ANNEX II

CREDIT INSTITUTIONS

1st	HALF-YEARLY FINANCIAL REPORT FOR FINANCIAL YEAR	2018

REPORTING DATE 30/06/2018

I. IDENTIFICATION DATA

Registerd Company Name: Bankia, S.A.

Registered Address: C/Pintor Sorolla, 8 - Valencia -	**Tax Identification Number**
	A-14010342

II. SUPPLEMENT INFORMATION TO PREVIOUSLY RELEASED PERIODIC INFORMATION

Explanation of the main modifications with respect to the previously released periodic information:
(complete only in the situations indicated in Section B) of the instructions)

(Text field

Note 1.5 of the audited condensed consolidated interim financial statements of the Bankia Group for the six-month period ended June 30, 2018 includes relevant information about the amendments made to the current and prior period information, mainly due to the entry into force of IFRS 9 – Financial instruments on January 1, 2018.
In addition, Chapter V – "Notes to the condensed consolidated interim financial statements for the six-month period ended June 30, 2018" includes relevant information required by the single transitory provision contained in *Circular 3/2018, of 28 June, National Securities Market Commission (Comisión Nacional del Mercado de Valores or CNMV), on periodic reporting by issuers of securities admitted to trading on regulated markets related to half-yearly financial reports, interim management statements and, where applicable, quarterly financial reports*.
Note 1.3 "Reporting framework applied to draw up the condensed consolidated interim financial statements" of the audited condensed consolidated interim financial statements of the Bankia Group for the six-month period ended June 30, 2018", describes the accounting policies and measurement bases applied, being the same as those applied in the 2017 audited consolidated financial statements, but taking into consideration the standards and interpretations that entered into force during the first half of 2018, which are described in the above-mentioned note. Note 1.3.1 "First-time application of IFRS 9" provides relevant information about the impacts stemming from the entry into force of the referred standard, including the changes to the accounting policies and measurement bases, the amendments made to the comparative information and the first-time adoption impacts.

Traslation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

III. STATEMENTS(S) BY THE PERSON(S) RESPONSIBLE FOR THE INFORMATION

To the best of our knowledge, the accompanying condensed annual financial statements, which have been prepared in accordance with applicable accounting principles, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or of the undertakings included in the consolidated financial statements taken as a whole, and the interim management report includes a fair review of the information

Comments on the above statement(s):

Person(s) responsible for this information:

(When the issuer ticks the red box, the following text will appear here:)
In accordance with the power delegated by the board of directors, the board secretary certifies that the half-yearly financial report has been signed by the directors.

Registered Address: C/Pintor Sorolla, 8 - Valencia -

Name/Company Name	Office
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	Director
Mr. Francisco Javier Campo García	Director
Mrs. Eva Castillo Sanz	Director
Mr. Jorge Cosmen Menéndez-Castañedo	Director
Mr. José Luis Feito Higueruela	Director
Mr. Fernando Fernández Méndez de Andés	Director
Mr. Antonio Greño Hidalgo	Director

Date this half-yearly financial report was signed by the corresponding governing body: 25/07/2018

IV. SELECTED FINANCIAL INFORMATION
1. INDIVIDUAL BALANCE SHEET (1/3)
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Uds.: Thousands of euros

ASSETS		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 31/12/2017
1. Cash, cash balances at central banks and other demand deposits	0040	1,829,162	3,755,070
2. Financial assets held for trading	0045	6,286,220	6,719,052
Memorandum item: loaned or advanced as collateral with right to sell or pledge	0046	-	-
3. Financial assets designated at fair value through profit or loss	0050	8,811	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	0051	-	-
4. Available-for-sale financial assets	0055	17,859,209	22,725,897
Memorandum item: loaned or advanced as collateral with right to sell or pledge	0056	6,942,929	9,892,613
5. Loans and receivables	0060	161,496,603	159,027,488
Memorandum item: loaned or advanced as collateral with right to sell or pledge	0061	98,109,825	82,456,235
6. Held-to-maturity investments	0065	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	0066	-	-
7. Fair value changes of the hedged items in portfolio hedge of interest rate risk	0070	2,549,170	3,058,341
8. Investments in subsidaries, joint ventures and associates	0075	-	-
9. Investments in subsidaries, joint ventures and associates	0080	2,937,275	2,840,144
a) Group entities	0090	2,743,869	2,678,645
b) Jointly-controlled entities	0091	29,774	31,589
c) Associates	0092	163,632	129,910
10. Tangible assets	0100	2,328,241	2,402,415
a) Property, Plant and Equipment	0101	1,670,846	1,745,382
For own use	0102	1,670,846	1,745,382
Leased out under an operating lease	0103	-	-
Assigned to welfare projects (saving banks and credit cooperatives)	0104	-	-
b) Investment property	0105	657,395	657,033
Of which: assigned under operating leases	0106	657,395	657,033
Memorandum item: acquired in financial leasing	0107	-	-
11. Intangible assets	0110	184,094	142,669
a) Goodwill	0111	-	-
b) Other intangible assets	0112	184,094	142,669
12. Tax assets	0120	10,278,579	10,345,204
a) Current tax assets	0121	236,699	426,958
b) Deferred tax assets	0122	10,041,880	9,918,246
13. Other assets	0130	1,182,870	909,821
a) Insurance contracts linked to pensions	0131	422,571	432,981
b) Inventories	0132	-	-
c) Other	0133	760,299	476,840
14. Non-current assets and disposal groups classified as held for sale	0140	2,746,116	3,117,805
TOTAL ASSETS	0150	**209,686,350**	**215,043,906**

IV. SELECTED FINANCIAL INFORMATION
1. INDIVIDUAL BALANCE SHEET (2/3)
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Uds.: Thousands of euros

LIABILITIES		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 31/12/2017
1. Financial liabilities held for trading	0160	6,703,077	7,449,989
2. Financial liabilities designated at fair value through profit or loss	0170	-	-
Memorandum item: subordinated liabilities	0175	-	-
3. Financial liabilities measured at amortised cost	0180	187,007,682	190,916,511
Memorandum item: subordinated liabilities	0185	2,481,822	2,510,922
4. Derivatives – Hedge accounting	0190	251,170	377,469
5. Fair value changes of the hedged items in portfolio hedge of interest rate risk	0200	-	-
6. Provisions	0210	1,677,699	1,953,867
a) Pensions and other post employment defined benefit obligations	0211	431,337	442,407
b) Other long term employee benefits	0212	-	-
c) Pending legal issues and tax litigation	0213	260,177	352,324
d) Commitments and guarantees given	0214	386,235	380,422
e) Other provisions	0215	599,950	778,714
7. Tax liabilities	0220	644,268	686,139
a) Current tax liabilities	0221	-	1,368
b) Deferred tax liabilities	0223	644,268	684,771
8. Share capital repayable on demand	0230	-	-
9. Share capital repayable on demand	0240	818,901	867,586
Of which: Welfare Fund (only saving banks and credit cooperatives)	0241	-	-
10. Liabilities included in disposal groups classified as held for sale	0250	-	-
TOTAL LIABILITIES	0260	197,102,797	202,251,561

IV. SELECTED FINANCIAL INFORMATION
1. INDIVIDUAL BALANCE SHEET (3/3)
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Uds.: Thousands of euros

