, with a par value of EUR 1 each and a combined carrying amount of EUR 96.6 million.

Treasury shares held at the end of December 2018 represented 0.96% of Bankia's share capital at that date.

The following tables show treasury share transactions carried out in 2018:

TREASURY STOCK OPERATIONS - BANKIA, S.A.

SHARES ACQUIRED IN 2018

Communication date	Number of shares acquired	Nominal value per action (€)	Nominal value (€ Mn)	% on the share capital (*)
January	1,369,070	1,0	1,4	0.04%
February	2,629,926	1,0	2,6	0.09%
March	3,866,532	1,0	3,9	0.13%
April	1,482,640	1,0	1,5	0.05%
May	3,428,702	1,0	3,4	0.11%
June	3,385,141	1,0	3,4	0.11%
July	1,616,772	1,0	1,6	0.05%
August	2,634,765	1,0	2,6	0.09%
September	3,366,257	1,0	3,4	0.11%
October	3,793,022	1,0	3,8	0.12%
November	3,448,092	1,0	3,4	0.11%
December	6,098,458	1,0	6,1	0.20%
TOTAL	**37,119,377**		**37,1**	**1.2%**

(*) Percentage calculated on share capital at the close of each month. The percentage of total acquisitions is calculated on the share capital at the end of December.

TREASURY STOCK OPERATIONS - BANKIA, S.A.

SHARES SOLD IN 2018

Communication date	Number of shares acquired	Nominal value per action (€)	Nominal value (€ Mn)	% on the share capital (*)
January	2,801,079	1,0	2,8	0.09%
February	3,759,042	1,0	3,8	0.12%
March	2,120,326	1,0	2,1	0.07%
April	1,164,432	1,0	1,2	0.04%
May	3,217,735	1,0	3,2	0.10%
June	3,233,482	1,0	3,2	0.10%
July	2,639,900	1,0	2,6	0.09%
August	2,941,826	1,0	2,9	0.10%
September	3,483,528	1,0	3,5	0.11%
October	791,035	1,0	0,8	0.03%
November	1,347,285	1,0	1,3	0.04%
December	99,028	1,0	0,1	0.003%
TOTAL	**27,598,698**		**27,6**	**0.89%**

(*) Percentage calculated on share capital at the close of each month. The percentage of total acquisitions is calculated on the share capital at the end of December.

12. – <u>DIVIDEND POLICY</u>

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.

Pursuant to the resolutions adopted at the General Meeting of Shareholders of 24 March 2017, on 31 March 2017, Bankia paid a final dividend out of 2016 profit for a total amount of EUR 317.42 million gross, 5% higher than the dividend paid last year.

Further to the resolutions adopted at the General Meeting of Shareholders held on 10 April 2018, on 20 April 2018 Bankia paid a total dividend of EUR 338 million out of profit for 2017.

Finally, approval was given at the Board of Directors meeting held on 24 January 2019 to submit a proposal to the General Meeting of Shareholders for the payment of a EUR 11.576 cents gross cash dividend out of 2018 profit, resulting in a total gross amount of EUR 357 million in dividends.

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

Since 2016, investment in software of development at Bankia has been characterised for targeting transformational projects. This has followed the major shift in the financial industry's activity to adapt to the continuous changes demanded by our customers, regulators, income statements plagued by thin net interest margins, and the arrival of new competitors.

Technology has become a key element of the Bank's business strategy, with the priorities of software development in 2018 framed within the following scenario:

- BMN’s technological integration, which was completed in March.
- Regulatory requirements, with directives that have a major impact on the treatment of customers (GDPR), distribution models (PSD2), commercial models (MIFID II, IDD), financial models (IFRS 9, MREL), management information (RDA) and operational models.
- The continuation of the Bank's multichannel transformation.
- Upgrades of IT capabilities and modernisation of core banking systems to ensure that the Bank's transformation plans are completed and to make its operational model more efficient.

Bankia considered these priorities when drawing up its IT strategy, which includes the following development projects: process transformation, the multichannel transformation plan, IT system redesign, Big Data, core banking and new technology applications transformation, the operations master plan and cyber security.

A summary of the most significant projects in 2018 is provided below:

13.1. - BMN technological integration

2018 featured the completion of the work on BMN’s technological integration in terms of infrastructure, systems and applications. Since 20 March 2018, the IT integration date, Bankia and BMN have operated jointly and in a unified manner.

The integration plan was carried out through a functional plan, a technology plan and a set of support projects. Integration affected the development of GAPS, adaptation of interfaces, and provision to BMN of the necessary infrastructure -central and workstations- for its overall integration into Bankia.

Key integration indicators:

- Technological and operational integration completed 2.5 month after the business integration.
- 613 offices and 4,000 employees from BMN working on Bankia’s platform since mid-March 2018.
- 1,700,000 customers, 6 million contracts and 22,000 office devices migrated.

13.2. - Regulatory projects

2018 was a crucial year for the banking industry in the application of new regulations with a high impact on systems: Markets in Financial Instruments Directive MIFID II, International Financial Reporting Standard IFRS 9, the General Data Protection Regulation GDPR, the Insurance Distribution Directive IDD, the Payment

Services Directive PSD2 and Risk Data Aggregation RDA (which has required a review of the risk information systems to ensure traceability of data).

There are also projects to create the new COREP and FINREP regulatory standards, the application of Anacredit, the requirements arising from the SREP, adaptations to the Spanish insurance sector regulatory law (LOSSEAR / ROSSEAR) and the Directive for Packaged Retail and Insurance-based Investment Products (PRIIPs). Moreover, the projects to upgrade the anti-money laundering, market abuse and compliance function governance systems included in the transformation plan were completed.

13.3. - Process transformation

Efforts to transform processes in 2018 included:

- Incorporating artificial intelligence in processes, applying IA techniques in process automation to create digital products without human intervention and replace low-value manual tasks in a bid to achieve a unique business proposition.
- Completing the loan product range with the redesign of developer loans.
- Completing the redesign of insurance products: process redesign in life and maintenance of non-life products.
- Evolving document management tools to given them custodian and purge, physical archiving and documentary file management capabilities.
- Implementing the improvements identified at workshops with branches to processes that have already been redesigned.

13.4. - Digital channel transformation

Actions undertaken in this area were geared towards promoting customer products and services, integrating the various components managing the bank's commercial actions, and driving multichannel architecture (Cloud and APIs).

Customer products and services

- **Customer registration**. The offer for new customers was bolstered with new video-call registration, in addition to identification via SEPA, messenger and branch office.
- **Improvements in account history viewing**. Integration of transactional systems with Big Data to provide advanced visualisation via income and expense categories and comparisons.
- **Payment methods**. Integration of the Bank's payment methods with the systems of the brands and PayPal, helping the Bank’s strategy of becoming the first to have all payment methods available to customers. These integrations also make use of the Bank’s API platform, so they are prepared for future evolutions.

Commercial action

Integration of the various components managing the Bank's commercial action continued in 2018; all digital channels and the branch network now use the same centralised system. This system starts with daily calculation of the next best action and distributes commercial actions for all customers among all channels. It also manages the responses and ensures their consistency across the channels, so if a customer responds to a commercial action in a given channel the response is taken into account by the rest. Lastly, digital channels are rounded off with real-time components that combine the calculated action with specific customer-centric actions in the channel.

Multichannel architecture

- **Cloud**. Bankia rolled out its new cloud computing platform in 2018. This platform responds quickly and smoothly to the increasing demand for resources stemming from the new digital channels. Based on a **hybrid cloud** paradigm, it combines optimally the capabilities of the large public cloud services providers with the advantages of critical workload management with in-house resources within the private cloud, thereby maximising cost efficiency, as well as data security and regulatory compliance.
- **APIs.** The new API and microservices architecture has enabled Bankia to build an open business ecosystem with new partners in which we can deliver the needs of our customers in third-party platforms, thereby complying with the new European payments directive, PSD2. With this architecture, Bankia can connect its systems to other companies in a way that is both secure and scalable, allowing, for instance, visualisation of information from PayPal in the Bank's channels.

Enhancements to channels

- Including a communications wall functionality for new customer segments.
- Arranging digital products; e.g. ON credit card, the Cuenta_ON Nómina salary account and the Un&dos account.
- Creating a new mobile version of the web for businesses.
- Integrating global funding facilities for customers in a single system that provides easy access to a variety of alternatives.

13.5. - Informational system redesign

The main actions carried out on the information system were the following:

- The information system redesign project: open the risks line, scheduling the migration of departments' risk engines (MIR and SGR). The commercial line will be addressed in 2019, after designing the definitive information distribution model and the RCI-Big Data relationship.
- The construction of the Corporate Reporting Centre (CRC), so the CDO can draft reports and dashboards with commercial information as a tactical solution to the wait to add the commercial area to the CDR.
- The development of the regulatory information built in the CDR for the addition of new regulations: Annex IX, IFRS 9, MREL, updates to FINREP and COREP statements.
- Redesign of the analytic engine to supply it with data from the CDR.
- Migration of DataStage from the mainframe environment to Grid Linux infrastructure to achieve the required stability for new developments.
- Preparation of an action plan on data storage to identify the part to be decommissioned and solutions for information that is not migrated to the CDR and Big Data, as appropriate.

13.6. - Big Data

In 2018, Bankia's analytics platform **extended its capabilities** for computing to train **artificial intelligence** models and integrated cloud computing capabilities for processing deep learning analytics models, using the latest libraries and open source and commercial tools available on the market. It has evolved the ability to activate analytics models in real time, expressing its functionality via a service (API) whereby **human tasks integrated in core processes** in the Bank have been replaced.

13.7. - Transformation of core banking and new technologies

In 2018, the drivers behind the **core banking transformation and new technologies** strategy were the reduction of infrastructure costs and improvements to platforms, alongside the roll-out of new technologies and upgrades to existing technologies.

Regarding **infrastructure costs**, Bankia has made further inroads in **lowering consumption in the mainframe platform** (by migrating to distributed systems from batch processing of payments and collections, and payment methods, and by optimising online transactions and batch processes in terms of the number of executions and consumption) and **extended the Open Source Cloud / DevOps technology approach** (all new channel applications are Cloud Ready from outset, and existing software, both in the channel in the Bank's operational applications and in the on-line channel, are being migrated to the Cloud).

Regarding **platform improvements**, work continued to solve the obsolescence of certain applications, migrating them to open source technology and eliminating the infrastructure of those that must be decommissioned. Test execution and project estimation mechanisms were optimised (the objective is to have greater control over investment earmarked for projects and of services rendered by contracted suppliers), while the NEO platform (the Bank's operational applications) was optimised further, along with the monitoring systems to meet the needs of the branch office network.

Regarding the roll-out of new technologies, efforts went to **adding cognitive systems for transaction and process automation** (automatic validation of documents in loan processes and data input in the Bank's operational processes) and the **reference architecture for APIs** was created, enabling Bankia to exhibit third-party functionalities and how it uses their functionalities and offers them to customers through the channels (Open Banking and PSD2 are examples of the use of this architecture).

In addition, work began on the **redesign of the customers application**, entailing both modification to its current database model and to its services for adaptation to a banking model executed in midrange systems. The aim is to have a customers application that is decoupled from the applications that consume it to begin the smooth implementation of the downsizing roadmap to midrange systems of the applications making up the customers ecosystem (agreements, product workshops, settlements).

During the course of the year, through the **Operations Master Plan**, Bankia continued to automate processes and operations in a bid to lower its exposure to operational risk and increase control over the various outsourced services.

Meanwhile, further advances were made in process monitoring and control systems, addressing the tracking of debts and COMEX and preparing a global transactions management dashboard of outsourced services and a user help centre), while collection and payments transactions and accounting reconciliation processes were automated. The aggregate processing of activities from different systems in task trays was stepped up and automation via RPA (e.g. management of taxes and other expenses on properties held under finance lease, reconciliation processes and invoicing, controls over lending portfolio) was increased.

13.8. - Cyber security

During the year, the Cyber Security Transformation Plan promoted, among others, the following development initiatives:

- Implementation of the secure software development model.
- Compliance with requirements arising from the Critical Infrastructure Protection Act (as Bankia has been classified as a critical operator).
- Developments to comply with PCI-DSS regulations in applications.

- Developments in Big Data for security analytics (cryptography, security and permits and accesses intake, the development of cyber security analytical models and the integration of the IT security monitor in corporate dashboards.
- Evolution of the fraud prevention model, which focused on completing the developments begun in 2017 (e.g. creation of a fraud monitor, Big Data Fraud, development of the anti-fraud analytics model, protection of transactions in remote channels) and undertaking new projects planned in 2018 (e.g. creation of a unified collector for tranches of transactions in channels to integrate them in the anti-fraud system, creation of parameterisation systems, alert generation, rules simulation and the case manager.

13.9. - PST Position

Projects proposed for 2018 arising from cross-organisational initiatives of the PST Position related to the following:

- **Internal information management:** Intranet restyling project and development of new intranet search engines and the operational support service.
- **Communication:** Modernisation of customer correspondence and documents workshops (e.g. contracts, pre-contractual information). These are highly complex projects due to the volume of documents affected and the number of processes that use them.

13.10. - Other projects

Beyond the scope of Bankia's Transformation Plans, the rest of investment in 2018 was spread out among projects on a number of fronts: business (retail, businesses and insurance), risks and recoveries, IT and infrastructure.

In individuals and companies, the leading projects were designed to enhance operating processes for arranging insurance (e.g. health, auto, burial) and specific loan products for businesses (e.g. multi-product credit line, non-recourse finance, marketing of Alphabet leasing products, instant transfers), and deployment of the main digital payment platforms (e.g. PayPal, Samsung Pay, Apple Pay, Google Pay).

In Risks and Recoveries, the main actions targeted adapting the risk applications to new international accounting standards, specifically IFRS 9, to replacing the risk models tool, to completing the roll-out of the new recoveries model, and to launching the new tool for managing business groups.

14. - FORECASTS AND BUSINESS OUTLOOK

- **Economic overview**

Fears are beginning to spread in financial markets that the growth stage of the US and global economy is ending, although the most likely macroeconomic scenario for 2019 is one of cooling and not recession. World growth looks set to slow generally, with most of the main economies expected to see slightly lower growth than in 2018. Current forecasts point to average growth for the US of 2.2%-2.5% (2.9% in 2018) and for the EMU of around 1.5% (1.9% in 2018).