LIABILITIES (continuation)		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 31/12/2017
EQUITY	0270	12,327,749	12,477,275
1. Capital	0280	3,084,963	3,084,963
a) Paid up capital	0281	3,084,963	3,084,963
b) Unpaid capital which has been called up	0282	-	-
Memorandum item: Uncalled capital	0283	-	-
2. Share Premium	0290	619,154	619,154
3. Equity instruments issued other than capital	0300	-	-
a) Equity component of compound financial instruments	0301	-	-
b) Other equity instruments issued	0302	-	-
4. Other equity	0310	-	-
5. Retained earnings	0320	-	-
6. Revaluation reserves	0330	-	-
7. Other reserves	0340	8,006,460	8,384,243
8. (-) Treasury shares	0350	(74,784)	(79,837)
9. Profit or loss attributable to owners of the parent	0360	691,956	468,752
10. (-) Interim dividends	0370	-	-
ACCUMULATED OTHER COMPREHENSIVE INCOME	0380	255,804	315,070
1. Items that will not be reclassified to profit or loss	0390	68,703	64,554
a) Actuarial gains or (-) losses on defined benefit pension plans	0391	48,764	48,764
b) Non-current assets and disposal groups classified as held for sale	0392	-	-
c) Rest valuation adjustment	0393	19,939	15,790
2. Items that may be reclassified to profit or loss	0400	187,101	250,516
a) Hedge of net investments in foreign operations [effective portion]	0401	-	-
b) Foreign currency translation	0402	(458)	(714)
c) Hedging derivatives. Cash flow hedges [effective portion]	0403	(22,408)	(10,163)
d) Available-for-sale financial assets	0404	209,818	264,648
i) Debt instruments	0405	209,818	264,648
ii) Equity instruments	0406	-	-
e) Non-current assets and disposal groups classified as held for sale	0407	149	(3,255)
TOTAL EQUITY	0450	12,583,553	12,792,345
TOTAL EQUITY AND TOTAL LIABILITIES	0460	209,686,350	215,043,906
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS			
1. Contingent exposures	0470	8,075,178	8,930,154
2. Contingent commitments	0480	25,768,131	22,985,416

IV. SELECTED FINANCIAL INFORMATION
2. INDIVIDUAL PROFIT AND LOSS ACCOUNT
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Uds.: Thousands of euros

			PRESENT CURRENTE PERIOD (2and HALF YEAR)	PREVIOUS CURRENTE PERIOD (2and HALF YEAR)	CURRENT CUMULATIVE 30/06/2018	PREVIOUS CUMULATIVE 30/06/2017
(+)	Interest income	0501	-	-	1,273,242	1,143,271
(-)	(Interest expenses)	0502	-	-	(228,522)	(195,887)
(-)	(Expenses on share capital repayable on demand)	0503	-	-	-	-
=	A) NET INTEREST INCOME	0505	-	-	1,044,720	947,384
(+)	Dividend income	0506	-	-	208,746	37,978
(+)	Fee and commission income	0508	-	-	523,652	425,398
(+)	(Fee and commission expenses)	0509	-	-	(37,813)	(35,862)
(+/-)	Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	0510	-	-	270,399	217,488
(+/-)	Gains or (-) losses on financial assets and liabilities held for trading, net	0511	-	-	35,903	71,015
(+/-)	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	0512	-	-	73	-
(+)	Gains or (-) losses from hedge accounting, net	0513	-	-	(13,259)	(15,496)
(+/-)	Exchange differences [gain or (-) loss], net	0514	-	-	5,753	4,258
(+)	Other operating income	0515	-	-	28,562	28,083
(-)	(Other operating expenses)	0516	-	-	(100,330)	(92,236)
=	B) GROSS INCOME	0520	-	-	1,966,406	1,588,010
(+)	(Administrative expenses)	0521	-	-	(840,626)	(671,252)
(+)	(Staff expenses)	0522	-	-	(580,989)	(453,259)
(+)	(Other administrative expenses)	0523	-	-	(259,637)	(217,993)
(+)	(Depreciation)	0524	-	-	(87,356)	(82,396)
(+/-)	(Provisions or (-) reversal of provisions)	0525	-	-	38,205	(32,711)
(+/-)	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	0526	-	-	(211,007)	(149,782)
(+/-)	(Financial assets measured at cost)	0527	-	-	-	-
(+/-)	(Available- for-sale financial assets)	0528	-	-	(772)	2,112
(+/-)	(Loans and receivables)	0529	-	-	(210,235)	(151,894)
(+/-)	(Held to maturity investments)	0530	-	-	-	-
=	C) TOTAL OPERATING INCOME, NET	0540	-	-	865,622	651,869
(+/-)	(Impairment or (-) reversal of impairment of investments in subsidaries, joint ventures and associates)	0541	-	-	47,049	31,644
(+/-)	(Impairment or (-) reversal of impairment on non-financial assets)	0542	-	-	(5,640)	712
(+/-)	(Tangible assets)	0543	-	-	(5,640)	712
(+/-)	(Intangible assets)	0544	-	-	-	-
(+/-)	(Other)	0545	-	-	-	-
(+/-)	Gains or (-) losses on the derecognition in nonfinancial assets accounts and investments, net	0546	-	-	2,359	1,100
(+)	Negative goodwill recognised in profit or loss	0547	-	-	-	-
(+/-)	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0548	-	-	(68,078)	(41,451)
=	D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	0550	-	-	841,312	643,874
(+/-)	(Tax expense or (-) income related to profit or loss from continuing operations)	0551	-	-	(149,356)	(149,648)
=	E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	0560	-	-	691,956	494,226
(+/-)	Profit or (-) loss after tax from discontinued operations	0561	-	-	-	-
=	F) PROFIT OR (-) LOSS FOR THE PERIOD	0570	-	-	691,956	494,226

EARNINGS PER SHARE		Amount (X.XX EUROS)	Amount (X.XX EUROS)	Amount (X.XX EUROS)	Amount (X.XX EUROS)
Basic earnings/(loss) per share (euros)	0580	-	-	-	-
Diluted earnings/(loss) per share (euros)	0590	-	-	-	-

In the half-yearly financial report for the firts half of the year, the data relating to the present period match the cumulative data, which do not therefore need to be completed

IV. SELECTED FINANCIAL INFORMATION
3. INDIVIDUAL STATEMENT OF CHANGES IN EQUITY
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Uds.: Thousands of euros

		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
A) Profit or (-) loss for the period	0600	691,956	494,226
B) Other comprehensive income	0610	(231,624)	(123,213)
1. Items that will not be reclassified to profit or loss	0620	4,149	2,776
a) Actuarial gains or (-) losses on defined benefit pension plans	0621	-	-
b) Non-current assets and disposal groups held for sale	0622	-	-
c) Other valuation adjustments	0623	5,927	2,776
d) Income tax relating to items that will not be reclassified	0624	(1,778)	-
2. Items that may be reclassified to profit or loss	0630	(235,773)	(125,989)
a) Hedge of net investments in foreign operations [effective portion]	0635	-	-
- Valuation gains or (-) losses taken to equity	0636	-	-
- Transferred to profit or loss	0637	-	-
- Other reclassifications	0638	-	-
b) Foreign currency translation	0640	366	(1,103)
- Translation gains or (-) losses taken to equity	0641	366	(1,103)
- Transferred to profit or loss	0642	-	-
- Other reclassifications	0643	-	-
c) Cash flow hedges [effective portion]	0645	(17,493)	1,232
- Valuation gains or (-) losses taken to equity	0646	(17,493)	1,232
- Transferred to profit or loss	0647	-	-
- Transferred to initial carrying amount of hedged items	0648	-	-
- Other reclassifications	0649	-	-
d) Available-for-sale financial assets	0650	(324,555)	(171,861)
- Valuation gains or (-) losses taken to equity	0651	(54,848)	(70,990)
- Transferred to profit or loss	0652	(269,707)	(100,871)
- Other reclassifications	0653	-	-
e) Non-current assets and disposal groups held for sale	0655	4,863	(7,061)
- Valuation gains or (-) losses taken to equity	0656	4,863	(7,061)
- Transferred to profit or loss	0657	-	-
- Other reclassifications	0658	-	-
f) Income tax relating to items that may be reclassified to profit or (-) loss	0660	101,046	52,804
C) Total comprehensive income for the period	0670	460,332	371,013

IV. SELECTED FINANCIAL INFORMATION

4. INDIVIDUAL STATEMENT OF CHANGES IN TOTAL EQUITY

(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS) (1/2)