In this scenario of slower growth, the Fed will mostly likely take a pause in its rate tightening campaign to assess the economic situation (the market is pricing in that the peak of the cycle has already been reached). For its part, the ECB could begin raising rates in the year's last quarter, but the market is not expecting a hike until 2020.

Regarding public debt, yields look set to rise assuming growth will remain around potential rates. Nevertheless, upside should be extremely limited in both the US and the EMU. Helping this tempered behaviour of yields is, initially, the steep fall in oil prices since October, since this bodes well for lower inflation in the coming months and downward revisions to full-year forecasts.

For Spain, Bankia' forecasts indicate an extension of the growth stage in 2019, albeit with gradually lower rates, mainly due to less buoyant export markets. As a result, GDP growth is estimated at around 2.2%. Nevertheless, growth in activity leaves room for further job creation; the number of people registered with Social Security could rise to around 325,000 by the end of the year, leaving the annual unemployment rate at below 14% from the estimated 15.4% in 2018. In addition, the economic situation of households will benefit from increases in real wages and income. External risks to this scenario arise from potential stress in financial markets, heightened protectionism and uncertainties surrounding Italy and the outcome of Brexit. Internally, there is uncertainty and a challenging political situation that could make it difficult to push through the much needed structural reforms, while a burgeoning public debt limits the scope of fiscal policy to head off the future crisis.

- **Business outlook for Bankia**

As regards, in 2019, the 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. The Group's objectives are now enshrined in its new 2018-2020 Strategic Plan, which was approved by its Board of Directors on 22 February 2018.

The new Strategic Plan seeks to increase the Entity's earnings by driving sales and commercial activity, while continuing to improve quality and the balance sheet and ultimately paying more to shareholders. To accomplish these objectives, the 2018-2020 Strategic Plan targets four key areas:

- **Synergies arising from the merger with BMN**. Both Bankia and BMN have a business model focused on retail banking, with a similar customer profile. This promises considerable synergy potential through the reduction of redundant costs and limited integration risk.. Meanwhile, the Strategic Plan envisions higher revenue generation, mostly in net interest income and fee and commission income, since BMN boasts a leading franchise in regions where Bankia has a relatively small presence, such as Murcia, Granada and the Balearic Islands, and this should drive a major increase in scale and customer bases in these areas. The technological integration of BMN's processes and transactions was completed on 19 March 2018, just two and a half months from obtaining the necessary regulatory authorisations.

- **Efficiency and cost control**. Having posted provisions in 2017 to cover the restructuring costs incurred from BMN's integration, the new Strategic Plan envisions an improvement in Bankia Group's efficiency (cost-to-income) to below 47% by 2020 once the cost synergies have been unlocked from the merger with BMN (EUR 190 million on 2020, up 23% on the EUR 155 million initially envisaged).

- **Driving income through increased sales of high-value products**. Over the next three years, the Bankia aims to continue growing lending activity in the mortgage, consumer finance and business loan segments. It also intends to increase fees and commissions on high-value products (mutual funds, payment services and insurance) as a means of boosting income and margins in a bid to increase market shares while keeping the cost of risk under control. To help it achieve this objective, the Entity have rolled out new lines of business now that the restrictions set out in the Restructuring Plan no longer apply, since the plan ended in December 2017. These activities include lending to real estate developers, long-term financing to large corporations through placements on the capital markets both in and outside Spain, and other fee-bearing products (project finance and M&A funding).

- **Drive to reduce problem assets.** Another pillar of the new Strategic Plan is to continue reducing problem assets organically and via the sale of portfolios. The aim here is to free up liquidity and funds with which to grant loans and new credit in segments where Bankia intends to increase its lending activity and market shares. The increase in lending will be accompanied by further reductions in non-performing loans and foreclosed assets (EUR 8,800 million projected for 2018-2020). According to the estimates contained in the new Strategic Plan, this will bring the Group's problem assets ratio (gross NPLs + gross foreclosed assets / total risks + gross foreclosed assets) to below 6% by year-end 2020 and the NPL ratio to 3.9%.

Accomplishing the objectives set out in the Strategic Plan will allow Bankia to continue generating strong organic capital, while keeping its capital adequacy ratio at above 12% (fully-loaded CET1).

Bankia has embarked on this new plan from a solid financial position, strong capitalized and an ability to enhance solvency organically and on a recurring basis. These strengths will be crucial for Bankia 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. - SUBSEQUENT EVENTS AFTER REPORTING PERIOD

On 24 January 2019, the Board of Directors of Bankia, based on a favourable report from the Appointments and Responsible Management Committee, approved a change in the Bank's organisation to drive its transformation and that of its businesses, creating four new general subdivisions –Financial, Credit Risk, People and Culture, and Digital Strategy and Transformation. Their members will have a seat on the Management Committee. This comes after the transfer of duties following the departure of the Deputy General Director of Investees and Associated Undertakings, Joaquín Cánovas. As a result, the composition of the Bank's highest management body increases from eight to 12 members, as follows:

- D. José Ignacio Goirigolzarri Tellaeche (Chairman)
- D. José Sevilla Álvarez (Chief Executive Officer)
- D. Antonio Ortega Parra (Executive Director and General Manager of People, Resources and Technology)
- D. Miguel Crespo Rodríguez (General Secretary and Deputy General Director of the General Secretariat)
- D. Gonzalo Alcubilla Povedano (Deputy General Director of Business Banking)
- D. Leopoldo Alvear Trenor (Deputy General Director of Financial Management)
- Dª Amalia Blanco Lucas (Deputy General Director of Communication and External Relations)
- D. Manuel Galarza Pont (Deputy General Director of Credit Risks)
- D. David López Puig (Deputy General Director of People and Culture)
- D. Fernando Sobrini Aburto (Deputy General Director of Asset Management and Investees)
- D. Eugenio Solla Tomé (Deputy General Director of Retail Banking)
- D. Carlos Torres García (Deputy General Director of Transformation and Digital Strategy)

On 7 February 2019, the economic terms of an issuance of EUR 1,000 million of Bankia subordinated notes under the Entity's "€ 10,000,000,000 Euro Medium Term Note Programme" were established. The base prospectus for the issue, dated 5 July 2018, was approved by the Central Bank of Ireland as competent authority. The issue date of the subordinated notes is expected to be 15 February 2019. An application will be made for the subordinated notes to be listed on the Main Securities Market of the Irish Stock Exchange, currently called Euronext Dublin. Bankia will apply for the subordinated notes to be treated as tier 2 capital in accordance with the criteria of the CRR.

16. - CORPORATE ANNUAL REPORT

The 2018 Annual Corporate Governance Report for 2018, which forms part of this Management Report, was prepared in accordance with article 540 of the Corporate Enterprises Act, with the content outlined in Order ECC/461/2013, of 20 March, and CNMV Circular 2/2018, of 12 June, amending Circular 5/2013, of 12 June, which establishes the formats of the annual corporate governance report of listed companies, attached hereto as a separate document. The report includes a section on the Bank's level of compliance with corporate governance recommendations in Spain.

17. - OTHER NON-FINANCIAL INFORMATION

In accordance with Law 11/2018, of 28 December, amending Spain's Code of Commerce, the consolidated text of the Corporate Enterprises Act, enacted by Legislative Royal Decree 1/2010, of 2 July, and Spain's Audit Act (Law 22/2015), regarding the disclosure of non-financial and diversity information, the Bankia group has prepared a non-financial statement, which forms part of the Bankia group's management report and is attached as a separate document thereto. This non-financial statement contains relevant information on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, and the company. The information contained therein was verified by E&Y, as independent assurance services provider.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

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

ISSUER IDENTIFICATION:

Year-end Date: [12/31/2018]

CIF: [A-14010342]

Corporate Name:

[**BANKIA, S.A**]

Registered office:

[PINTOR SOROLLA Nº 8, 46002, VALENCIA]

A. Ownership structure

A.1.Complete the table below with details of the share capital of the company:

Date of last change	Share Capital (€)	Number of shares	Number of voting rights
09/14/2017	3,084,962,950.00	3,084,962,950	3,084,962,950

Please state whether there are different classes of shares with different associated rights:

[ ] Yes
[√] No

A.2.Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Personal or corporate name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
FROB	0.00	61.38	0.00	0.00	61.38
ARTISAN PARTNERS ASSET MANAGEMENT INC.	0.00	3.07	0.00	0.00	3.07

INVESCO LIMITED	0.00	1.04	0.00	0.00	1.04

Breakdown of the indirect holding:

Personal or corporate name of indirect shareholder	Personal or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
INVESCO LIMITED	INVESCO ASSET MANAGEMENT LTD	1.04	0.00	1.04
INVESCO LIMITED	INVESCO POWERSHARES CAPITAL MANAGEMENT LLC	0.00	0.00	0.00
INVESCO LIMITED	INVESCO HONG KONG LIMITED	0.00	0.00	0.00
ARTISAN PARTNERS ASSET MANAGEMENT INC.	ARTISAN PARTNERS LIMITED PARTNERSHIP	3.07	0.00	3.07
FROB	BFA, TENEDORA DE ACCIONES, S.A.U.	61.38	0.00	61.38

State the most significant shareholder structure changes during the year:

Most significant movements

BFA, TENEDORA DE ACCIONES, S.A.U.:

01/12/18 - Decrease of 3.57% of the holding of BFA, TENEDORA DE ACCIONES, S.A.U. in the Equity of Bankia, as a result of the increase in capital of 205,630,814 issued ordinary shares to attend the share exchange of the merger through absorption of Banco Mare Nostrum, S.A. (BMN).

01/16/18 - Increase of a 4.34% of the holding of BFA, TENEDORA DE ACCIONES, S.A.U. in the Equity of Bankia as a result of the contribution for the increase in capital of BFA of issued ordinary shares of Bankia, ownership of FROB, and purchased pursuant to the share exchange of the merger between Bankia (absorbing company) y BMN (absorbed company).

ARTISAN PARTNERS ASSET MANAGEMENT INC:

05/25/18 ARTISAN PARTNERS ASSET MANAGEMENT INC reports to the CNMV that the share capital has exceeded the 3% the share capital (3.070%).

NORGES BANK:

01/12/18 NORGES BANK reports to the CNMV that after the capital increase of 205,630,814 issued ordinary shares to attend the share exchange of the merger through absorption of BMN, the equity holding decrease 3.833% to 3.013%.

02/01/18 NORGES BANK reports to the CNMV that the share capital has fallen below the 3% of the share capital (2.958%).

05/30/18 NORGES BANK reports to the CNMV that the share capital has risen 3% of the share capital (3.003%).

08/16/18 NORGES BANK reports to the CNMV that the share capital has fallen below the 3% of the share (2.920%).

INVESCO LIMITED:

12/11/17 INVESCO LIMITED (offshore) reported that it had exceeded 1% of share capital (1.046%). However, with the number of shares reported, his its stake would be 0.976% after the capital increase entailing the issuance of 205,630,814 new ordinary shares (01/12/2018) to carry out the exchange arising from the merger by absorption of BMN.

Also reported is that State Street Bank and Trust and Chase Nominees Ltd., as international custodian/depositary banks, appear in the Company's shareholder registry by 31 December 2018, with shareholdings of 5.70% and 5.68%, respectively, in Bankia's share capital. Nevertheless, the Company understands that these shareholdings are held on behalf of third parties, none of which, to the best of the Company's knowledge, has a shareholding equal to or greater than 3% of the share capital or voting rights.

A.3. In the following tables, list the members of the Board of Directors with voting rights in the company:

Personal or corporate name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	0.01	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOSÉ SEVILLA ÁLVAREZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOAQUÍN AYUSO GARCÍA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. FRANCISCO JAVIER CAMPO GARCÍA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MRS. EVA CASTILLO SANZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. CARLOS EGEA KRAUEL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOSÉ LUIS FEITO HIGUERUELA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. ANTONIO GREÑO HIDALGO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. ANTONIO ORTEGA PARRA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total percentage of voting rights held by the Board of Directors							0.01

Breakdown of the indirect holding:

Personal or corporate name of Director	Personal or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	QUINTORGE, S.L.	0.00	0.00	0.00	0.00

By 31 of December 2018 the directors of Bankia held the following shares of the Entity:

Mr. José Ignacio Goirigolzarri direct owner of 259,170 shares of the Company (representative of a 0.008% of the share capital);
Mr. José Sevilla Álvarez direct owner of 55,012 shares of the Company (representative of a 0.002% of the share capital);
Mr. Antonio Ortega Parra direct owner of 75,000 shares of the Company (representative of a 0.002% of the share capital);
Mr. Carlos Egea Krauel direct owner of 15,595 shares of the Company (representative of a 0.001% of the share capital);
Mr. Joaquín Ayuso García direct owner of 55,015 shares of the Company (representative of a 0.002% of the share capital);
Mr. Francisco Javier Campo García direct owner of 50,315 shares of the Company (representative of a 0.002% of the share capital);
Mrs. Eva Castillo Sanz direct owner of 25,000 shares of the Company (representative of a 0.001% of the share capital);
Mr. Jorge Cosmen Menéndez-Castañedo direct owner of 21 shares and indirect owner of (through Quintorge, S.L.) of 30,268 shares of the Company (representative of the 0.001% of the share capital);
Mr. José Luis Feito Higueruela direct owner of 49,452 shares of the Company (representative of a 0.002% of the share capital);
Mr. Fernando Fernández Méndez de Andés direct owner of 16,358 shares of the Company (representative of a 0.001% of the share capital);
Mr. Antonio Greño Hidalgo direct owner of 20,750 shares of the Company (representative of a 0.001% of the share capital);

A.4. If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Personal or corporate name of related Party	Nature of relationship	Brief description
Without data		

A.5. If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Personal or corporate name of related Party	Nature of relationship	Brief description
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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 minimize 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.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	Cost-sharing agreement for lawsuits related to preferred participating securities and subordinated bonds
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	Cost-sharing agreement for lawsuits related to the IPO.
BFA, TENEDORA DE ACCIONES, S.A.U.	Contractual	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) number 575/2013 and, in particular, verify that BFA complies with the capital

		requirements imposed in applicable legislation.

A.6. Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of proprietary directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders:

Personal or corporate name of related director or representative	Personal or corporate name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	BFA, TENEDORA DE ACCIONES, S.A.U.	BANKIA, S.A.	REPRESENTATIVE PHYSICAL PERSON-PRESIDENT (FROB)
MR. ANTONIO ORTEGA PARRA	BFA, TENEDORA DE ACCIONES, S.A.U.	BANKIA, S.A.	DIRECTOR
MR. JOSÉ SEVILLA ÁLVAREZ	BFA, TENEDORA DE ACCIONES, S.A.U.	BANKIA, S.A.	DIRECTOR

There are no proprietary directors on Bankia S.A.'s Board of Directors. The Board of Directors was made up of 12 directors at 31 December 2018, 4 executive and 8 independent.

BFA, Tenedora de Acciones S.A.U. held shares representing 61.38 % of Bankia's share capital at 31 December 2018.

Since 27 June 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 29 June 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 Meeting of Shareholders held on 15 March 2016, resolutions were adopted to appoint a new independent director and to re-elect 4 directors: 3 independent and 1 executive.

In addition, at the General Meeting of Shareholders held on 24 March 2017, to continue with the partial renovation of members of the Board of Directors during the year before, resolutions were adopted to re-elect 6 directors: 2 executive and 4 independent.

In addition, at the Extraordinary General Meeting of Shareholders held on 14 September 17, pursuant to the Common Terms of Merger between Bankia, S.A. and Banco Mare Nostrum, S.A., a resolution was adopted to appoint a new external director, Mr. Carlos Egea Krauel. He was included in the Bank of Spain's Register of Senior Offices (Registro de Altos Cargos or RAC) on 12 January 2018. On 25 January 2018, this director changed category after being designated executive director, as explained in section C.1.3 of this report.

Finally, to fill the vacancy arising in October 2017 from the departure of an independent director, on 25 October 2018, the Board of Directors, after obtaining the pertinent regulatory authorisations, agreed to appoint, by the co-option, Mrs. Laura González Molero as independent director.

A.7. State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the *"Ley de Sociedades de Capital"* ("Corporate Enterprise Act" or "LSC"). If so, describe these agreements and list the party shareholders:

[ ] Yes
[√] No

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

[ ] Yes
[√] No

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

Not applicable.

A.8. State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

[√] Yes
[ ] No

Name of individual or company
BFA, TENEDORA DE ACCIONES, S.A.U.

BFA, Tenedora de Acciones, S.A.U held shares representing 61.38% of Bankia, S.A.'s share capital by 31 December 2018.

The FROB held 100% of BFA, Tenedora de Acciones, S.A.U's shares by 31 December 2018.

A.9. Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
29,543,839		0.96

(*)Through:

Personal or corporate name of direct shareholder	Number of direct shares
Without data	

Explain any significant changes during the year:

Explain significant changes

Notification to the CNMV dated 11/26/2018: regarding the fact that acquisitions made using treasury shares totaled the 1% threshold at 11/22/2018. At said date, the total position of treasury shares totaled 0.779% of share capital.

Notification to the CNMV dated 04/09/2018: Modification of the number of voting rights of the issuer dated 01/07/2018. At that date, the total position in treasury shares amounted to 0.647% of share capital.

Notification to the CNMV dated 04/06/2018: Modification of the number of voting rights of the issuer dated 06/01/2017. At that date, the total position in treasury shares amounted to 0.536% of share capital.

A.10. Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares:

On 10 April 2018, a resolution was adopted at the General Shareholders' Meeting of Bankia, S.A. to grant "Authorisation to the Board of Directors for the derivative acquisition of treasury stock in accordance with the limits and requirements established in the Corporate Enterprises Act. Delegation of authority to the Board of Directors to implement this resolution, rendering without effect the delegation granted by the previous General Meeting":

Authorisation for the Board of Directors, in the broadest terms, 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 "inter vivos" act for consideration or any other transaction permitted by law, including out of profits for the fiscal 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 countervalue 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 Bankia's Internal Rules of Conduct for Securities Markets.

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 Corporate Enterprises 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 24 March 2017, which will therefore be rendered void.

The Board of Directors is authorised, in 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 Secretary or any other person the Board expressly authorises for this purpose, with such breadth as it deems to be appropriate.

A.11. Estimated working capital:

	%
Estimated working capital	37.65

The percentage free float reported was calculated after subtracting the percentage of capital at 31 December 2018 held by BFA (61.38%), as controlling shareholder, by members of the Board of Directors (0.01%) and held in treasury shares (0.96%).

Free float after also subtracting the percentage of capital held by the two other shareholders who disclosed to the CNMV registry their ownership of a significant shareholding, Artisan Partners Asset Management Inc. (3.07%) and Invesco Limited (1.05%), would be 33.53%.

A.12. State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

[√] Yes

[ ] No

Description of 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.13. State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

[ ] Yes
[√] No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.14. State if the company has issued shares that are not traded on a regulated EU market.

[ ] Yes
[√] No

If so, please list each type of share and the rights and obligations conferred on each.

B. GENERAL SHAREHOLDER'S MEETING

B.1. State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail.

[ ] Yes
[√] No

B.2. State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

[ ] Yes
[√] No

B.3. State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The rules governing amendments to the Company's Bylaws are those set forth in the Corporate Enterprise 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.

In particular, adoption of resolutions to amend by the Bylaws requires an absolute majority if over fifty percent of the share capital is present or represented by proxy at the General Meeting. However, a favourable vote of a two-thirds majority of the share capital present or represented at the meeting is required when, at second call, at least twenty-five percent but less than fifty percent of the subscribed capital with voting rights is in attendance.

In addition, according to 31.1 of the Bylaws, in line with article 197 bis of the Corporate Enterprises Act, that separate votes must be held on matters regarding amendment of the Bylaws, that of each article or group of articles that are independent of each other, even if they appear in the same agenda item.

Moreover, article 3.1 of the Bylaws states that the Board of Directors has authority to resolve to change the registered address within the same municipality.

B.4. Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

	Attendance data				
Date of General Meeting	% physically present	% Present By Proxy	% Electronic Voting	Other Voting	Total
03/15/2016	65.18	10.60	0.00	0.92	76.70
Of which, free float	0.06	10.60	0.00	0.92	11.58
03/24/2017	66.97	12.21	0.00	0.61	79.79
Of which, free float	0.06	12.21	0.00	0.61	12.88
09/14/2017	67.81	14.25	0.01	0.41	82.48
Of which, free float	0.04	14.25	0.01	0.41	14.71
04/10/2018	61.84	16.07	0.01	0.38	78.30
Of which, free float	0.04	16.07	0.01	0.38	16.50

The percentage free float reported was calculated after subtracting the percentage of capital held by BFA, as controlling shareholder, that held by members of the Board of Directors, and that held in treasury shares, at the date of the General Meetings indicated in the heading.

B.5. State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason:

[ ] Yes
[√] No

B.6. Indicate whether there are any restrictions in the Bylaws establishing a minimum number of shares needed to attend the General Shareholders' Meetings, or to vote absentee:

[√] Yes
[ ] No

Number of shares required to attend General Meetings	500
Number of shares required for distance voting	1

B.7. State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

[ ] Yes
[√] No

B.8. State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

The Company´s website address is: www.bankia.com, the domain name of which is entered at the Mercantile 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. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	15
Minimum number of directors	5
Number of directors set by the general meeting	12

C.1.2 Please complete the following table on directors

Personal or corporate name of director	Natural person	Director Category	Position on the board	Date first Appointed to Board	Las re-election date	Method of selection to Board
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	-	EXECUTIVE	CHAIRMAN	05/09/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MR. JOSÉ SEVILLA ÁLVAREZ	-	EXECUTIVE	CHIEF EXECUTIVE OFFICER	05/25/2012	03/15/2016	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 MENÉNDEZ-CASTAÑEDO	-	INDEPENDENT	DIRECTOR	05/25/2012	03/24/2012	SHAREHOLDER MEETING AGREEMENT

Personal or corporate name of director	Natural person	Director Category	Position on the board	Date first Appointed to Board	Las re-election date	Method of selection to Board
MR. CARLOS EGEA KRAUEL	-	EXECUTIVE	DIRECTOR	09/14/2017	09/14/2017	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	05/25/2012	03/24/2017	SHAREHOLDER MEETING AGREEMENT
MRS. LAURA GONZÁLEZ MOLERO	-	INDEPENDENT	DIRECTOR	10/25/2018	10/25/2018	CO-OPTION
MR. ANTONIO GREÑO HIDALGO	-	INDEPENDENT	DIRECTOR	03/15/2016	03/15/2016	SHAREHOLDER MEETING AGREEMENT
MR. ANTONIO ORTEGA PARRA	-	EXECUTIVE	DIRECTOR	06/25/2014	03/24/2017	SHAREHOLDER MEETING AGREEMENT

Total number of directors	12

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Personal or corporate name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
Without data		//	//		

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Personal or corporate name of director	Post in organisational chart of the company	Profile
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	EXECUTIVE CHAIRMAN	Born in 1954, Mr. Goirigolzarri holds a degree in Economics and Business Studies from the Universidad Comercial de Deusto (Bilbao). Finance and Strategic Planning from the University of Leeds (United Kingdom). He is Chairman of Bankia and of BFA, Tenedora de Acciones, S.A.U. since 9 May 2012. He is Vice Chairman of CECA, trustee of CEDE, COTEC Foundation, Pro Real Academia Española Foundation and honorary trustee of the Spain-USA Board Foundation, Chairman of the Deusto Business School, Chairman of the Advisory Board of the Instituto Americano de Investigación Benjamin Franklin and Chairman of Garum Foundation. He is also Chairman of the Fundación Bankia por la Formación Dual. He began his professional career in Banco de Bilbao in 1977, where he served as general director of BBV and member of the Management Committee, with responsibilities in commercial banking in Spain and operations in Latin America. Mr. Goirigolzarri was responsible for Retail Banking at BBVA and served as Chief Executive Officer there until 2009. During that period he also held directorships in BBVA-Bancomer (Mexico), Citic Bank (China) and CIFH (Hong Kong). He furthermore served as Vice Chairman at Telefónica and Repsol and Spanish Chairman of the Spain-USA Foundation.
MR. CARLOS EGEA KRAUEL	EXECUTIVE DIRECTOR	Born in 1947, he has an Industrial Engineering degree from Escuela Técnica Superior de Ingenieros Industriales de Madrid and a PhD in Economics and Business from Universidad Autónoma de Madrid. He has been Vice-Chairman of Ahorro Corporación, S.A., member of the boards of directors of CASER, Enagás, S.A. and Iberdrola Renovables, S.A. and Secretary of the Board of Directors of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros, CECA). He started his career in the industrial sector, with the company Fraymon. From there, he joined the financial sector through Banco Atlántico. In 1976 he joined Caja de Ahorros de Murcia, where he was appointed General Manager in 1983 and Chairman in 2008. Since June 2008, he has been Chairman of Fundación Caja Murcia, of which he had previously (since its creation in 2001) been Vice- Chairman. Since 2010 and until its merger with Bankia, he has been Chairman of the Board of Directors of Banco Mare Nostrum, S.A.

MR. ANTONIO ORTEGA PARRA	EXCUTIVE DIRECTOR, AND GENERAL MANAGER OF PEOPLE, RESOURCES AND TECHNOLOGY	Born in 1947, Mr. Ortega has a PhD in Business Studies from the Antonio de Nebrija University and holds a degree in Law from the Universidad Nacional de Educación a Distancia. He is general director of People, Resources and Technology at Bankia since 16 May 2012. He is a member of the Board of Directors of BFA, Tenedora de Acciones, S.A.U. since June 2012. Before joining the bank, he was director of the Master's Degree in Human Resources at Centro de Estudios Garrigues and a member of its academic council. At the same time, he provided business consultancy services and was director of the School of Banking at the Universidad Virtual of the Instituto Tecnológico de Monterrey (Mexico). A large part of his career has been spent at the BBVA Group, where he held various management positions. He has been a director of BBVA Bancomer and BBVA Continental, Vice Chairman of Banca Nazionale del Lavoro, general director of Human Resources and Quality at BBVA and a member of the Group's Management Committee. He is a trustee of the Fundación Bankia por la Formación Dual. He is also a director of Cecabank, S.A.
MR. JOSÉ SEVILLA ÁLVAREZ	CHIEF EXECUTIVE OFFICER	Born in 1964, Mr. Sevilla holds a degree in Economics and Business Studies from CUNEF. He is Chief Executive Officer of Bankia and Chairman of the Board Risk Committee. He is also a member of the Board of Directors of BFA, Tenedora de Acciones, S.A.U. Before joining Bankia he held various management positions in BBVA, where he served as general manager of Risks and member of the Management Committee, head of the Office of the Chairman and of the Division of Strategy and Finance for the Americas in BBVA and a directorship in BBVA Bancomer. He is a director of the Asociación para el Progreso de la Dirección (APD). He began his professional career in the investment banking field, working in Merrill Lynch and FG Inversiones Bursátiles.

Total number of executive directors	4
Percentage of Board	33.33

PROPIETARY DIRECTORS

Personal or corporate name of Director	Company, director or shareholder to whom the director is related	Profile
Without data		

INDEPENDENT DIRECTORS	
Name of the director	Profile
MR. JOAQUÍN AYUSO GARCÍA	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 was 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.
MR. FRANCISCO JAVIER CAMPO GARCÍA	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 was 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 director 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, and Azcoyen. 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.
MRS. EVA CASTILLO SANZ	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 has been also a member of the Monitoring and Supervisory Committee for the Bankia and Banco Mare Nostrum Merger Process. She has been a director of Telefónica, S.A., and 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.
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	He was born in 1968, he holds a degree in Business Administration and a 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.