Uds.: Thousands of euros

Sources of equity changes Current period		Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss of the period	(-) Interim dividends	Accumulated Other Comprehensive Income	Total
Opening balance 31/12/2016 [before restatement]	0700	3,084,963	619,154	-	-	-	-	8,384,243	(79,837)	468,752	-	315,070	12,792,345
Effects of corrections of errors	0701	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	0702	-	-	-	-	-	-	(487,047)	-	-	-	172,358	(314,689)
Opening balance [current period]	0710	3,084,963	619,154	-	-	-	-	7,897,196	(79,837)	468,752	-	487,428	12,477,656
Total comprehensive income for the period	0720					-	-	-		691,956		(231,624)	460,332
Other changes in equity	0730	-	-	-	-	-	-	109,264	5,053	(468,752)	-	-	(354,435)
Issuance of ordinary shares	0731	-	-			-	-	-					-
Issuance of preference shares	0732	-	-	-		-	-	-					-
Issuance of other equity instruments	0733			-		-	-	-					-
Exercise or expiration of other equity instruments issued	0734			-		-	-	-					-
Conversion of debt to equity	0735	-	-	-	-	-		-	-				-
Capital reduction	0736	-	-					-	-	-			-
Dividends (or remuneration of partners)	0737	-	-	-	-	-	-	(338,015)	-		-		(338,015)
Purchase of treasury shares	0738					-	-	-	(59,159)				(59,159)
Sale or cancellation of treasury shares	0739					-	-	(2,664)	64,212				61,548
Reclassification of financial instruments from equity to liability	0740	-	-	-	-								-
Reclassification of financial instruments from liability to equity	0741	-	-	-	-								-
Transfers among components of equity	0742			-	-	-	-	468,752		(468,752)	-	-	-
Equity increase or (-) decrease resulting from business combinations	0743	-	-	-	-	-	-	-	-			-	-
Share based payments	0744	-	-						-				-
Other increase or (-) decrease in equity	0745			-	-	-	-	(18,809)	-	-	-	-	(18,809)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)	0746					-		-					-
Closing balance 31/12/2017 [current period]	0750	3,084,963	619,154	-	-	-	-	8,006,460	(74,784)	691,956	-	255,804	12,583,553

4. INDIVIDUAL STATEMENT OF CHANGES IN TOTAL EQUITY
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS) (2/2)

Uds.: Thousands of euros

Sources of equity changes Previous period		Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss of the period	(-) Interim dividends	Accumulated Other Comprehensive Income	Total
Opening balance 31/12/2015 (before restatement) [current period]	0751	9,213,863	-	-	-	-	-	1,696,334	(44,758)	719,455	-	442,054	12,026,948
Effects of corrections of errors	0752	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	0753	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	0754	9,213,863	-	-	-	-	-	1,696,334	(44,758)	719,455	-	442,054	12,026,948
Total comprehensive income for the period	0755					-	-	-		494,226		(123,213)	371,013
Other changes in equity	0756	(6,334,531)	-	-	-	-	-	6,734,817	(16,747)	(719,455)	-	-	(335,916)
Issuance of ordinary shares	0757	-	-			-	-	-					-
Issuance of preference shares	0758	-	-	-		-	-	-					-
Issuance of other equity instruments	0759			-		-	-	-					-
Exercise or expiration of other equity instruments issued	0760			-		-	-	-					-
Conversion of debt to equity	0761	-	-	-	-	-		-	-				-
Capital reduction	0762	(6,334,531)						6,334,531	-	-			-
Dividends (or remuneration of partners)	0763	-	-	-	-	-	-	(315,957)	-		-		(315,957)
Purchase of treasury shares	0764					-	-	-	(68,877)				(68,877)
Sale or cancellation of treasury shares	0765					-	-	6,964	52,130				59,094
Reclassification of financial instruments from equity to liability	0766	-	-	-	-								-
Reclassification of financial instruments from liability to equity	0767	-	-	-	-								-
Transfers among components of equity	0768			-	-	-	-	719,455		(719,455)	-	-	-
Equity increase or (-) decrease resulting from business combinations	0769	-	-	-	-	-	-	-	-			-	-
Share based payments	0770	-	-						-				-
Other increase or (-) decrease in equity	0771			-	-	-	-	(10,176)	-	-	-	-	(10,176)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)	0772					-		-					-
Closing balance 31/12/2016 [current period]	0773	2,879,332	-	-	-	-	-	8,431,151	(61,505)	494,226	-	318,841	12,062,045

IV. SELECTED FINANCIAL INFORMATION
5. INDIVIDUAL STATEMENT OF CASH FLOWS
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Uds.: Thousands of euros

		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
A) CASH FLOWS USED IN OPERATING ACTIVITIES (1+2+3+4+5)	0800	**1,390,235**	**506,173**
1. Profit/(loss) for the period	0810	**691,956**	**494,226**
2. Adjustments made to obtain the cash flows from operating activities	0820	**157,672**	**200,786**
(+) Depreciation and amortisation	0821	87,356	82,396
(+/-) Other	0822	70,316	118,390
3. Net increase/(decrease) in operating assets	0830	**810,403**	**6,870,815**
(+/-) Financial assets held for trading	0831	(193,014)	(27,042)
(+/-) Other financial assets at fair value through profit or loss	0832	(315)	-
(+/-) Available-for-sale financial assets	0833	6,085,020	5,742,449
(+/-) Loans and receivables	0834	(4,355,605)	1,435,181
(+/-) Other operating assets	0835	(725,683)	(279,773)
4. Net increase/(decrease) in operating liabilities	0840	**(316,848)**	**(7,136,174)**
(+/-) Financial liabilities held for trading	0841	**(121,066)**	**(386,909)**
(+/-) Other financial liabilities at fair value through profit or loss	0842	-	-
(+/-) Financial liabilities at amortised cost	0843	(377,678)	(6,547,771)
(+/-) Other operating liabilities	0844	181,896	(201,494)
(+/-) Income tax receipts/(payments)	0850	47,052	76,520
B) CASH FLOWS FROM INVESTING ACTIVITIES (1+2)	0860	**550,690**	**164,126**
1. Payments	0870	**(78,156)**	**(104,088)**
(-) Tangible assets	0871	(102)	(46,877)
(-) Intangible assets	0872	(73,701)	(54,111)
(-) Investments in joint ventures and associates	0873	(3,340)	(3,000)
(-) Subsidiaries and other business units	0874	-	-
(-) Non-current assets held for sale and associated liabilities	0875	(1,013)	(100)
(-) Held-to-maturity investments	0876	-	-
Other payments related to investing activities	0877	-	-
2. Proceeds	0880	**628,846**	**268,214**
(+) Tangible assets	0881	15,871	7,874
(+) Intangible assets	0882	-	-
(+) Investments in joint ventures and associates	0883	226,506	16,911
(+) Subsidiaries and other business units	0884	-	-
(+) Non-current assets held for sale and associated liabilities	0885	386,469	243,429
(+) Held-to-maturity investments	0886	-	-
(+) Other proceeds related to investing activities	0887	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES (1+2)	0890	**(3,866,833)**	**(95,198)**
1. Payments	0900	**(4,028,382)**	**(2,492,463)**
(-) Dividends	0901	(338,015)	(315,957)
(-) Subordinated liabilities	0902	-	-
(-) Redemption of own equity instruments	0903	-	-
(-) Acquisition of own equity instruments	0904	(59,160)	(68,877)
(-) Other payments related to financing activities	0905	(3,631,207)	(2,107,629)
2. Proceeds	0910	**161,549**	**2,397,265**
(+) Subordinated liabilities	0911	-	497,270
(+) Issuance of own equity instruments	0912	-	-
(+) Disposal of own equity instruments	0913	61,549	59,094
(+) Other proceeds related to financing activities	0914	100,000	1,840,901
D) EFFECT OF EXCHANGE RATE DIFFERENCES	0920	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	0930	**(1,925,908)**	**575,101**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	0940	**3,755,070**	**2,081,771**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (E+F)	0950	**1,829,162**	**2,656,872**

COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
(+) Cash	0955	852,574	651,685
(+) Cash equivalents at central banks	0960	859,719	1,913,098
(+) Other financial assets	0965	116,869	92,089
(-) Less: Bank overdrafts refundable on demand	0970	-	-
TOTAL OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	0980	**1,829,162**	**2,656,872**