MR. JOSÉ LUIS FEITO HIGUERUELA	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.
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	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 economic at the IE Business School specialized in Macroeconomics, International Economics and Financial Stability. 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 and Director of Red Eléctrica.
MRS. LAURA GONZÁLEZ MOLERO	Born in 1965, she holds a degree in Pharmacy, specializing in Industrial Pharmacy, from the Complutense University in Madrid, an Executive MBA from the IE Business School, and higher Course in Marketing from the CECO and in innovation in IMD Lousanne. She has spent her career in major international corporations in the health and chemical sectors; she was Chairwoman of Bayer HealthCare Latin America, Chairwoman of Merck Serono Latin America, Chief Executive Officer of Merck Group Spain, and Vice-Chairwoman of Serono Iberia & Scandinavia. She is currently an independent director of Acerinox, Grupo Ezentis and Viscofan. She is also a Trustee of the Adecco Foundation and a member of the Advisory Board of ISS in Spain.
MR. ANTONIO GREÑO HIDALGO	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 was 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 other external directors	8
Percentage of the Board	66.67

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director r senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Personal or corporate name of the director	Description of the relationship	Statement of the Board
MR. JOAQUÍN AYUSO GARCÍA	Financing agreements between Bankia and the Ferrovial Group and Service agreements between Bankia and the Group Alsa (Group National Express) Financial Agreements between Bankia and Fundación Créate and the Real Sociedad Hípica Española Club de Campo.	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, member of the Trustee of Fundación Créate, 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), Fundación Créate 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 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 the director	Description of the relationship	Statement of the Board
MR. FRANCISCO JAVIER CAMPO GARCÍA	Financing agreements between Bankia and the Group Meliá Hotels International, Group Empresarial Palacios Alimentación and guarantee agreement between Bankia and AECOC.	The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee, considers that Francisco Javier Campo García, a member of the Board of Directors of Meliá Hotels International y del Grupo Empresarial Palacios Alimentación (until June 2014, and currently member of its advisory board) 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, S.A. and Meliá Hotels International, Grupo Empresarial Palacios Alimentación and AECOC, and/or their 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 non-intervention by this director in the negotiations and decision-making processes of either party; and (iv) the express intervention of the Board of Directors and the Audit and Compliance Committee given the related-party nature of the relationship.
MRS. EVA CASTILLO SANZ	Financing and services agreements between Bankia and Telefonica Group.	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. (until April 25th, 2018), 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 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.
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	Financing and services agreements between Bankia and Grupo Alsa (Grupo National Express).	The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee, considers that 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 (National Express 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 non-intervention by this director in the negotiations and decision-making processes of either party; and (iv) the express intervention of the Board of Directors and the Audit and Compliance Committee given the related-party nature of the relationship.
MR. JOSÉ LUIS FEITO HIGUERUELA	Financing and service agreements between Bankia and Mundigestión. And financing agreements between Bankia and Fundación Ortega y Gasset.	The Board of Directors of Bankia, S.A., based on a report by the Appointment and Responsible Management Committee considers that Mr. José Luis Feito Higueruela, significant shareholder of Mundigestión (during part of 2018) and Member of the Trustee on Fundación Ortega y Gasset, can continue to be classified as an independent director of Bankia, S.A. despite the commercial relations between Bankia, S.A. and Mundigestión and between Bankia, S.A. and Fundación Ortega y Gasset, 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; and (iii) the non-intervention by this director in the negotiations and decision-making processes of either party.

Personal or corporate name of the director	Description of the relationship	Statement of the Board
MRS LAURA GONZÁLEZ MOLERO	Financing agreements between Bankia and the Group Acerinox and between Bankia and the Group Ezentis, and service agreements between Bankia and the group Integrated Service Solutions (ISS).	The Board of Directors of Bankia, S.A., based on a report by the Appointments and Responsible Management Committee, considers that Laura González Molero, member of the boards of directors of Acerinox, S.A. and Exentis, S.A. and of the advisory board of Integrated Service Solutions, S.L. (ISS), 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) Bankia, S.A.'s generally rigorous procedures for engaging construction and services, which were applied in this case; and (iv) the non-intervention by this director in the negotiations and decision-making processes of either party.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

Personal or corporate name of the director	Reason	Company, director or shareholder to whom the director is related	Profile
Not applicable			

Total number of other external directors	N.A.
% Percentage of the Board	N.A.

State any changes in status that has occurred during the period for each director:

Personal or corporate name of the director	Date of change	Previous status	Current status
MR. CARLOS EGEA KRAUEL	01/25/2018	OTHER EXTERNAL DIRECTOR	EXECUTIVE

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	Year 2018	Year 2017	Year 2016	Year 2015	Year 2018	Year 2017	Year 2016	Year 2015
Executive					0.00	0.00	0.00	0.00
Proprietary					0.00	0.00	0.00	0.00
Independent	2	1	1	1	25.00	14.29	12.50	12.50
Other external					0.00	0.00	0.00	0.00
Total:	2	1	1	1	16.67	10.00	9.09	9.09

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

[√] Yes
[ ] No
[ ] Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and Remuneration Committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

In 2018, Bankia’s Board of Directors approved the Selection, Diversity, Suitability, Integration and Training Policy for Directors, which brings together the various policies in place at the Bank until then.

With this policy, Bankia ensures that the members of its Board of Directors are suitable and have the right knowledge, skills and experience necessary to carry out their duties. It also promotes diversity in nationality, gender, knowledge and experience to enrich decisions and provide a broad range of viewpoints. Moreover, it seeks a diversity of profiles in the Board of Directors.

Therefore, the Board of Directors and the Appointments and Responsible Management Committee have set an objective of ensuring that the following areas of diversity are upheld at all times:

a) Academic and profesional profile.
b) Gender.
c) Age.
d) Geographical origin.
e) Non-discrimination.

In addition, to achieve the gender diversity target Bankia has established (i.e. having at least 30% of total board places occupied by women directors before the year 2020) the Board of Directors and the Appointments and Responsible Management Committee shall ensure, when new vacancies arise, that the selection procedures do not interfere with the selection of persons of the least represented gender. 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.

C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of means

Article 15 of the Board of Directors Regulations of Bankia stipulates that the Appointments and Responsible Management Committee is responsible for setting a goal of representation for the gender under-represented on the Board of Directors and develop guidance on how to increase the number of the under-represented gender to achieve this objective.

In this respect, the Board of Directors, on a proposal by the Appointments and Responsible Management Committee, has approved the Selection, Diversity, Suitability, Integration and Training Policy for Directors to ensure that the Bankia director selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and, in general, does not have implicit biases that could imply any discrimination, seeking a diversity of profiles in the Board of Directors.

In 2017, a vacancy became available on the Board of Directors as a result of the resignation tendered by Mr. Alvaro Rengifo Abbad. A selection process was initiated from then to fill this vacancy, giving priority to complying with the principle of gender diversity.

Finally, after the selection process, Mrs. Laura Gonzalez Molero was appointed as independent director to fill the vacancy, thereby increasing the level of the least represented gender on the Board of Directors of Bankia and moving forward towards achieving the objective outlined in the policy regarding gender diversity.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of means

This year, the number of women directors on the Board of Directors of Bankia increased, as the vacancy left by the departure of Mr. Alvaro Rengifo Abbad was filled by Mrs. Laura Gonzalez Molero.

This new appointment increased the percentage of women on the Board of Directors of Bankia by 7 percentage points (from 9.1% to 16.7%), bringing it closer to the 30% diversity objective by 2020.

At year-end 2018, the Board of Directors of Bankia was composed of 4 executive directors and 8 independent directors, of which 2 were women. Therefore, women occupied 16.7% of board seats and represented 25% of independent directors. A woman was chair of one of the five Board of Directors' committees and there were women members of 4 of the committees. The presence of women in the Board of Directors' delegate bodies stood at 25% of the Appointments and Responsible Management Committee, 25% of the Remuneration Committee, 33% of the Risk Advisory Committee, and 25% of the Board Risk Committee.

Over the coming years, efforts will be made to include a candidate of the least represented gender in director selection processes to fill vacancies on the Board of Directors in order to comply with the proposed diversity objective.

C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

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 Department, on compliance with the Policy.

As a result, in 2017, the Board of Directors approved an amendment to Bankia, S.A.'s Director Selection Policy which, at the request of the Appointments and Responsible Management Committee, was expanded in 2018. At the meeting held on 20 December 2018, the Selection, Diversity, Suitability, Integration and Training Policy for Directors was approved. It guarantees that the bodies overseeing the director selection process at Bankia must ensure that the selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and promoting a diversity of profiles.

This ensures a diverse composition of directors with varying professional and personal profiles (e.g. age, gender, nationality) that enriches and provides different viewpoints to the debates and decision-making.

It has maintained the diversity objective pursued by the previous selection policy of having at least 30% of total board places occupied by women directors before the year 2020.

In this respect, in the process for seeking candidates to fill the vacancy on the Board of Directors following the departure on 2017 of an independent director, which was occupied recently by Mrs. Laura Gonzalez Molero, compliance with the diversity principle played a priority.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Personal or corporate name of the director	Reason
Not applicable	

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

[ ] Yes
[√] No

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Personal or corporate name of the director	Brief explanation
MR. JOSÉ IGNACIO GOIRIGOLZARRI TELLAECHE	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 Company, with all authority vested in him except for those that cannot be delegated by law or the Bylaws.
MR. JOSÉ SEVILLA ÁLVAREZ	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, tax and regulatory compliance advice. The Company also granted Mr. Sevilla general powers of attorney, subject in any event, to the Bankia Group's Catalogue of General Powers, which shall be discharged exercised in accordance with the system in place for each class of legal representative approved by the Board of Directors.

MR. ANTONIO ORTEGA PARRA	The Company also granted Mr. Ortega general powers of attorney, subject in any event, to the Bankia Group's Catalogue of General Powers, which shall be exercised in accordance with the system in place for each class of legal representative approved by the Board of Directors.
MR. CARLOS EGEA KRAUEL	The resolution to appoint Mr. Egea as executive director stipulated that the main executive duties to be carried out include, but are not limited to, the following: -Representing and defending the interests of the Bank before public and private institutions and public administrations. -Representing and liaising with customers and stakeholders within the scope determined or attributed to him by the competent bodies. -Monitoring, promoting and developing the matters that may be mandated by the chief executive of the Bank. The Company also granted Mr. Egea general powers of attorney, subject in any event, to the Bankia Group's Catalogue of General Powers, which shall be discharged exercised in accordance with the system in place for each class of legal representative approved by the Board of Directors.
BOARD RISK COMMITTE	The Board Risk Committee has operational authority and, therefore, may adopt the corresponding decisions within the scope of authority delegated by the Board of Directors. The Board Risk Committee has the following functions: - Make decisions within the scope of the authority delegated by the Board of Directors in risk matters specifically provided for in the Board’s current delegation resolution. - Within its scope of authority, set the overall preclassification limits for account holders or customer groups in relation to exposures by risk class. - Report to the Board of Directors on risks that may affect the Company’s capital adequacy, recurring results, operations or reputation. - With respect to the approval of risk types other than credit risk, the authorities of the Board Risk Committee will be those delegated by the Board of Directors at any given time. - Pursuant to the resolution for the delegation of authorities to the Board Risk Committee adopted on 29 June 2012, the Board Risk Committee has authority to rule on credit risk proposals within its remit and authorities. This delegation is for amounts between EUR 300 million, for transactions with the lowest rating level, and EUR 1,300 million for those with the highest, above which approval by the Board of Directors is required in all cases. There is a specific rule for major borrowers with reputational risk, in which the maximum amount authorised is EUR 10 million

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Personal or corporate name of director	Personal or corporate name of Group member	Position	Does the director have executive powers?
Not applicable			

C.1.11 List any legal-person directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company

Personal or corporate name of director	Personal or corporate name of listed Company	Position
MR. JOAQUÍN AYUSO GARCÍA	FERROVIAL, S.A.	VICE-CHAIRMAN
MR. JOAQUÍN AYUSO GARCÍA	NATIONAL EXPRESS GROUP, PLC.	DIRECTOR
MR. FRANCISCO JAVIER CAMPO GARCÍA	MELIÁ HOTELS INTERNATIONAL, S.A.	DIRECTOR
MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO	NATIONAL EXPRESS GROUP, PLC.	VICE-CHAIRMAN
MR. JOSÉ LUIS FEITO HIGUERUELA	RED ELECTRICA CORPORACION,S.A.	DIRECTOR
MRS. LAURA GONZÁLEZ MOLERO	GRUPO EZENTIS, S.A.	DIRECTOR
MRS. LAURA GONZÁLEZ MOLERO	ACERINOX, S.A.	DIRECTOR
MRS. LAURA GONZÁLEZ MOLERO	VISCOFAN, S.A.	DIRECTOR

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

[√] Yes
[ ] No

Explanation of the rules and identification of the document where this is regulated

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.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	3,347
Amount of vested pension interests for current members (thousand euros)	
Amount of vested pension interests for former members (thousand euros)	1,508

Regarding the line item "Board remuneration in financial year":

Includes remuneration of executive and non-executive directors.

Mr. Egea was appointed director of Bankia, in the category of "other external director", via a resolution passed at the General Meeting of Shareholders held on 14/09/2017. He was included in the Bank of Spain's Register of Senior Officers on 12/01/2018. The category of other external director carries annual remuneration for all items of EUR 100,000. Subsequently, he was appointed executive director, and on 27 April 2018, his executive director contract became effective, with total annual remuneration for all items of EUR 300,000. The amounts show are for the period from 1 January to 26 April 2018 as external director and from 27 April to 31 December 2018 as executive director.

On 6 November 2018, Mrs. González was appointed director, which carries annual remuneration for all items of EUR 100,000. The amounts shown correspond to the period from 6 November to 31 December 2018.

The data corresponding to the annual bonuses accrued by Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega in 2018 is pending the permits and approvals contemplated in prevailing legislation.

The data corresponding to the long-term bonuses accrued by Mr. Goirigolzarri, Mr. Sevilla and Mr. Ortega in 2018 is pending the definitive assessment and the permits and approvals contemplated in prevailing legislation.

The line item "Amount of vested pension interests for former members":

The total amount related to accumulated and updated pensions entitlements as at 31 December 2018 of Rodrigo de Rato Figaredo, Francisco Verdú Pons, José Luis Olivas Martínez and José Manuel Fernández Norniella. The latest contribution by Bankia was in 2012.

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position	
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. JOAQUÍN CÁNOVAS PÁEZ	DEPUTY GENERAL MANAGER ATTACHED TO SUBSIDIARIES AND OTHER GROUP COMPANIES	
MR. MIGUEL CRESPO RODRÍGUEZ	DEPUTY GENERAL MANAGER ATTACHED TO GENERAL SECRETARY	
MR. IÑAKI AZAOLA ONAINDIA	CORPORATE DIRECTOR OF INTERNAL AUDIT	
Total senior manager remuneration (thousand euros)		3,386

In relation to the caption "total senior management remuneration":

- The remuneration of Mr. Cánovas corresponds to the period from 05.07.2018, date of inscription in the Bank of Spain Register of Senior Officers, until 12.31.2018.
- It includes the target amount of variable and pluri-annual remuneration for the year 2018, which amounts to EUR 1,151 thousand, even though it is pending of a definitive valuation and approval.