IV. SELECTED FINANCIAL INFORMATION

6. CONSOLITED BALANCE SHEET (ADOPTED IFRS) (1/3)

Uds.: Thousands of euros

ASSETS		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 31/12/2017
1. Cash, cash balances at central banks and other demand deposits	1040	2,517,813	4,503,911
2. Financial assets held for trading	1045	6,271,234	6,773,491
Memorandum item: loaned or advanced as collateral with right to sell or pledge	1046	-	-
3. Financial assets designated at fair value through profit or loss	1050	8,811	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	1051	-	-
4. Available-for-sale financial assets	1055	17,873,249	22,744,890
Memorandum item: loaned or advanced as collateral with right to sell or pledge	1056	6,492,929	9,892,613
5. Loans and receivables	1060	161,105,040	158,710,730
Memorandum item: loaned or advanced as collateral with right to sell or pledge	1061	98,109,825	82,456,235
6. Held-to-maturity investments	1065	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	1066	-	-
7. Derivatives – Hedge accounting	1070	2,558,375	3,067,035
8. Fair value changes of the hedged items in portfolio hedge of interest rate risk	1075	-	-
9. Investments in joint ventures and associates	1080	342,288	320,597
a) Jointly-controlled entities	1091	33,985	30,862
b) Associates	1092	308,303	289,735
10. Assets under insurance contracts	1095	-	-
11. Tangible assets	1100	2,348,940	2,423,634
a) Property, Plant and Equipment	1101	1,682,933	1,757,510
For own use	1102	1,682,933	1,757,510
Leased out under an operating lease	1103	-	-
Assigned to welfare projects (saving banks and credit cooperatives)	1104	-	-
b) Investment property	1105	666,007	666,124
Of which: assigned under operating leases	1106	666,007	666,124
Memorandum item: acquired in financial leasing	1107	-	-
12. Intangible assets	1110	277,550	237,499
a) Goodwill	1111	92,062	93,262
b) Other intangible assets	1112	185,488	144,237
13. Tax assets	1120	10,942,729	11,004,862
a) Current tax assets	1121	289,277	474,887
b) Deferred tax assets	1122	10,653,452	10,529,975
14. Other assets	1130	1,095,119	873,955
a) Insurance contracts linked to pensions	1131	422,571	432,981
b) Inventories	1132	-	-
c) Other	1133	672,548	440,974
15. Non-current assets and disposal groups classified as held for sale	1140	2,867,145	3,271,333
TOTAL ASSETS	1150	208,208,293	213,931,937

IV. SELECTED FINANCIAL INFORMATION

6. CONSOLITED BALANCE SHEET (ADOPTED IFRS) (2/3)

Uds.: Thousands of euros

LIABILITIES		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 31/12/2017
1. Financial liabilities held for trading	1160	6,668,699	7,420,991
2. Financial liabilities designated at fair value through profit or loss	1170	-	-
Memorandum item: subordinated liabilities	1175	-	-
3. Financial liabilities measured at amortised cost	1180	184,830,238	188,897,560
Memorandum item: subordinated liabilities	1185	2,481,822	2,510,922
4. Derivatives – Hedge accounting	1190	252,042	378,454
5. Fair value changes of the hedged items in portfolio hedge of interest rate risk	1200	-	-
6. Liabilities under insurance contracts	1205	-	-
7. Provisions	1210	1,756,243	2,034,575
a) Pensions and other post employment defined benefit obligations	1211	431,337	442,407
b) Other long term employee benefits	1212	-	-
c) Pending legal issues and tax litigation	1213	268,563	363,803
d) Commitments and guarantees given	1214	386,162	379,484
e) Other provisions	1215	670,181	848,881
8. Tax liabilities	1220	664,696	707,072
a) Current tax liabilities	1221	454	1,624
b) Deferred tax liabilities	1223	664,242	705,448
9. Share capital repayable on demand	1230	-	-
10. Other liabilities	1240	819,582	871,394
Of which: Welfare Fund (only saving banks and credit cooperatives)	1241	-	-
11. Liabilities included in disposal groups classified as held for sale	1250	8,291	8,797
TOTAL LIABILITIES	1260	194,999,791	200,318,843

IV. SELECTED FINANCIAL INFORMATION

6. CONSOLITED BALANCE SHEET (ADOPTED IFRS) (3/3)

Uds.: Thousands of euros

LIABILITIES (continuation)		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 31/12/2017
EQUITY	1270	12,894,396	13,222,423
1. Capital	1280	3,084,963	3,084,963
a) Paid up capital	1281	3,084,963	3,084,963
b) Unpaid capital which has been called up	1282	-	-
Memorandum item: Uncalled capital	1283	-	-
2. Share Premium	1290	619,154	619,154
3. Equity instruments issued other than capital	1300	-	-
a) Equity component of compound financial instruments	1301	-	-
b) Other equity instruments issued	1302	-	-
4. Other equity	1310	-	-
5. Retained earnings	1320	-	-
6. Revaluation reserves	1330	-	-
7. Other reserves	1340	8,750,488	9,093,630
8. (-) Treasury shares	1350	(74,784)	(79,837)
9. Profit or loss attributable to owners of the parent	1360	514,575	504,513
10. (-) Interim dividends	1370	-	-
ACCUMULATED OTHER COMPREHENSIVE INCOME	1380	298,845	365,780
1. Items that will not be reclassified to profit or loss	1390	74,589	73,268
a) Actuarial gains or (-) losses on defined benefit pension plans	1391	48,764	48,764
b) Non-current assets and disposal groups classified as held for sale	1392	-	-
c) Share of other recognised income and expense of investments in joint ventures and associates	1393	6,000	8,714
d) Other valuation adjustments	1394	19,825	15,790
2. Items that may be reclassified to profit or loss	1400	224,256	292,512
a) Hedge of net investments in foreign operations [effective portion]	1401	-	-
b) Foreign currency translation	1402	(459)	(720)
c) Hedging derivatives. Cash flow hedges [effective portion]	1403	(22,408)	(10,163)
d) Available-for-sale financial assets	1404	209,692	264,398
i) Debt instruments	1405	209,692	264,398
ii) Equity instruments	1406	-	-
e) Non-current assets and disposal groups classified as held for sale	1407	2,534	(1,119)
f) Share of other recognised income and expense of investments in joint ventures and associates	1408	34,897	40,116
MINORITY INTERESTS [NON-CONTROLLING INTERESTS]	1410	15,261	24,891
1. Accumulated Other Comprehensive Income	1420	1,160	989
2. Other items	1430	14,101	23,902
TOTAL EQUITY	1450	13,208,502	13,613,094
TOTAL EQUITY AND TOTAL LIABILITIES	1460	208,208,293	213,931,937

MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS			
1. Contingent exposures	1470	8,027,446	8,879,292
2. Contingent commitments	1480	25,604,475	22,804,686

IV. SELECTED FINANCIAL INFORMATION
7. CONSOLIDATED PROFIT AND LOSS ACCOUNTS (IFRS ADOPTED)

Uds.: Thousands of euros

			PRESENT CURRENTE PERIOD (2and HALF YEAR)	PREVIOUS CURRENTE PERIOD (2and HALF YEAR)	CURRENT CUMULATIVE 30/06/2018	PREVIOUS CUMULATIVE 30/06/2017
(+)	Interest income	1501	-	-	1,256,954	1,165,865
(-)	(Interest expenses)	1502	-	-	(209,750)	(170,902)
(-)	(Expenses on share capital repayable on demand)	1503	-	-	-	-
=	A) NET INTEREST INCOME	1505	-	-	1,047,204	994,963
(+)	Dividend income	1506	-	-	7,994	7,313
(+)	Share of profit/(loss) of companies accounted for using the equity method	1507	-	-	29,319	18,379
(+)	Fee and commission income	1508	-	-	576,194	463,655
(+)	(Fee and commission expenses)	1509	-	-	(42,321)	(38,546)
(+/-)	Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	1510	-	-	270,174	217,331
(+/-)	Gains or (-) losses on financial assets and liabilities held for trading, net	1511	-	-	33,991	60,336
(+/-)	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	1512	-	-	72	-
(+)	Gains or (-) losses from hedge accounting, net	1513	-	-	(13,260)	(15,496)
(+/-)	Exchange differences [gain or (-) loss], net	1514	-	-	5,774	4,298
(+)	Other operating income	1515	-	-	29,187	27,921
	(Other operating expenses)	1516	-	-	(102,879)	(92,545)
(+)	Of which: Mandatory provisions to Welfare Fund (only saving banks and credit cooperatives)	1517	-	-	-	-
(-)	Expenses of insurance and reinsurance contracts	1518	-	-	-	-
=	(Expenses of liabilities covered by insurance or reinsurance contracts)	1520	-	-	1,841,449	1,647,609
(+)	(Administrative expenses)	1521	-	-	(856,178)	(680,635)
(+)	(Staff expenses)	1522	-	-	(596,038)	(460,813)
(+)	(Other administrative expenses)	1523	-	-	(260,140)	(219,822)
(+)	(Depreciation) (Notes 10 and 11)	1524	-	-	(88,115)	(83,324)
(+/-)	(Provisions or (-) reversal of provisions)	1525	-	-	36,393	2,742
(+/-)	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	1526	-	-	(207,644)	(174,161)
(+/-)	(Financial assets measured at cost)	1527	-	-	-	-
(+/-)	(Available- for-sale financial assets)	1528	-	-	(772)	2,118
(+/-)	(Loans and receivables)	1529	-	-	(206,872)	(176,279)
(+/-)	(Held to maturity investments)	1530	-	-	-	-
=	C) TOTAL OPERATING INCOME, NET	1540	-	-	725,905	712,231
(+/-)	(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	1541	-	-	40,623	(3,000)
(+/-)	(Impairment or (-) reversal of impairment on non-financial assets)	1542	-	-	(8,960)	(6,470)
(+/-)	(Tangible assets)	1543	-	-	(5,856)	733
(+/-)	(Intangible assets)	1544	-	-	(2,850)	(3,000)
(+/-)	(Other)	1545	-	-	(254)	(4,203)
(+/-)	Gains or (-) losses on the derecognition in nonfinancial assets accounts and	1546	-	-	2,913	1,100
(+)	Negative goodwill recognised in profit or loss	1547	-	-	-	-
(+/-)	Profit or (-) loss from non-current assets and disposal groups classified as held for sale	1548	-	-	(79,388)	(10,809)
=	D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	1550	-	-	681,093	693,052
(+/-)	(Tax expense or (-) income related to profit or loss from continuing operations)	1551	-	-	(166,307)	(178,591)
=	E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	1560	-	-	514,786	514,461
(+/-)	Profit or (-) loss after tax from discontinued operations	1561	-	-	-	-
=	F) PROFIT OR (-) LOSS	1570	-	-	514,786	514,461
	Attributable to minority interest [non-controlling interests]	1571	-	-	211	624
	Attributable to owners of the parent	1572	-	-	514,575	513,837

EARNINGS PER SHARE		Amount (X.XX EUROS)	Amount (X.XX EUROS)	Amount (X.XX EUROS)	Amount (X.XX EUROS)
Basic earnings/(loss) per share (euros)	1580	-	-	0.16	0.18
Diluted earnings/(loss) per share (euros)	1590	-	-	0.16	0.18

IV. SELECTED FINANCIAL INFORMATION

8. CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (IFRS ADOPTED)

Uds.: Thousands of euros

		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
A) Profit or (-) loss for the period	1600	514,786	514,461
B) Other comprehensive income	1610	(239,122)	(113,812)
1. Items that will not be reclassified to profit or loss	1620	1,321	7,820
a) Actuarial gains or (-) losses on defined benefit pension plans	1621	-	-
b) Non-current assets and disposal groups held for sale	1622	-	-
c) Other valuation adjustments	1623	3,050	8,653
d) Income tax relating to items that will not be reclassified	1624	(1,729)	(833)
2. Items that may be reclassified to profit or loss	1630	(240,443)	(121,632)
a) Hedge of net investments in foreign operations [effective portion]	1635	-	-
- Valuation gains or (-) losses taken to equity	1636	-	-
- Transferred to profit or loss	1637	-	-
- Other reclassifications	1638	-	-
b) Foreign currency translation	1640	370	(780)
- Translation gains or (-) losses taken to equity	1641	370	(780)
- Transferred to profit or loss	1642	-	-
- Other reclassifications	1643	-	-
c) Cash flow hedges [effective portion]	1645	(17,493)	1,231
- Valuation gains or (-) losses taken to equity	1646	(17,493)	1,231
- Transferred to profit or loss	1647	-	-
- Transferred to initial carrying amount of hedged items	1648	-	-
- Other reclassifications	1649	-	-
d) Available-for-sale financial assets	1650	(324,377)	(170,963)
- Valuation gains or (-) losses taken to equity	1651	(54,895)	(70,115)
- Transferred to profit or loss	1652	(269,482)	(100,848)
- Other reclassifications	1653	-	-
e) Non-current assets and disposal groups held for sale	1655	5,279	(9,474)
- Valuation gains or (-) losses taken to equity	1656	5,279	(9,474)
- Transferred to profit or loss	1657	-	-
- Other reclassifications	1658	-	-
f) Share of other recognised income and expense of Investments in joint ventures and associates	1659	(5,219)	5,313
g) Income tax relating to items that may be reclassified to profit or (-) loss	1660	100,997	53,041
C) Total comprehensive income for the period	1670	275,664	400,649
Attributable to minority interest [Non-controlling interest]	1680	382	(337)
Attributable to owners of the parent	1690	275,282	400,986

IV. SELECTED FINANCIAL INFORMATION

9. Consolidated statement of changes in total equity (ADAPTED TO IFRS) (1/2)

Uds.: Thousands of euros

Sources of equity changes Current period		Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Minority interests		Total
													Accumulated Other Comprehensive Income	Other items	
Opening balance at 31 December 2016 [before restatement]	1700	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	1701	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	1702	-	-	-	-	-	-	(487,047)	-	-	-	172,358	-	-	(314,689)
Opening balance [current period]	1710	3,084,963	619,154	-	-	-	-	8,606,583	(79,837)	504,513	-	538,138	989	23,902	13,298,405
Comprehensive accumulated income	1720					-	-	-		514,575		(239,293)	171	211	275,664
Other changes in equity	1730	-	-	-	-	-	-	143,905	5,053	(504,513)	-	-	-	(10,012)	(365,567)
Issuance of ordinary shares	1731	-	-			-	-	-						-	-
Issuance of preference shares	1732	-	-	-		-	-	-						-	-
Issuance of other equity instruments	1733			-		-	-	-						-	-
Exercise or expiration of other equity instruments issued	1734			-		-	-	-						-	-
Conversion of debt to equity	1735	-	-	-	-	-		-	-					-	-
Capital reduction	1736	-	-			-	-	-	-	-				-	-
Dividends	1737	-	-	-	-	-	-	(338,015)	-		-			-	(338,015)
Purchase of treasury shares	1738					-	-	-	(59,159)				-	-	(59,159)
Sale or cancellation of treasury shares	1739					-	-	(2,664)	64,212				-	-	61,548
Reclassification of financial instruments from equity to liability	1740	-	-	-	-									-	-
Reclassification of financial instruments from liability to equity	1741	-	-	-	-									-	-
Transfers among components of equity	1742			-	-	-	-	504,513		(504,513)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	1743	-	-	-	-	-	-	-	-			-		-	-
Share based payments	1744	-	-		-				-					-	-
Other increase or (-) decrease in equity	1745			-	-	-	-	(19,929)	-	-	-	-	-	(10,012)	(29,941)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)	1746					-		-							-
Closing balance at 31 December 2017 [current period]	1750	3,084,963	619,154	-	-	-	-	8,750,488	(74,784)	514,575	-	298,845	1,160	14,101	13,208,502