Clarification about "senior managers":

- Mr. Iñaki Azaola Onaindia, Corporate Director of Internal Audit, is included in this group following the instructions to fill in this document.

C.1.15 State whether the Board rules were amended during the year:

[√] Yes
[ ] No

Description of amendment

In 2018, the Board of Directors, based on a favourable report by the Audit and Compliance Committee, agreed to the following amendments to the Regulations of the Board of Directors:

- On 25 January, once the deed of merger by absorption of Banco Mare Nostrum, S.A. by Bankia, S.A. was filed at the Mercantile Registry, marking the end of the companies' merger process, a resolution was passed to remove the Final Provision of the Regulations of the Board of Directors governing the Monitoring and Supervision Committee for the Process of Merger between Banco Mare Nostrum and Bankia.

- On 26 April 2018, a resolution was passed to amend article 14 governing the Audit and Compliance Committee in order to include the recommendations and guidelines of Technical Guide 3/2017, of the Spanish National Securities Market Commission (CNMV) on audit committees at public interest entities. Accordingly, on the same date, the Board of Directors approved the Regulations of the Audit and Compliance Committee.

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in 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 and applying the policy of Selection, Diversity, Suitability, Integration and Training of Directors of the Entity.

In particular, the Board of Directors may appoint directors by the cooption system 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 submit to 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.

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.

In the event that the Board of Directors proposes the removal of any external director before the end of the bylaws term for which the director was appointed, the proposal must be motivated and have the corresponding report of the Appointments and Responsible Management Committee. The Board of Directors will not propose the removal of any independent director before the expiry of that director's tenure as mandated by the bylaws, except where just cause is found much appreciated by the Board of Directors, after a report 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 produces changes in the capital structure of the Company, in order to meet the proportionality criterion referred to in the good corporate governance recommendations.

Without prejudice to the foregoing, directors must place their directorships at the Board of Directors’ disposal and, if the board deems it appropriate, tender their resignation in the cases stated in article 23.4 of the Regulations of the Board of Directors, as described in section C.1.19 of this report.

C.1.17 Explain how the annual evaluation of the board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of changes

It has not given rise to any relevant change.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

In 2018, as the year before, an internal evaluation was carried out based mainly on questionnaires sent to members of the Board of Directors regarding the performance of the Chairman, the Chief Executive Officer, the Lead Director, and the operation of the board and the individual performances of board members. The internal evaluation is related to and complements the previous external evaluations -the external evaluation is mandatory every three years as established in Bankia’s Bylaws- and helps to provide a framework for the evaluation of the Board and its main positions, focusing on the following aspects:

Chairman:

- The Chairman's performance in 2018.
- Degree of fulfilment of the objectives established in the previous evaluation.
- Establishment of objectives for the next evaluation.

Chief Executive Officer:

- The Chief Executive Officer's performance in 2018: strategy and management style.
- Overall assessment.
- Degree of fulfilment of the objectives established in the previous evaluation
- Establishment of objectives for the next evaluation.

Evaluation of the chairmen of Board Committees:

- Performance and 2018 objectives.

Evaluation of the Lead Director:

- Performance.

Operation of the Board and individual performances of board members:

- Evaluation of the Board’s operation: overall assessment. - Individual evaluation of directors]

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

An internal evaluation was carried out without the assistance of an external facilitator.

C.1.19 State the situations in which directors are required to 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.

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 report to 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.1.20 Are qualified majorities other than those established by law required for any specific decision?

[ ] Yes
[√] No

If so, please describe any differences.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as Chairman of the Board of Directors.

[ ] Yes
[√] No

C.1.22 State whether the articles of association or the board rules establish any limit as to the age of directors:

[ ] Yes
[√] No

C.1.23 State whether the articles of association or the board rules establish any term limits or other stricter limits for independent directors other than those required by law:

[ ] Yes
[√] No

C.1.24 State whether the articles of association or board rules establish specific proxy rules for votes at board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

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.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the Chairman present. Meetings where the Chairman sent specific proxy instructions are to be counted as attended

Number of Board meetings	15
Number of Board meetings without the Chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	0

Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the RISK ADVISORY COMMITTEE	37
Number of meetings held by the APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE	14
Number of meetings held by the APPOINTMENTS AND REMUNERATION COMMITTEE	9
Number of meetings held by the BOARD RISK COMMITTEE	35
Number of meetings held by the AUDIT AND COMPLIANCE COMMITTEE	17

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present:

Number of Board meetings attended by at least 80% of the board members	15
% of attendance over total votes during the year	95.21
Number of meetings in situ or representations made with specific instructions of all directors	15
% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year	100.00

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

[√] 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	Position
MR. SERGIO DURÁ MAÑAS	CORPORATE FINANCIAL CONTROLLER MANAGER

During the year 2018 Mr. Sergio Durá served as Corporate Financial Controller Manager. On 24 January 2018, he was appointed Risk Corporate Director by the Board of Directors of the Entity. The effectiveness of the appointment is subject to the corresponding registry and regulatory authorization.

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

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:

- Review the Company's accounts to ensure compliance with legal requirements and proper application of generally accepted accounting principles and report on any proposals for changes to accounting standards and principles put forward by management, basing its opinion on internal audit reports, other expert reports, and management analysis and opinion, as well as information about the results of the statutory audit, although the Committee must use its judgement to draw its own conclusions. The committee must also consider in what cases it makes sense and is feasible to involve the statutory auditors in the review of reports other than the financial statements.

Additionally, in the interests of effective supervision the Committee must hold individual meetings with management and internal audit and maintain fluid communication with the statutory auditor for the purpose of analysing the following matters:

(i) The appropriateness of the scope of consolidation.

(ii) Any judgements, criteria, valuations or estimates that have a material impact on the financial statements and related non-financial reports.

(iii) Any changes in the significant criteria applied.

(iv) Where applicable, the reasons why in its public reports the Company uses certain alternative performance measures (APMs) instead of the measures defined directly by the accounting standards, the extent to which those APMs provide useful information to investors and the extent to which the Company complies with international recommendations and best practice in this regard.

(v) Any material weaknesses in internal control.

(vi) Any material adjustments identified by the statutory auditor or resulting from reviews performed by internal audit, and management's position on such adjustments, taking into account any demands sent in the current or a previous period by the Comisión Nacional del Mercado de Valores (CNMV), in order to ensure that the same incidents identified in those demands are not repeated in future financial statements.

The Committee's independence must be respected in all meetings and communications. In particular, the statutory auditor must not be invited to take part in the decision-making part of Committee meetings.

The Committee must carry out this supervisory task continuously but also on an ad hoc basis at the request of the Board of Directors.

- 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; 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. In particular, the committee must ensure that the statutory auditor holds at least one meeting each year with the full board of directors to report on the work carried out and any changes in the Company's accounting situation and risks.

• 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 .30 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.1.29 Is the secretary of the Board also a director?

[ ] Yes
[√] No

If the secretary is not a director, please complete the following table:

Personal or corporate name of the secretary	Representative
MR. MIGUEL CRESPO RODRÍGUEZ	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

As stipulated in article 14 of the Board of Directors Regulations, and in article 13 of the Audit and Compliance Committee Regulation, the Audit and Compliance Committee of Bankia S.A. has among other competencies to ensure the independence of the external auditor and therefore:

- Make recommendations to the Board of Directors for the selection, appointment, reelection and removal of the external 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 takes into account 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.

- Request and 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.

- 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.

- Conduct relations with the statutory auditor in order to receive information about any matters that might jeopardise the auditor’s independence and assess the effectiveness of the safeguards put in place. Also, understand and assess, in aggregate, all the relationships between the Company and its related entities, on the one hand, and the statutory auditor and its network, on the other, that involve the provision of non-audit services or any other type of relationship.

- 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.

- Ensure that the remuneration of the statutory auditor for its work does not compromise its quality or independence, taking into account the rules on fees set out in auditing standards.

- In the event of resignation of the external auditor, investigate the reasons for the resignation.

- 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.

- Establish internal sources, within the Company, to obtain relevant information on the independence of the statutory auditor, from financial management, other executive functions, internal audit, or other assurance functions such as regulatory compliance or risks, or external sources such as information supplied by the statutory auditor itself.

- Seek explanations from the statutory auditor about the internal quality control system it has in place to safeguard its independence, as well as information on internal practices regarding the rotation of the audit partner and audit team and whether those practices comply with applicable Spanish and EU regulations in this respect.

- Analyse any changes in the overall remuneration of the statutory auditor.

Relations and communication with the external auditors was a recurring activity of the Committee, of the Corporate Internal Audit Department and of the Corporate Financial Controller's Department. In 2018, the external auditors were called on and attended 6 Committee meetings to report on matters under their remit.

The Committee meetings at which the statutory auditors were called on and attended were held without the presence of the executive directors or management of the entity.

Attendance by the external auditors at the Committee meetings held in 2018 were mainly to:

- Issue confirmation of their independence, confirming that they have not identified any situation of risk compromising their independence as auditors of the BFA-Bankia Group according to the rules provided for in the Audit Law and that they have received appropriate responses to the matters brought before Management during the course of the audit and that they were given access to all documentation requested.

- Present the audit conclusions of the financial statements audit, individual and consolidated, corresponding to year 2017.

- Present the planning, scope and follow-up of the semi-annual financial statements of 30 of June 2018.

- Present the planning, scope and follow-up of the semi-annual individual and consolidated financial statements of the year 2018.

In this respect, the external auditor provided the Committee with detailed information on the planning and progress of the engagements carried out, highlighting the main aspects and stages in the review of the financial statements, the expected timeline and the specific key matters of the year. The Committee analysed the information provided at length throughout its meetings.

The Audit and Compliance Committee verified the fees paid by the various Bankia Group companies to the external auditor, Ernst & Young, S.L., in 2018.

The services engaged by the Bankia Group meet the requirements of independence stipulated in the rules governing statutory audits and do not include any work that is incompatible with the auditing function.

The statutory auditor provided the Committee with written confirmation of its independence from the Bankia Group and the companies related to it, directly or indirectly, in accordance with the requirements in the Audit Law regarding independence. The external auditor confirmed to the Committee that Ernst & Young, S.L., as the auditor of Bankia's financial statements, is independent from the Company and its direct and indirect related parties under the terms provided in legislation on the auditing of accounts and the Corporate Head of Internal Audit submitted to the Committee the regular reports regarding the control of independence.

(Keep in Note H)

C.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

[ ] Yes
[√] No

If there were any disagreements with the outgoing auditor, please provide an explanation.

[ ] Yes
[√] No

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

[√] Yes
[ ] No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	892		892
	Company	Grouo Companies	Total
Amount invoiced for non-audit services/Amount for audit work (in %)	30.74	0.00	28.49

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the Chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

[ ] Yes
[√] No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidaded
Number of consecutive years	6	6
	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	26.09	75.00

The separate financial statements, considering that Bankia, S.A., as a business enterprise started in 1995 under the name Altae Banco, S.A., have been audited for 23 years. Banco Altae, S.A. is not considered to have come from the former Banco de Crédito y Ahorro, S.A.

Respect to the Consolidated Financial Statements 8 years have been taken into account.

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

[√] Yes
[ ] No

Explanation procedure

The procedure for the Directors of Bankia, S.A. to count with the necessary information to prepare the meetings of the governing bodies with sufficient time is governed in Article 17.2 of the Regulation of the Board of Directors. This Regulation establishes 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 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, e-mail or any other remote means, sufficiently in advance to allow the directors to fulfil their duty to attend.

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

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

The directors can gather all the additional information they consider necesary for the matters which compete the Board of Directors. Under the duty of directors to demand, and a right to request, from the Company all the information they need in order to perform their obligations, article 26 of the Regulations of the Board of Directors states that directors 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.

In order not to interfere with ordinary management of the Company, 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.

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company’s standing and reputation. If so, provide details:

[√] Yes
[ ] No

Explain the rules

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 inform 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 "Ley de Sociedades de Capital", 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.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

[ ] Yes
[√] No

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Not applicable.

C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	20
Type of beneficiary	**Description of agreement**
EXECUTIVE DIRECTORS, MEMBERS OF THE MANAGEMENT COMMITTEE AND OTHER DIRECTORS.	EXECUTIVE DIRECTORS: The contracts of Mr. Goirigolzarri, Mr. Sevilla y Mr. Ortega 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. In the case of Mr. Egea, the maximum remuneration is of two years of fixed remuneration, which will decrease proportionally to the time of the services provided. 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. MEMBERS OF THE MANAGEMENT COMMITTEE: The contracts of five 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. OTHER DIRECTORS: It states that in no circumstances may the maximum severance recognised in the case of dismissal for legal reasons, except for disciplinary reasons considered legally valid, exceed two years’ fixed compensation.

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders’ Meeting
Body authorising the severance clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders’ Meeting?	√	

C.2.Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

RISK ADVISORY COMMITTEE		
Name	Post	Category
MR. FRANCISCO JAVIER CAMPO GARCÍA	CHAIRMAN	Independent
MRS. EVA CASTILLO SANZ	COMMITTE MEMBER	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITTE MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 máximum.

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.

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.

Regarding the main actions carried out in 2018, 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)

APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE

Name	Post	Category
MR. JOAQUÍN AYUSO GARCÍA	CHAIRMAN	INDEPENDENT
MR. FRANCISCO JAVIER CAMPO GARCÍA	COMMITTE MEMBER	INDEPENDENT
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMMITTE MEMBER	INDEPENDENT
MRS. LAURA GONZÁLEZ MOLERO	COMMITTE MEMBER	INDEPENDENT

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Mrs.Laura González Molero was appointed member of the Appointments and Responsible Management Committee by agreement of the Board of Directors on 20 December 2018.

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 47 of the Bylaws and article 15 of the Board of Directors Regulations states that the Appointments and Responsible Management Committee will have no fewer than 3 and no more than 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 Committee must be appointed by the Board of Directors having regard to their knowledge, aptitudes and experience and the Committee’s duties. Between them, the members of the committee must have the abovementioned knowledge and experience. The Committee must be chaired by an independent director, who must also have the necessary knowledge, aptitudes and experience in accounting, auditing, risk management and the committee’s tasks in general. A new Committee Chairman must be elected every four years and a person 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.

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 and Responsible Management 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.

Regarding the main actions carried out in 2018, the Appointments and Responsible Management Committee focused its efforts primarily on the following areas, being those:

- The assessment of the Board and its Committees, the performance assessment on the Chairman, Chief Executive Officer, 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.