IV. SELECTED FINANCIAL INFORMATION

9. Consolidated statement of changes in total equity (ADAPTED TO IFRS) (2/2)

Uds.: Thousands of euros

Sources of equity changes Previous period		Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Minority interests		Total
													Accumulated Other Comprehensive Income	Other items	
Opening balance at 31 December 2015 (before restatement) [current period]	1751	9,213,863	-	-	-	-	-	2,329,558	(44,758)	804,163	-	489,035	2,401	42,930	12,837,192
Effects of corrections of errors	1752	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	1753	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	1754	9,213,863	-	-	-	-	-	2,329,558	(44,758)	804,163	-	489,035	2,401	42,930	12,837,192
Comprehensive accumulated income	1755	-	0	0	0	-	-	-	0	513,837	0	(112,851)	(961)	624	400,649
Other changes in equity	1756	(6,334,531)				-	-	6,819,309	(16,747)	(804,163)		-	-	129	(336,003)
Issuance of ordinary shares	1757	-	-	0	0	-	-	-	0	0	0	0		-	-
Issuance of preference shares	1758	-	-			-	-	-						-	-
Issuance of other equity instruments	1759	0	0	-		-	-	-						-	-
Exercise or expiration of other equity instruments issued	1760			-		-	-	-						-	-
Conversion of debt to equity	1761			-		-	0	-	-					-	-
Capital reduction	1762	(6,334,531)	-	0	0	-		6,334,531	-					-	-
Dividends	1763	-	-			-	-	(315,957)	-	0				-	(315,957)
Purchase of treasury shares	1764	0	0	0	0	-	-	-	(68,877)		0		-	-	(68,877)
Sale or cancellation of treasury shares	1765					-	-	6,964	52,130				-	-	59,094
Reclassification of financial instruments from equity to liability	1766					0	0	0	0					0	-
Reclassification of financial instruments from liability to equity	1767	-	-	-	-									0	-
Transfers among components of equity	1768	0	0	-	-			804,163		(804,163)			-	-	-
Equity increase or (-) decrease resulting from business combinations	1769			-	-	-	-	-		0	0	-		-	-
Share based payments	1770	-	-	0	-	0	0	0	-			0		-	-
Other increase or (-) decrease in equity	1771	0	0		-			(10,392)	-				-	129	(10,263)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)	1772			0	0	-	0	-	0	0	0	0			-
Closing balance at 31 December 2016 [current period]	1773	2,879,332				-		9,148,867	(61,505)	513,837		376,184	1,440	43,683	12,901,838

IV. SELECTED FINANCIAL INFORMATION

10. CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (INDIRECT METHOD) (IFRS ADOPTED)

Uds.: Thousands of euros

		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
A) CASH FLOWS USED IN OPERATING ACTIVITIES (1+2+3+4+5)	1800	194,481	1,295,077
Consolidated profit/(loss)	1810	514,786	514,461
Adjustments made to obtain the cash flows from operating activities	1820	165,146	209,505
Depreciation and amortisation	1821	88,115	83,324
Other	1822	77,031	126,181
Net increase/(decrease) in operating assets	1830	1,196,161	6,992,417
Financial assets held for trading	1831	(128,969)	(19,229)
Other financial assets at fair value through profit or loss	1832	(243)	-
Available-for-sale financial assets	1833	6,089,764	5,745,260
Loans and receivables	1834	(4,277,418)	1,458,827
Other operating assets	1835	(486,973)	(192,441)
Net increase/(decrease) in operating liabilities	1840	(1,728,664)	6,497,826
Financial liabilities held for trading	1841	(121,066)	386,909
Other financial liabilities at fair value through profit or loss	1842	-	-
Financial liabilities at amortised cost	1843	(1,762,904)	(5,914,725)
Other operating liabilities	1844	155,306	(196,192)
Income tax receipts/(payments)	1850	47,052	76,520
B) CASH FLOWS FROM INVESTING ACTIVITIES (1+2)	1860	459,521	297,324
Payments	1870	(75,511)	(104,477)
Tangible assets	1871	(64)	(47,089)
Intangible assets	1872	(73,927)	(54,283)
Investments in joint ventures and associates	1873	(366)	(3,000)
Subsidiaries and other business units	1874	-	-
Non-current assets held for sale and associated liabilities	1875	(1,154)	(105)
Held-to-maturity investments	1876	-	-
Other payments related to investing activities	1877	-	-
Proceeds	1880	535,032	401,801
Tangible assets	1881	15,871	7,874
Intangible assets	1882	-	-
Investments in joint ventures and associates	1883	112,642	25,464
Subsidiaries and other business units	1884	-	-
Non-current assets held for sale and associated liabilities	1885	406,519	368,463
Held-to-maturity investments	1886	-	-
Other proceeds related to investing activities	1887	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES (1+2)	1890	(2,640,100)	(1,012,400)
Payments	1900	(2,801,649)	(2,068,764)
Dividends	1901	(338,015)	(315,957)
Subordinated liabilities	1902	-	-
Redemption of own equity instruments	1903	-	-
Acquisition of own equity instruments	1904	(59,160)	(68,877)
Other payments related to financing activities	1905	(2,404,474)	(1,683,930)
Proceeds	1910	161,549	1,056,364
Subordinated liabilities	1911	-	497,270
Issuance of own equity instruments	1912	-	-
Disposal of own equity instruments	1913	61,549	59,094
Other proceeds related to financing activities	1914	100,000	500,000
D) EFFECT OF EXCHANGE RATE DIFFERENCES	1920	-	-
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	1930	(1,986,098)	580,001
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1940	4,503,911	2,853,756
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (E+F)	1950	2,517,813	3,433,757

COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
Cash	1955	852,581	651,692
Cash equivalents at central banks	1960	859,719	1,913,098
Other financial assets	1965	805,513	868,967
Less: Bank overdrafts refundable on demand	1970	-	-
Total Cash and similar at the end of period	1980	2,517,813	3,433,757
Of which: held by Group entities but not available by the Group	1990	-	-

IV. SELECTED FINANCIAL INFORMATION
12. DIVIDENS PAID

		CURRENT PERIOD			PREVIOUS PERIOD		
		% of nominal value	Euros per share (X.XX)	Amount (thousand euros)	% of nominal value	Euros per share (X.XX)	Amount (thousand euros)
Ordinary shares	2158	11.02	0.11	338,015	3.44	0.03	315,957
Other shares (non-voting shares, redeemable shares, etc.)	2159	0	-	-	0	-	-
Total dividens paid	2160	11.02	0.11	338,015	3.44	0.03	315,957

a) Dividends charged to profit and loss	2155	11.02	0.11	338,015	3.44	0.03	315,957
b) Dividends charged to reserves or share premium	2156	-	-	-	-	-	-
c) Dividends in kind	2157	-	-	-	-	-	-

IV. SELECTED FINANCIAL INFORMATION
13. BREAKDOWN OF FINANCIAL INSTRUMENTS BY NATURE AND CATEGORY (1/2)

Uds.: Thousands of euros

FINANCIAL ASSETS: NATURE / CATEGORY		CURRENT PERIOD				
		Held for trading	Financial assets designated at fair value through profit or loss		Available-for-sale financial assets	Loans and receivables
Trading derivatives	2470	6,166,255				
Equity instruments	2480	4,125	-		63,894	
Debt securities	2490	115,840	340	-	17,795,315	34,931,786
Loans and advances	2500	-	8,471	-		126,564,817
Central banks	2501	-	-	-		-
Loans and advances to credit institutions	2502	-	-	-		4,777,003
Loans and advances to customers	2503	-	8,471	-		121,787,814
TOTAL (INDIVIDUAL)	**2510**	**6,286,220**	**8,811**	**-**	**17,859,209**	**161,496,603**
Trading derivatives	2520	6,151,270				
Equity instruments	2530	4,124	-		73,771	
Debt securities	2540	115,840	340	-	17,799,478	34,803,469
Loans and advances	2550	-	8,471	-		126,301,571
Central banks	2551	-	-	-		-
Loans and advances to credit institutions	2552	-	-	-		4,775,850
Loans and advances to customers	2553	-	8,471	-		121,525,721
TOTAL (CONSOLIDATED)	**2560**	**6,271,234**	**8,811**	**-**	**17,873,249**	**161,105,040**

FINANCIAL LIABILITIES: NATURE / CATEGORY		CURRENT PERIOD		
		Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortized cost
Trading derivatives	2570	6,480,714		
Short positions	2580	222,363		
Deposits	2590	-	-	170,272,758
Deposits from central banks	2591	-	-	13,855,970
Deposits from credit institutions	2592	-	-	23,846,303
Customer deposits	2593	-	-	132,570,485
Marketable debt securities	2600	-	-	15,727,922
Other financial liabilities	2610	-	-	1,007,002
TOTAL (INDIVIDUAL)	**2620**	**6,703,077**	**-**	**187,007,682**
Trading derivatives	2630	6,446,336		
Short positions	2640	222,363		
Deposits	2650	-	-	166,418,694
Deposits from central banks	2651	-	-	13,855,970
Deposits from credit institutions	2652	-	-	23,867,107
Customer deposits	2653	-	-	128,695,617
Marketable debt securities	2660	-	-	17,451,236
Other financial liabilities	2670	-	-	960,308
TOTAL (CONSOLIDATED)	**2680**	**6,668,699**	**-**	**184,830,238**

IV. SELECTED FINANCIAL INFORMATION

13. BREAKDOWN OF FINANCIAL INSTRUMENTS BY NATURE AND CATEGORY (2/2)

Uds.: Thousands of euros

FINANCIAL ASSETS: NATURE / CATEGORY		PREVIOUS PERIOD				
		Held for trading	Financial assets designated at fair value through profit or loss		Available-for-sale financial assets	Loans and receivables
Trading derivatives	5470	6,712,727				
Equity instruments	5480	4,324	-		57,190	
Debt securities	5490	2,001	-	-	22,668,707	32,797,525
Loans and advances	5500	-	-	-		126,229,963
Central banks	5501	-	-	-		-
Loans and advances to credit institutions	5502	-	-	-		3,029,283
Loans and advances to customers	5503	-	-	-		123,200,680
TOTAL (INDIVIDUAL)	**5510**	**6,719,052**	**-**	**-**	**22,725,897**	**159,027,488**
Trading derivatives	5520	6,697,537				
Equity instruments	5530	73,953	-		70,929	
Debt securities	5540	2,001	-	-	22,673,961	32,658,113
Loans and advances	5550	-	-	-		126,052,617
Central banks	5551	-	-	-		-
Loans and advances to credit institutions	5552	-	-	-		3,027,935
Loans and advances to customers	5553	-	-	-		123,024,682
TOTAL (CONSOLIDATED)	**5560**	**6,773,491**	**-**	**-**	**22,744,890**	**158,710,730**

FINANCIAL LIABILITIES: NATURE / CATEGORY		PREVIOUS PERIOD		
		Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortized cost
Trading derivatives	5570	7,106,560		
Short positions	5580	343,429		
Deposits	5590	-	-	170,537,855
Deposits from central banks	5591	-	-	15,355,970
Deposits from credit institutions	5592	-	-	22,212,284
Customer deposits	5593	-	-	132,969,601
Marketable debt securities	5600	-	-	19,288,228
Other financial liabilities	5610	-	-	1,090,428
TOTAL (INDIVIDUAL)	**5620**	**7,449,989**	**-**	**190,916,511**
Trading derivatives	5630	7,077,562		
Short positions	5640	343,429		
Deposits	5650	-	-	168,045,365
Deposits from central banks	5651	-	-	15,355,970
Deposits from credit institutions	5652	-	-	22,293,596
Customer deposits	5653	-	-	130,395,799
Marketable debt securities	5660	-	-	19,784,810
Other financial liabilities	5670	-	-	1,067,385
TOTAL (CONSOLIDATED)	**5680**	**7,420,991**	**-**	**188,897,560**

IV. SELECTED FINANCIAL INFORMATION

14. SEGMENT REPORTING

Uds.: Thousands of euros

Tabla 1

Geographic Area		Distribution of profit/ loss of interest by geographic areas - Individual - CURRENT PERIOD	Individual - PREVIOUS PERIOD	Consolidated - CURRENT PERIOD	Consolidated - PREVIOUS PERIOD
Domestic market	2210	1,273,242	1,143,271	1,256,608	1,164,453
Export:	2215	-	-	346	1,412
European Union	2216	-	-	-	-
Rest of O.C.D.E. countries	2217	-	-	-	-
Rest of countries	2218	-	-	346	1,412
TOTAL	**2220**	**1,273,242**	**1,143,271**	**1,256,954**	**1,165,865**

Tabla 2

Segments		Ordinary income - Consolidated - Ordinary revenue from foreing customers - Current period	Ordinary revenue from foreing customers - Previous period	Ordinary revenue between segments - Current period	Ordinary revenue between segments - Previous period	Total ordinary income - Current period	Total ordinary income - Previous period
Retail Banking	2221	1,212,753	912,568	(121,802)	(59,523)	1,090,951	853,045
Business Banking	2222	354,203	357,232	(55,308)	(69,275)	298,895	287,957
Corporate Centre	2223	594,350	657,125	177,110	128,798	771,460	785,923
(-) Adjustments and elimination of ordinary revenue between segments	2231	-	-	-	-	-	-
Total	**2235**	**2,161,306**	**1,926,925**	**-**	**-**	**2,161,306**	**1,926,925**

Tabla 3

Segments		Consolidated - Profit (loss) - Current period	Consolidated - Profit (loss) - Previous period
Retail Banking	2250	306,755	199,692
Business Banking	2251	294,074	255,007
Corporate Centre	2252	80,264	238,353
Total profit (loss) of segments reported	**2260**	**681,093**	**693,052**
(+/-) Unallocated profit (loss)	2261	-	-
(+/-) Elimination of internal profit (loss) (between segments)	2262	-	-
(+/-) Other profit (loss)	2263	-	-
(+/-) Income tax and/or profit (loss) from discontinued activities	2264	-	-
PROFIT (LOSS) BEFORE TAX	**2270**	**681,093**	**693,052**

IV. SELECTED FINANCIAL INFORMATION

15. AVERAGE WORKFORCE AND NUMBER OF OFFICE

		INDIVIDUAL		CONSOLIDATED	
		Current period	Previous period	Current period	Previous period
AVERAGE WORKFORCE	2295	16,238	13,075	16,771	13,415
Men	2296	7,295	5,955	7,542	6,109
Women	2297	8,943	7,120	9,229	7,306

		Current period	Previous period
NUMBER OF OFFICE	2298	2,306	1,777
Spain	2299	2,306	1,777
Abroad	2300	0	0

IV. SELECTED FINANCIAL INFORMATION

16. REMUNERATION RECEIVED BY DIRECTORS AND MANAGING DIRECTORS

DIRECTORS

		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Fixed remuneration	2310	804	750
Variable remuneration	2311		
Attendace fees	2312	379	400
Director's fees	2313		
Options on shares and/or other financial instruments	2314		
Others	2315		
TOTAL	**2320**	1,183	1,150

Others benefits:

Advance	2326		
Loans granted	2327		
Pension funds and plans: Contributions	2328		
Pension funds and plans: Contrated obligations	2329		
Life insurance premiums	2330		
Guarantees granted to directors	2331		

MANAGING DIRECTORS:

		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Total rumenerations paid to managing directors	2335	942	876

Uds.: Thousands of euros

RELATED-PARTY TRANSACTIONS		CURRENT PERIOD				
EXPENSES AND REVENUE		Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
1) Finance costs	2340	72	-	2,554	75	2,701
2) Managent and cooperation contracts	2341	-	-	-	-	-
3) R&D tranfers and licence agreements	2342	-	-	-	-	-
4) Leases	2343	-	-	-	-	-
5) Receipt of services	2344	-	-	-	-	-
6) Purchase of goods (finished or in progress)	2345	-	-	-	-	-
7) Allowance for bad and doubtful debts	2346	-	-	(1,425)	-	(1,425)
8) Losses on retirement or disposal of assets	2347	-	-	-	-	-
9) Other expenses	2348	-	2	-	-	2
EXPENSES (1+2+3+4+5+6+7+8+9)	**2350**	**72**	**2**	**1,129**	**75**	**1,278**
10) Finance income	2351	-	1	5,674	11	5,686
11) Management and cooperation contracts	2352	-	-	-	-	-
12) R&D transfers and licence agreements	2353	-	-	-	-	-
13) Dividends received	2354	-	-	-	-	-
14) Leases	2355	-	-	-	-	-
15) Provision of services	2356	3,740	57	605	255	4,657
16) Sale of goods (finished or in progress)	2357	-	-	-	-	-
17) Gains on retirement or disposal of assets	2358	-	-	-	-	-
18) Other revenue	2359	-	-	-	-	-
REVENUE (10+11+12+13+14+15+16+17+18)	**2360**	**3,740**	**58**	**6,279**	**266**	**10,343**