-Policies of Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers or Similar, and incumbents of other key post holders of Bankia S.A.

-Review, monitoring and evaluation of the Policy and Responsible Management 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	Category
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 executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 the rules on functioning and organization in the article 47 of the Bylaws and , article 15 bis of the Board of Directors Regulations states that the Remuneration Committee will have no fewer than 3 and no more than 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.

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.

Regarding the main actions carried out in 2018, the Remuneration Committee focused its efforts primarily on the following areas:

-The remuneration policy for directors and senior managers.
-The Annual Report on Directors 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)

BOARD RISKS COMMITEE		
Name	Post	Category
MR. JOSE SEVILLA ALVAREZ	CHAIRMAN	Executive
MR. FRANCISCO JAVIER CAMPO GARCÍA	COMITTEE MEMBER	Executive
MRS. EVA CASTILLO SANZ	COMITTEE MEMBER	Executive
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	COMITTEE MEMBER	Executive

% of executive directors	25.00
% of proprietary directors	0.00
% of independent directors	75.00
% of external directors	0.00

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Board Risk Committee is governed by article 48 of the Bylaws and 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 3 and no more than 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 2018, 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)

AUDIT AND COMPLIANCE COMMITTEE

Name	Post	Category
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 executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of external directors	0.00

All the members of the Audit and Compliance Committee were appointed by the Board of Directors with regard to their knowledge and experience in accounting, auditing, or both, and the duties of the Committee.

Therefore, overall, the members of the Committee have the appropriate knowledge and experience, and the technical expertise regarding the banking industry.

According to the Regulations of the Audit and Compliance Committee, a member of the Committee is considered to have knowledge and experience in accounting, auditing or both, when he or she has.

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

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

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

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

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Audit and Compliance Committee of Bankia has attributed to it all the duties required in company law and banking regulations, and in the technical Guide 3/2017 of the CNVM, on 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 and, in general, any tasks of the committee. 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 must meet as many times as it is convened by resolution of the committee itself or its Chairman and no less than four times per year. The members of the committee have an obligation to be properly informed and prepared for meetings. . Any members of the Company's management team or staff who are called upon to do so are obliged to attend the meetings of the committee and to cooperate with it and make available any information they may have at their disposal. The committee may also call upon the statutory auditor to attend, but he must not be invited to take part in the decision-making part of Committee meetings. always in accordance with the provisions of these Regulations. The committee must always meet on the occasion of the publication of annual or interim financial information and in these cases may request the presence of the internal auditor and, if it has issued any review report, the statutory auditor to provide input on any agenda item for which they have been invited to attend. At least part of these meetings with the internal or statutory auditor must take place without the management team being present, so that any specific issues arising from the audit reviews can be discussed exclusively with the auditor.

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

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

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.

Before they attend their first meeting, new members of the audit committee must complete an orientation programme that will quickly equip them with sufficient knowledge of the Company to be able to participate actively from the outset.

(Keep in Note H)

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	MR. ANTONIO GREÑO HIDALGO / MR. JOAQUÍN AYUSO GARCÍA / MR. JORGE COSMEN MENÉNDEZ-CASTAÑEDO/ MR. JOSÉ LUIS FEITO HIGUERUELA
Date of appointment of the chairperson	03/31/2016

C.2.2 Complete the following table with information regarding the number of female directors who were members of board committees at the close of the past four years:

	Number of female directors							
	Year 2018		Year 2017		Year 2016		Year 2015	
	Number	%	Number	%	Number	%	Number	%
RISK ADVISORY COMMITTEE	1	33.33	1	33.33	1	33.33	1	33.33

APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE	1	25.00		0.00		0.00		0.00
REMUNERATION COMMITTEE	1	25.00	1	25.00	1	25.00	1	25.00
BOARD RISK COMMITTEE	1	25.00	1	25.00	1	25.00	1	25.00
AUDIT AND COMPLIANCE COMMITTEE		0.00		0.00		0.00		0.00

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

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 2018, article 14 of the Regulations of the Board of Directors was amended via a resolution passed by the Board on 26 April 2018 in order to include the recommendations and guidelines of Technical Guide 3/2017, of the Spanish National Securities Market Commission (CNMV) on audit committees at public interest entities and, among them, state that the rules governing the Audit and Compliance Committee may be implemented in the Regulations of the Audit and Compliance Committee. As indicted, these regulations were approved on 26 April 2018 by the Board of Directors of the Company.

The Audit and Compliance Committee presented the Board of Directors with a report on its activities, highlighting the tasks performed by the Committee in relation to its own duties for 2017. This report was made available to all shareholders for the General Meeting of Shareholders held on 10 April 2018.

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 2018 period, the Appointments and Responsible Management Committee regulations were not amended.

The Appointments and Responsible Management Committee also presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017. This report was made available to all shareholders for the General Meeting of Shareholders held on 10 April 2018.

REMUNERATION COMMITTEE

The regulation of the Remuneration Committee is included in the Bylaws (articles 44 and 47 ter) and the Regulations of the Board of Directors (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 2018 period, the Remuneration Committee regulations were not amended.

The Remuneration Committee presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017. This report was made available to all shareholders for the General Meeting of Shareholders held on 10 April 2018.

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 2018 period, the Risk Advisory Committee regulations were not amended.

The Risk Advisory Committee presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017.

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 2018 period, the Board Risk Committee regulations were not amended.

The Board Risk Advisory Committee presented the Board with a report on its activities, highlighting the tasks performed by this committee in relation to its own duties for 2017.

The Bylaws, the Regulations of the Board of Directors and the Regulations of the Audit and Compliance Committee, in addition to the compositions of the aforementioned committees, are permanently available on Bank's website: www.bankia.com (in the Corporate Governance and Remuneration Policy” section of “Shareholders and Investors”).

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Describe, if applicable, the procedure for approval of related-party and intragroup 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.

In 2018, 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 Regulations of the Board of Directors, are considered related-party transactions.

D.2. Describe any transactions that are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company’s significant shareholders:

Name of significant shareholder	Name of Company within the group	Nature of the relationship	Type of transaction	Amount (Thousand of euros)
Without data				N.A.

D.3. Describe any transactions that are significant, either because of their amount or subject matter, entered into between the company or entities within its group and directors or managers of the company:

Name of director or senior manager	Name of related party	Relationship	Type of transaction	Amount (Thousand of euros)
Without data				N.A.

D.4. Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered to be tax havens:

Name of entity within the group	Brief description of the transaction	Amount (Thousand of euros)
Without data		N.A.

D.5. State the amount of any transactions conducted with other related parties that have not been reported in the previous sections:

Name of entity within the group	Brief description of the transaction	Amount (Thousand of euros)
Without data		N.A.

D.6. Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management 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 with 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 minimizing 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 conflict, (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 company in the group listed in Spain?

[ ] Yes

[√] No

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

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. Transformation Plan: Bankia considers transforming and reinforcing the Risk Function crucial to ensure the continuity of its business model, better manage the Entity's risk, meet the Supervisor's expectations and adapt its corporate governance to best market practices.

To do so, six goals have been established in the Risk Function Transformation Plan:

1) Adapt the risk function to the 3 lines of defence model, thereby complying with the supervisor's requirements.

2) Help to strengthen the Board of Directors' oversight function: focus on the supervisor's guidelines and international best practices to strengthen the corporate governance and oversight function of the Board of Directors.

3) Adapt further to supervisory expectations: improve the relationship model with the supervisor in order to apply the requirements arising from the SREP more effectively.

4) Adopt a holistic and forward-looking view of risk: reinforce the holistic view of risk with a forward-looking approach aligned with a sustainable and profitable business model, embracing the risk culture across throughout the organisation.

5) Implement an effective control model: improve the control system for credit risk and other risks by implementing a new internal control tool that identifies, measures and control the critical risks of key processes.

6) Improve the management of credit risk: strengthen the credit risk management and control environment through a framework of enhancement that improves the roll-out of the credit growth strategy, and optimise the recoveries model.

Risk Internal Control:

In 2018, a project began to define and develop a new internal risk control framework that covers and prioritises the Entity's main risks, establishes a clear system of responsibilities divided up into three lines of defence, and strengthens the governance framework. This control framework will continue to be rolled out in 2019.

• 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 2019.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk.

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.

A crucial aspect is internal risk control, organised in accordance with a three lines of defence system. The first line entails operational areas, business lines or support units, as well as risk areas that directly service the business. All of these are responsible for complying with the risk frameworks, policies and procedures established by the Governing Bodies.

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

The third line of defence is the independent Internal Audit function. This function is performed by the Corporate Internal Audit Department, which is overseen by the Audit and Compliance Committee.

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. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

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, 31% in the wholesale segment (including public sector), 69% in the retail segment.

Mortgage portfolio in the retail sector represented 59% of loans and advances to customers (gross) of the gross credit investment.

The credit risk affecting the total loan investment in the property development portfolio is 0.5% and highly provisioned.

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.

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 al arm 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

Reputational risk is expressed as the probability of incurring losses due to the occurrence of any event that fails to meet stakeholder expectations to the point that this undermines the level of recognition obtained or prevents the desired level from being reached, resulting in an adverse attitude and/or behaviour that could have a negative impact on the business.

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. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

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.State which risks, including tax compliance risks, have materialised during the year.

Credit Risk

The Bankia Group has reduced doubtful exposures during 2018 in the amount of EUR 2,328 million. With a total amount by 31 December 2018 of EUR 9,789 million.

The decrease in the doubtful portfolio led to a reduction in the NPL ratio for loans and receivables to 7.46%.

Also worth noting is the breakdown of doubtful assets. At 31 December 2018, 49% 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 2018, there were 1,948 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 230 collateral agreements signed (120 derivatives, 74 repos and 36 securities loans). These agreements reduced the credit risk of the derivatives activity by 89.89%.

The value adjustment was EUR 98,586 million at 31 December 2018.

Market risk

Bankia's average VaR in 2018 was EUR 0.96 million, with a maximum of EUR 2.28 million and a minimum of EUR 0.36 million. Started form the second semester of 2018, a diversified VaR metric is used as opposed to an aggregate or additive VaR.

Interest rate VaR (EUR 0.48 million) follow FX VaR (EUR 0.36 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 2018 period is EUR 66.197 million. The most important operational risks relate to "execution, delivery and process management" (EUR 39.134 million) and "client practice" (EUR 18.396 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 all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the Board of Directors responds to any new challenges that arise.

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 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.

For the follow-up of this risk, the Entity counts with management policies and procedures established which allow us to identify, measure, monitor and control the operational risks of the Entity.

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 RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment

Report on at least the following, describing their principal features:

F.1.1. The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

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.

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, as well as the rest of Committees involved which should provide support to the Corporate Financial Controller's Department.

The group counts with an International risk management and control system policy (ICFR) approved by the Board of Directors, in which the tools and internal control systems of risks related to the publishing of financial information, as well as supervision, are described.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication 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 different processes.

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, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective 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 through the competent bodies.

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.

• Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.

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, and anonymous, if requested, written report on any possible financial or accounting irregularities that may potentially relevant or on any other behavior breaching the Code of Ethics and Conduct, found in any of the entities of the Group.

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 broad 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, within its competencies, the Audit and Compliance Committee an activity report at the end of each period, and regularly reports on the functioning of the Whistle-Blowing channel, in particular on the number of reports received, their origin, type, the results of the inquiries and the proposed actions.

• Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk 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 Department 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.

Presently, the Internal Control System for Financial Information Policy can be found in the Corporate Intranet available to every employee, as well as an online learning module specific of the ICFR.

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.

In this respect, the Corporate Financial Controller's Department is in charge of dissemination and updating, so that staff involved in ICFR have the necessary knowledge to perform their duties and responsibilities. Actions relate to the addition or modification of ICFR officers and identification of changes in processes, risks or controls arising both internally and externally.

F.2. **Assessment of financial information risks**

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists 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 process is documented, setting out the frequency, methodology, types of risks, controls performed, and the frequency and supervisors of such controls, where the Corporate Financial Controller’s Department is responsible for implementing and updating said process, counting with the collaboration of the rest of Departments involved in the ICFR.

- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

This procedure, it has been designed taking into account all financial reporting objectives (existence, occurrence integrity, valuation, presentation and disclosures, and rights and obligations), it is up dated once a year, using the latest financial information. As well as when there are material changes in processes or transaction flows due to internal changes in changes outside the Entity that may uncover material risks not identified previously that require implementation of the pertinent mitigating controls.

- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, 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 Groups scope is monthly reported in the corporate intranet.

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.

- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that 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.

•The governing body within the company that 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

Report on whether the company has at least the following, describing their main characteristics:

F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

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 Regulations of the Audit and Compliance Committee, approved by the Board of Directors, set out the principles governing its work and the basic rules for its composition, functioning and responsibilities, which include:

1.- Supervise the effectiveness of the Company’s internal controls, internal audit, regulatory compliance and risk management systems, financial and non-financial, 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.

- 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; especifially considering its completeness and accuracy.

- 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

In the interests of effective supervision the committee must hold individual meetings with management and internal audit and maintain fluid communication with the statutory auditor for the purpose of analysing the following matters:

the appropriateness of the scope of consolidation ; any judgements, criteria, valuations or estimates that have a material impact on the financial statements and related non-financial reports; any changes in the significant criteria applied; where applicable, the reasons why in its public reports the Company uses certain alternative performance measures (APMs) instead of the measures defined directly by the accounting standards, the extent to which those APMs provide useful information to investors and the extent to which the Company complies with international recommendations and best practice in this regard; any material weaknesses in internal control, any material adjustments identified by the statutory auditor or resulting from reviews performed by internal audit, and management’s position on such adjustments, taking into account any demands sent in the current or a previous period by the Comisión Nacional del Mercado de Valores (CNMV), in order to ensure that the same incidents identified in those demands are not repeated in future financial statements.

- review issue prospectuses and any periodic financial information the Board is required to provide to the markets and market supervisory bodies.

Corporate Financial Controller's Department include, inter alia, overseeing accounting and tax management, 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) with the collaboration of the rest of departments involved.

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 design of the accounting circuits for recording 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 and equity instruments.
-Derivatives (hedging and trading).
-Non-current assets held for sale.
-Investments.
-Tax assets and liabilities.

-Provisions.
-Fees and comisions 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.
- Prepar ation 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 judgements 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, the entity counts with an internal certifying process 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 2018 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 for the internal control of the information systems (including, access security, change control, operational aspects, continuous operability and segregation of functions) that support the relevant processes of the company in relation to the drafting and publication of the financial reporting.

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 minimize 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 centers. 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 Internal control policies and procedures for the supervision of the activities subcontracted to third parties, as well as the assessment, calculation or valuation aspects thereof that are commissioned to independent experts, that may substantially 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 a governance model for outsourcing management, establishing the 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).

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 ; breach; 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; specially when the delegation is an essential service or function and/ or requires the use of new technologies 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.

Meanwhile, the selection and assessment of third parties is carried out taking into consideration several factors to ensure that the provider to which the function or provision of services is outsourced: has the appropriate competence, ability, experience, quality and stability, and that, depending on the characteristics of the service or function, the appropriate resources and organisational structure; the necessary authorisation required by applicable legislation to perform the outsourced function or services reliably and professionally; complies with the main laws and regulations applicable to it, especially anti-money laundering and customer protection laws; performs the outsourced function or service effectively and in accordance with applicable legislation; cooperates with the supervisory authority in all matters relating to the activities outsourced to it; protects all confidential information related to the entity and its customers and, if it accesses, processes and/or stores personal data that are responsibility of the Bankia Group, offers sufficient guarantees that it applies appropriate technical and organisational measures so that such access, processing and/or storage complies with prevailing data protection regulations. And, in particular, for services or functions considered essential: supervises the correct performance of the outsourced functions; adequately manages the outsourcing risks and, in this respect, has the appropriate measures for this, such as the performance of regular data back-ups and security checks, and has, applies and keeps up to date an emergency and contingency plan to enable it to continue its activity and limit losses in the event of serious incidents in the business.

The organisational unit that receives the services is responsible for the monitoring and continuing control over the services or functions performed by the outsourcing services provider, regarding both fulfilment of the contract and the effective provision of the outsourced service. For services or functions considered essential, the Outsourcing Control Centre prepares regular monitoring reports and presents them to the Board of Directors after their content is reviewed by the Corporate Internal Audit Department, which assesses both the risks and rewards of the outsourcing. For adequate control and monitoring of the service, depending on the nature meetings are held periodically throughout the year with the outsourcing service provider. The arrangement sets out the frequency, the issues to be addressed and the persons attending these meetings.

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:

Report on whether the company has at least the following, describing their main characteristics:

F.4.1 A specific assigned function for the purpose of defining and keeping the accounting policies (accounting policy area or department) up-to-date and for resolving doubts or disputes in relation to the interpretation thereof, while maintaining fluid communication with the persons and units responsible for operations within the organisation, as well as an updated accounting policies manual that is provided to the units pursuant to which the company operates.

Amongst the duties of Corporate Financial Controller's Department, dependant of the Chief Executive Officer, would be 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, judgments 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 Bank has an Accounting Policies Manual, which is the responsibility of the Corporate Financial Controller's Department. The policy is approved by the Board of Directors and updated at least once a year to include any applicable amendments to accounting standards. All areas affected are notified and the policy is published on the Corporate Intranet.

The Bank rounds off the Accounting Policies Manual with several policies and manuals for certain matters that include specific issues requiring more in-depth development.

Indeed, as a complement to the Manual, there is a Financial Disclosure Policy, approved by the Board of Directors, which sets out the main disclosures required in regulated financial reporting and establishes the principles governing consistency between the information disclosed in the Entity's regulated financial reports and that of other regulatory information (e.g. Basel Pillar III disclosures).

F.4.2 Mechanisms for the capture and preparation of financial reporting with homogeneous formats, that are applicable and used by all of the units of the company or group, that support the main financial statements and the notes, as well as the detailed information out regarding the ICFR.

The Corporate Financial Controller's Department is responsible for define accounting policies and procedures to be applied generally in the preparation of individual 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.

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.

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 regul atory nature.

F.5. **Supervision of system performance**

Describe at least the following:

F.5.1 The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is 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 2018, the Corporate Internal Audit Department had 99 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 2018 Plan includes assessment activities that have covered aspects related with the process of preparation of the financial information. Furthermore, in the 2018 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, 5 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.

The procedures set out in the ICFR Policy were also reviewed, with respect to:

- Amendments made to the ICFR Policy currently approved with respect to the ICFR Policy approved in 2015.
- The process for identifying material areas and key processes in 2018.
- The result of the self-assessment processes and certification at December 2017 and June 2018.
- Incidents and recommendations issued by Audit in relation to IFCR in the last full ICFR audit cycle.

- The level of implementation/knowledge of ICFR in the Entity.

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 If there is a procedure by which the accounts auditor (in accordance with the provisions of the NTA), internal auditor and other experts may communicate senior management and the audit committee or senior managers of the company of the significant internal control weaknesses identified during processes of review of the annual accounts or during any other processes carried out thereby. Furthermore, state whether an action plan exists for the correction or mitigation of the weaknesses detected.

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; review the annual working plan which will be approved by the Board of Directors and perform its follow-up; 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 Board of Directors the budget for the Internal Audit Department; receive periodic reports on their activities; verify that senior management is acting on the findings and recommendations in its reports; evaluate the functioning of the Internal Audit Department and the performace of its officer.

- 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 relevant information

Not applicable.

F.7. External auditor's report

Report from:

F.7.1 If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

In 2018, 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 EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Code of Good Governance of listed companies.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to assess the company´s actions. General explanations are unacceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

   Complies [X] Explanation [ ]

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

   a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.

   b) The mechanisms in place to resolve any conflicts of interest that may arise.

   Complies [ ] Complies Partially [ ] Explanation [ ] Not applicable [X]

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the Chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

   a) Changes that have occurred since the last General Shareholders' Meeting.

   b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

   Complies [X] Complies Partially [ ] Explanation [ ]

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

   And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

   Complies [X] Complies Partially [ ] Explanation [ ]

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

   And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

   Complies [X] Complies Partially [ ] Explanation [ ]

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

   a) Report regarding the auditor's independence.

   b) Reports regarding the workings of the audit committee and the appointments and Remuneration Committee.

   c) Report by the audit committee regarding related-party transactions

   d) Report on the corporate social responsibility policy.

   Complies [X] Complies Partially [ ] Explanation [ ]

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies [X] Explanation [ ]

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the Chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies [X] Complies Partially [ ] Explanation [ ]

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies [X] Complies Partially [ ] Explanation [ ]

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

a) Immediately distributes the additions and new proposals.

b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.

d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

    And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

    Complies [X] Complies Partially [ ] Explanation [ ]

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

    Complies [X] Explanation [ ]

14. That the Board of Directors approves a selection policy for directors that:

    a) Is concrete and verifiable.

    b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

    c) Favours diversity in knowledge, experience and gender.

    That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

    And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

    The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

    Complies [X] Complies Partially [ ] Explanation [ ]

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

    Complies [X] Complies Partially [ ] Explanation [ ]

16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.

b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies [X] Explanation [ ]

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies [X] Explanation [ ]

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.

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) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.

e) The shares and options they own.

Complies [X] Complies Partially [ ] Explanation [ ]

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, mergers or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies [X] Explanation [ ]

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies [X] Complies Partially [ ] Explanation [ ]

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies [X] Complies Partially [ ] Explanation [ ]

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items which do not originally appear on the agenda.

Complies [X] Complies Partially [ ] Explanation [ ]

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies [X] Complies Partially [ ] Explanation [ ]

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company’s expense.

Complies [X] Complies Partially [ ] Explanation [ ]

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies [X]Complies Partially [ ] Explanation [ ]

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the Chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies [X] Complies Partially [ ] Explanation [ ]

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X] Complies Partially [ ] Explanation [ ]

33. That the Chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies [X] Complies Partially [ ] Explanation [ ]

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: Chairman of the Board of Directors in the absence of the Chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the Chairman.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the

recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies [X] Explanation [ ]

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity of membership and competence of the Board of Directors.

d) Performance of the Chairman of the Board of Directors and the chief executive officer of the company.

e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies [X] Complies Partially [ ] Explanation [ ]

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies [ ] Complies Partially [ ] Explanation [ ]Not applicable [X]

39. That the members of the audit committee, in particular its Chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies [X] Complies Partially [ ] Explanation [ ]

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive Chairman of the Board or of the audit committee.

Complies [X] Complies Partially [ ] Explanation [ ]

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

42. That in addition to those contemplated in the applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

    a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.

    b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

    c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2.With regard to the external auditor:

    a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.

    b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor’s independence.

c) Monitor that the company communicates relevant facts with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies [X] Complies Partially [ ] Explanation [ ]

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies [X] Complies Partially [ ] Explanation [ ]

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

45. That the risk management and control policy identify, as a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Means identified in order to minimise identified risks in the event they transpire.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies [X] Complies Partially [ ] Explanation [ ]

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies [X] Complies Partially [ ] Explanation [ ]

47. That members of the appointment and Remuneration Committee -or of the appointments committee and the Remuneration Committee if they are separate- are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies [X] Complies Partially [ ] Explanation [ ]

48. That high market capitalisation companies have formed separate appointments and Remuneration Committees.

Complies [X] Complies Partially [ ] Explanation [ ]

49. That the appointments committee consult with the Chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies [X] Complies Partially [ ] Explanation [ ]

50. That the Remuneration Committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Propose to the Board of Directors basic conditions of employment for senior management.

b) Verify compliance with company remuneration policy.

c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies [X] Complies Partially [ ] Explanation [ ]

51. That the Remuneration Committee consults with the Chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies [X] Complies Partially [ ] Explanation [ ]

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

a) That they are composed exclusively of non-executive directors, with a majority of them independent.

b) That their chairmen be independent directors.

c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee’s last meeting.

d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

e) That their meetings be recorded and the minutes be made available to all directors.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.

c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.

f) Supervision and evaluation of the way relations with various stakeholders are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

Complies [X] Complies Partially [ ] Explanation [ ]

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

a) The objectives of the corporate social responsibility policy and the development of tools to support it.

b) Corporate strategy related to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

d) Methods or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Mechanisms of supervising non-financial risk, ethics, and business conduct.

f) Communication channels, participation and dialogue with stakeholders

g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies [X] Complies Partially [ ] Explanation [ ]

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies [X] Complies Partially [ ] Explanation [ ]

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies [X] Explanation [ ]

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies [X] Complies Partially [ ] Explanation [ ]

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.

c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.

The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies [X] Complies Partially [ ] Explanation [ ]Not applicable [ ]

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. 3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010.

H. 1.-OTHER INTEREST INFORMATION

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 Definition of the Bankia Group Structure, and as regards internal governance 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 listed 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 Regulation.
- Board of Directors Regulations.
- Audit and Compliance Committe 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.
-Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers and Similar, and other key holders post.
-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.

Specifically, in 2018, the Board of Directors, approved the Selection, Diversity, Suitability, Integration and Training Policy for Directors, General Managers and Similar, and of other key holders post in Bankia, S.A. This policy sets out the core principles, criteria and main lines of the procedures for assessing the suitability of members of the Board of Directors and of other holders post, particularly Board of Director selection, diversity and integration, and training processes.

Ensuring that the members of Bankia's Board of Directors are suitable and have the right knowledge, skills and experience necessary to carry out their duties is the overriding principle of this policy.

It also promotes diversity in nationality, gender, knowledge and experience to enrich decisions and provide a broad range of viewpoints.

Therefore, the bodies overseeing the director selection process at Bankia must ensure that the selection procedure favours a diversity of gender, experience and knowledge, facilitating the selection of women directors and, in general, does not have implicit biases that could imply any discrimination, seeking a diversity of profiles in the Board of Directors. The Board of Directors and the Appointments and Responsible Management Committee shall ensure that the following areas of diversity are upheld at all times.

a) Academic and profesional profile.
b) Gender.
c) Age
d) Geographical procedence
e) Non discriminatión.

H2.-OTHER INTEREST INFORMATION

SECTION A5

On 24 January 2019, was subscribed an agreement related to the management of the indirect ownership of the FROB through BFA Tenedora de Acciones, S.A.U. in Bankia S.A.

SECTION C.1.30. (continuation)

Moreover, article 38 of the Regulations of the Board of Directors 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 give them a privilege or advantage over other shareholders.

In addition, article 36.5 of the Board of Directors Regulations states that the Board of Directors will define, promote and publish on its website a policy for communication with shareholders, institutional investors and proxy advisors that is fully consistent with the rules against market abuse and gives similar treatment to shareholders that are in the same position.

This policy is applicable to information and communications provided by the Company to financial analysts, investment banks and rating agencies. For financial analysts, regulatory compliance recommendations are adhered to. For investment banks, where they are advisors to the Bank, the relationship is governed by non-disclosure agreements and all parties involved are included on the lists of insiders as applicable in accordance with prevailing law. For rating agencies, the relationship is governed by non-disclosure agreements. In addition, analysts of rating agencies are subject to specific ESMA (European Securities and Markets Authority) regulations applicable to them.

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 generate stable and sound 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.

SECTION C.2.1. (continuation)

FUNCTIONS OF THE RISK ADVISORY COMMITTEE (CONTINUATION)

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.

FUNCTIONS OF THE APPOINTMENTS AND RESPONSIBLE MANAGEMENT COMMITTEE (CONTINUATION)

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

FUNCTIONS OF THE REMUNERATION COMMITTEE (continuation)

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.

FUNCTIONS OF THE BOARD RISK COMMITTEE (continuation)

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

c) Define, within its competences, the global limits of pre-classification in favor of holders or groups in relation to exposures by risk classes.

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.

AUDIT AND COMPLIANCE COMITTEE (continuation)

In relation to the most important actions taken place during the year 2018, the Audit and Compliance Committee has taken place in the following areas:

-The financial and non-financial information and mechanisms related to internal control.

-Regulatory Compliance.

-Corporate Governance.

-Related party transactions.

-Risk management and control.

-External audit activity.

-Internal audit activity.

-Follow-up of the action plans of the Committee.

The Audit and Compliance Committee prepares an annual report of its activities carried out in the year, which is distributed among shareholders with the call of the General Meeting of Shareholders. The 2018 report includes the content provided for in CNMV Technical Guide 3/2017 on audit committees at public interest entities.

FUNCTIONS OF THE AUDIT AND COMPLIANCE COMMITTEE

Without prejudice to any other tasks that may be assigned to it by the Board of Directors, and in accordance with article 14 of the Regulations of the Board of Directors and the Regulation of the Audit and Compliance Committee, the Audit and Compliance Committee has all the functions assigned to it under applicable law and, in particular and without limitation, the basic responsibilities governed in Chapter III of the Committee's Regulations, including:

I. Supervision of the financial and non-financial information:

a) Supervise the preparation and presentation of statutory financial reports and make recommendations and proposals to the board of directors aimed at safeguarding the integrity of financial information.

In performing this task, the committee must receive and analyse relevant reports from the heads of the internal control areas, especially internal audit, and must assess the level of trust and reliability of the system, developing proposals for improvement actions.

b) Review the Company's accounts to ensure compliance with legal requirements and proper application of generally accepted accounting principles and report on any proposals for changes to accounting standards and principles put forward by management, basing its opinion on internal audit reports, other expert reports, and management analysis and opinion, as well as information about the results of the statutory audit, although the committee must use its judgement to draw its own conclusions. The committee must also consider in what cases it makes sense and is feasible to involve the statutory auditors in the review of reports other than the financial statements.

Additionally, in the interests of effective supervision the committee must hold individual meetings with management and internal audit and maintain fluid communication with the statutory auditor.

c) Report on any draft amendments to accounting principles and criteria proposed by management.

d) Report to the Board of Directors, before publication, on the financial and related nonfinancial information the Company is required to publish periodically, paying special attention to the clarity and integrity of the information.

e) Review any issue prospectuses or periodic financial information the Board is required to disclose to the markets and their supervisory bodies.

f) Ensure that the financial information published on the Company's website is kept up-to-date and coincides with the information prepared by the Company's directors and published on the website of the CNMV.

g) Continuously review, analyse and discuss any relevant non-financial information with management, internal audit and the statutory auditor.

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

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

b) Discuss with the statutory auditor any material weaknesses of the internal control system detected in the course of the audit, all this without impairing the auditor's independence. Where necessary, the committee may submit recommendations or proposals to the Board of Directors in this respect and advise on the monitoring period.

c) Verify the appropriateness and integrity of the internal control systems and review the appointment and replacement of the persons responsible for them.

d) Periodically review the internal control and risk management systems, so as to ensure that the main risks are properly identified, managed and disclosed.

e) Assess all matters relating to the Company's operational, technological and legal risks, independently of the risk oversight powers assigned to the Risk Advisory Committee and other committees.

f) Supervise the performance of the regulatory compliance unit, whose head must report directly to the committee any incidents in the implementation of the annual work plan and submit a report of activities at the end of each year.

g) Establish and supervise a mechanism that allows staff to report, in confidence, any potentially serious irregularities, especially financial or accounting irregularities, that come to their notice in the Company, promoting compliance with the Code of Ethics and Conduct approved by the Company and monitoring the work of the Ethics and Conduct Committee, which at the end of each year must submit a report of activities to the committee.

In its role as supervisor of the whistleblowing channel, the Ethics and Conduct Committee must report regularly to the committee on the operation of the channel and, in particular, on the number of reports received, the sources of the reports, the types of behaviour reported, the results of any investigations and any proposals for action. Once it has analysed this information, if it considers it necessary, the committee will propose the action to be taken to make the channel more effective and reduce the risk of irregularities in the future.

In particular, in relation to risk management systems, the committee must liaise and work closely with the risk advisory and board risk committees.

III. Supervision of internal audit:

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

2. In particular, the committee's responsibilities are to:

a) Make proposals for the selection, appointment, re-election and removal of the head of the internal audit functions.

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

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

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

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

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

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

(iv) The head of internal audit has effective direct access to the committee.

(v) All material changes to the work plan are properly reported to the committee.

(vi) The conclusions reached by internal audit are appropriate, any action plans are implemented as agreed and the Audit and Compliance Committee receives timely information on their implementation.

(vii) Any disagreements with management are resolved or else are submitted to the consideration of the committee.

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

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

e) Submit to the Board of Directors, before the end of each year, a draft annual budget and annual resource plan for the internal audit directorate, for approval.

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

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

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

IV. Responsibilities in relation to the auditing of accounts:

a) Refer to the Board of Directors any proposals for the selection, appointment, re-election or replacement of the statutory auditor, taking responsibility for the selection process and the terms and conditions of the engagement.

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

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

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

b) Ensure the independence of the statutory auditor in the exercise of its functions and, to that end:

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

(ii) Issue each year, before the auditor's report is issued, a report stating an opinion as to whether the auditor or audit firm's independence is compromised. This report must contain a reasoned assessment of the performance of each and every non-audit service provided, individually and in aggregate, taking the auditor's independence and auditing standards into account.

(iii) Conduct relations with the statutory auditor in order to receive information about any matters that might jeopardise the auditor's independence and assess the effectiveness of the safeguards put in place. Also, understand and assess, in aggregate, all the relationships between the Company and its related entities, on the one hand, and the statutory auditor and its network, on the other, that involve the provision of non-audit services or any other type of relationship.

(iv) 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 the auditor's independence.

(v) Ensure that the remuneration of the statutory auditor for its work does not compromise its quality or independence, taking into account the rules on fees set out in auditing standards.

(vi) If the statutory auditor resigns, the committee must examine the circumstances that prompted the resignation.

(vii) Ensure that the Company reports any change of auditor as a material disclosure, accompanied by a statement as to whether there were any disagreements with the outgoing auditor and, where applicable, the nature of the disagreements.

(viii) Establish internal sources, within the Company, to obtain relevant information on the independence of the statutory auditor, from financial management, other executive functions, internal audit, or other assurance functions such as regulatory compliance or risks, or external sources such as information supplied by the statutory auditor itself.

(ix) Seek explanations from the statutory auditor about the internal quality control system it has in place to safeguard its independence, as well as information on internal practices regarding the rotation of the audit partner and audit team and whether those practices comply with applicable Spanish and EU regulations in this respect.

(x) Analyse any changes in the overall remuneration of the statutory auditor.

c) Serve as a channel of communication between the Board of Directors and the auditors (internal and external), assess the results of each audit and the management team's response to the auditor's recommendations and mediate in the event of disagreement between the auditors and the management team regarding the principles and criteria to be applied in preparing the financial statements. In particular, the committee must ensure that the statutory auditor holds at least one meeting each year with the full Board of Directors to report on the work carried out and any changes in the Company's accounting situation and risks.

d) Once the audit has been completed, review with the statutory auditor any significant findings and the content of both the auditors' report and the additional report for the Audit and Compliance Committee.

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

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

g) Request information from the statutory auditor about the audit plan and its implementation and make sure that senior management takes its recommendations into account.

h) Supervise the performance of the audit engagement, taking steps to ensure that the auditors' opinion on the annual accounts and the main content of the audit are drafted clearly and precisely.

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

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

V. Responsibilities in relation to the General Meeting of Shareholders:

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

The committee must also report to the General Meeting on any matters raised that fall within its remit, especially the result of the audit, explaining how the audit contributed to the integrity of the financial information and the role the committee played in the audit process.

VI. Other responsibilities:

1. Examine and supervise compliance with these Regulations, the Board of Directors Regulations, the Company's Internal Code of Conduct for the Securities Markets, the anti-money laundering manuals and procedures and the Company's governance and compliance rules in general and make the necessary proposals to improve them.

2. Supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
3. Periodically assess the adequacy of the Company's corporate governance system to ensure that it serves its purpose of promoting the Company's best interests and, where necessary, takes the legitimate interests of stakeholders into account.
4. Receive information and, where appropriate, issue reports on any disciplinary action taken against the Board of Directors or senior managers of the Company.
5. Establish and supervise a system for preventing and detecting crimes that could result in criminal liability for the Company.
6. Any other functions which have been assigned to it or for which it has been granted authority by the Board of Directors.

7. Report to the Board of Directors on related-party transactions before the board makes its decisions in this respect.

8. Report to the Board of Directors on the creation of, or the acquisition of holdings in, special purpose vehicles or entities domiciled in countries or territories classified as tax havens and any other transactions or operations of a comparable nature which, because of their complexity, could impair the transparency of the Group.

9. Report to the Board of Directors, prior to decision making, on all matters within its remit provided for in law, the Bylaws or the Board of Directors Regulations.

10. The committee must be informed of any planned corporate transactions or changes to the corporate structure, so that it may analyse them and report to the Board of Directors on the economic terms and accounting impact of these transactions and, in particular, the proposed exchange ratio.

MONITORING AND SUPERVISION COMMITTEE FOR THE PROCESS OF MERGER OF BANKIA AND BANCO MARE NOSTRUM

In addition, it’s informed that Bankia had a Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum, set up pursuant to a resolution by the Company’s Board of Directors on 24 March 2017 and governed by the final provision of the Regulations of the Board of Directors.

This Committee had powers of reporting, advice and proposal and, in particular, the essential function of ongoing monitoring and supervision of the process of merger of Bankia and Banco Mare Nostrum, both in the preliminary phase of prior analysis and study and, if applicable, regarding compliance with the legal requirements established in applicable national and Community regulations that, after approval by the boards of directors and general meetings of shareholders of both entities, allow consummation of the process of merger, reporting to the Board of Directors on the conduct of such analysis and studies and compliance with the aforesaid legal requirements, in particular focusing on the interests of the company and therefore all of it shareholders, ensuring autonomy and independence in conduct of the process of merger, both in its preliminary phase and, if applicable, in the decision-making process.

Regarding this committee’s rules of organisation and functioning, the Final Provision of the Board of Directors Regulations stated that it would be composed exclusively of independent directors, specifically the Lead Independent Director and Chairman of the Appointments and Responsible Management Committee, the Chairman of the Audit and Compliance Committee, the Chairman of the Remuneration Committee, and the Chairman of the Risk Advisory Committee, without prejudice to the attendance, when so expressly decided by the members of the committee, of other directors including the executives, senior managers and any employee, in addition to advisors or experts participating in the process of merger of Bankia and Banco Mare Nostrum.

After the deed of merger was placed on file with the Mercantile Register and, accordingly, the merger by absorption of Banco Mare Nostrum by Bankia was concluded, on 25 January 2018, the Board of Directors agreed to extinguish the Committee and amend the Regulations of the Board of Directors by eliminating the Final Provision.

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

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, see Note 43 of the individual annual accounts and Note 46 of the consolidated annual accounts for 2018 of Bankia, S.A.

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 Y D.5

There have been no transactions with such characteristics.

SECTION E.6 (continuation)
Reputational Risk

To monitor this risk, the Entity has management policies and procedures in place that enable it to identify, measure, monitor and control the Entity's reputational risks. Based on these policies, the Entity is able to identify and quantify this type of risk and to identify potential additional sources of reputational risk.

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.

Moreover, the Board of Directors, as the highest decision-making body, is responsible for defining the Entity's risk appetite and tolerance. It is the maximum authority in terms of establishing the basic principles and criteria for measuring and monitoring risks, establishing limits to risk profiles, and drawing up action plans.

SECTION G.6

The Company publishes the reports indicated in the recommendation sufficiently in advance of the General Meeting of Shareholders. In particular, the Audit and Compliance Committee’s annual report is included in the information on auditor independence, related-party transactions and the functioning of the Audit and Compliance Committee.

APARTADO G.19

The situation is the same as the year before, so it was deemed necessary to report that the recommendation is not applicable to the Company since that situation has not arisen.

APARTADOS G.37 Y 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.

H.3.- OTHER INTEREST INFORMATION

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. 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 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 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 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.

• 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.

• Fundación Ecología y Desarrollo (ECODES) It promotes achievement of a sustainable economic and social development model by generating, implementing and disseminating activity models that factor in environmental and social costs in institutional, business and personal decision-making processes. Moreover, through ECODES, Bankia has become a strategic ally in the #PorElClima community, whose objective is to help and facilitate pro-climate actions and raise awareness about the efforts of social agents to stop climate change.

Date of adhesion: April 4, 2018.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting held on:

18/02/2019

Indicate whether Board Members voted against or abstained from voting for or against the approval of this Report.

[ ] Yes
[√] No

Statement to certify that the Board of Directors of BANKIA, S.A., at its meeting of 18 February 2019, has formulated the individual Annual Accounts and individual Management Report for the period from 1 January 2018 to 31 December 2018, comprising: financial statements and notes thereto on 210 pages, numbered from 1 to 210, and Management Report on 73 pages, numbered 1 to 73, to which the Annual Corporate Governance Report is attached as a schedule. These documents have been approved with the signatures affixed below of the members of the Board of Directors of BANKIA, S.A., and have been flourished on all pages by the Secretary of the Company. The directors declare that, to the best of their knowledge, said accounts have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, of the financial position and of the earnings of the Company and of the entities included in the consolidation taken as a whole. The Management Report also includes a true and fair analysis of the performance and earnings and of the position of the Company and of the entities in the consolidation taken as a whole, together with a description of the main risks and uncertainties that they face.

Madrid, 18 February 2019.

Mr. José Ignacio Goirigolzarri Tellaeche
Chairman

Mr. José Sevilla Álvarez
Chief Executive Officer

Mr. Joaquín Ayuso García
Director

Mr. Francisco Javier Fields García
Director

Ms. Eva Castillo Sanz
Director

Mr. Jorge Cosmen Menéndez-Castañedo
Director

Mr. Carlos Egea Krauel
Director

Mr. José Luis Feito Higueruela
Director

Mr. Fernando Fernández Méndez de Andés
Director

Ms. Laura González Molero
Director

Mr. Antonio Greño Hidalgo
Director

Mr. Antonio Ortega Parra
Director

Mr. Miguel Crespo Rodríguez
Secretary of the Board

Report for 2018 on the Information Relating to the System of Internal Control over Financial Reporting (ICFR)

BANKIA, S.A.

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 13 September 2018, 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 2018 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 2018 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 Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013 as modified by Circular nº 7/2105 of the National Securities Market Commission, dated December 22, 2015 and by Circular nº 2/2018 of the National Securities Market Commission, dated October 12, 2018.

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. Reading the 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 Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013 as modified by Circular nº 7/2105 of the National Securities Market Commission, dated December 22, 2015 and by Circular nº 2/2018 of the National Securities Market Commission, dated October 12, 2018 for the purposes of describing ICFR in Annual Corporate Governance Reports.

ERNST & YOUNG, S.L.

Jaume Pallerols Cat

February 19, 2019