		CURRENT PERIOD				
OTHER TRANSACTIONS		Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets and other assets	2371	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	2372	(48,009)	(37)	(29,527)	1,175	(76,398)
Finance lease arrangements (lessor)	2373	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessor)	2377	-	-	-	-	-
Sale of property, plant and equipment, intangible assets and other assets	2374	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower))	2375	39,334	1,484	266,757	39,266	346,841
Finance lease arrangements (lessee)	2376	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessee)	2378	-	-	-	-	-
Collateral and guarantees given	2381	-	-	1,022	38,445	39,467
Collateral and guarantees received	2382	-	-	-	-	-
Commitments assumed	2383	-	71	13,178	161	13,410
Commitment/Guarantees cancelled	2384	-	-	-	-	-
Dividends and other earnings distributed	2386	-	-	-	-	-
Other transactions	2385	1,416	-	1,488	-	2,904

IV. SELECTED FINANCIAL INFORMATION

17. RELATED-PARTY TRANSACTIONS (2/2)

Uds.: Thousands of euros

RELATED-PARTY TRANSACTIONS EXPENSES AND REVENUE		CURRENT PREVIOUS Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
1) Finance costs	6340	140	1	819	22	982
2) Managent and cooperation contracts	6341	-	-	-	-	-
3) R&D tranfers and licence agreements	6342	-	-	-	-	-
4) Leases	6343	-	-	-	-	-
5) Receipt of services	6344	-	-	-	-	-
6) Purchase of goods (finished or in progress)	6345	-	-	-	-	-
7) Allowance for bad and doubtful debts	6346	-	-	(707)	-	(707)
8) Losses on retirement or disposal of assets	6347	-	-	-	-	-
9) Other expenses	6348	-	-	-	-	-
EXPENSES (1+2+3+4+5+6+7+8+9)	**6350**	140	1	112	22	275
10) Finance income	6351	-	1	1,264	1	1,266
11) Management and cooperation contracts	6352	-	-	-	-	-
12) R&D transfers and licence agreements	6353	-	-	-	-	-
13) Dividends received	6354	-	-	-	-	-
14) Leases	6355	-	-	-	-	-
15) Provision of services	6356	4,694	39	161	15	4,909
16) Sale of goods (finished or in progress)	6357	-	-	-	-	-
17) Gains on retirement or disposal of assets	6358	-	-	-	-	-
18) Other revenue	6359	-	-	-	-	-
REVENUE (10+11+12+13+14+15+16+17+18)	6360	4,694	40	1,425	16	6,175

OTHER TRANSACTIONS		CURRENT PREVIOUS Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets and other assets	6371	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	6372	262,133	(119)	(1,658)	(136)	260,220
Finance lease arrangements (lessor)	6373	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessor)	6377	-	-	-	-	-
Sale of property, plant and equipment, intangible assets and other assets	6374	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower))	6375	(45,873)	(258)	15,112	(7,613)	(38,632)
Finance lease arrangements (lessee)	6376	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessee)	6378	-	-	-	-	-
Collateral and guarantees given	6381	2,401	(232)	11,964	(87)	14,046
Collateral and guarantees received	6382	-	-	-	-	-
Commitments assumed	6383	(5,766)	110	(11,047)	66	(16,637)
Commitment/Guarantees cancelled	6384	-	-	-	-	-
Dividends and other earnings distributed	6386	-	-	-	-	-
Other transactions	6385	(176)	-	-	-	(176)

IV. SELECTED FINANCIAL INFORMATION

18. SOLVENCY INFORMATION

Units.: Percentage

CAPITAL RATIO		CURRENT PERIOD	PREVIOUS PERIOD
Eligible Common Equity Tier 1 capital (thousand euros) (a)	7010	11,719,708	12,173,453
Eligible Additional Tier 1 capital (thousand euros) (b)	7020	750,000	682,125
Eligible Tier 2 capital (thousand euros) (c)	7040	1,902,233	1,631,837
Risks (thousand euros) (d)	7030	83,634,349	86,041,890
Common Equity Tier 1 capital ratio (CET 1) (A)=(a)/(d)	7110	14.01%	14.15%
Additional Tier 1 capital ratio (AT 1) (B)=(b)/(d)	7120	0.90%	0.79%
Tier 1 capital ratio (Tier 1) (A)+(B)	7150	14.91%	14.94%
Tier 2 capital ratio (Tier 2) (C)=(c)/(d)	7130	2.27%	1.90%
Total capital ratio (A)+(B)+(C)	7140	17.18%	16.84%

LEVERAGE RATIO		CURRENT PERIOD	PREVIOUS PERIOD
Tier I capital (thousands of euros) (a)	7050	12,469,708	12,855,578
Exposure (thousands of euros) (b)	7060	210,399,290	213,504,901
Leverage rario (a)/(b)	7070	5.93%	6.02%

IV. SELECTED FINANCIAL INFORMATION

19. Credit quality of Loans and Receivables Portfolio

Uds.: Thousands of euros

GROSS AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	7500	156,567,851	120,805,891
Of which: under special monitoring	7501	-	-
Substandard risk	7502	-	-
Non-performing risk	7503	10,094,360	11,318,382
Total Gross amount	7505	166,662,211	132,124,273

IMPAIRMENT LOSSES		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	7510	(1,006,907)	(720,173)
Of which: under special monitoring	7511	-	-
Substandard risk	7512	-	-
Non-performing risk	7513	(4,550,264)	(5,046,737)
Total asset impairment losses	7515	(5,557,171)	(5,766,910)
Impairment loss calculated collectively	7520	(3,636,676)	(3,503,201)
Impairment loss calculated individually	7530	(1,920,495)	(2,263,709)

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	7540	155,560,944	120,085,718
Of which: under special monitoring	7541	-	-
Substandard risk	7542	-	-
Non-performing risk	7543	5,544,096	6,271,645
Total carrying amount	7545	161,105,040	126,357,363

GUARANTEES RECEIVED		CURRENT PERIOD	PREVIOUS PERIOD
Value of collateral	7550	83,835,929	86,764,244
Of which: guarantees risks under special monitoring	7551	-	-
Of which: guarantees substandard risks	7552	-	-
Of which: guarantees non-performing risks	7553	9,188,088	10,213,726
Value of other guarantees	7554	-	-
Of which: guarantees risks under special monitoring	7555	-	-
Of which: guarantees substandard risks	7556	-	-
Of which: guarantees non-performing risks	7557	-	-
Total value of guarantees received	7558	83,835,929	86,764,244

FINANCIAL GUARANTEES GIVEN		CURRENT PERIOD	PREVIOUS PERIOD
Loan commitments given	7560	20,589,203	18,518,902
Of which: classified as non-performing	7561	477,241	429,073
Amount recognised under liabilities in Balance Sheet	7562	77,814	24,863
Financial guarantees given	7563	372,949	415,095
Of which: classified as non-performing	7564	96,227	101,079
Amount recognised under liabilities in Balance Sheet	7565	23,973	28,533
Other commitments given	7566	12,669,769	12,749,981
Of which: classified as non-performing	7567	620,062	694,332
Amount recognised under liabilities in Balance Sheet	7568	284,375	326,088

IV. SELECTED FINANCIAL INFORMATION

20. REFINANCED OR RESTRUCTURED OPERATIONS (1/2)

Uds.: Thousands of euros

Refinancing and restructuring balances

GROSS AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	8000	4,635,384	5,180,378
Of which: under special monitoring	8001	-	-
Substandard risk	8002	-	-
Non-performing risk	8003	6,369,257	7,398,554
Total Gross amount	8005	11,004,641	12,578,932

IMPAIRMENT LOSSES		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	8010	(239,476)	(127,356)
Of which: under special monitoring	8011	-	-
Substandard risk	8012	-	-
Non-performing risk	8013	(2,792,209)	(3,210,193)
Total asset impairment losses	8015	(3,031,685)	(3,337,549)
Collective impairment losses	8020	(1,447,521)	(1,672,964)
Specific impairment losses	8030	(1,584,164)	(1,664,585)

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	8040	4,395,908	5,053,022
Of which: under special monitoring	8041	-	-
Substandard risk	8042	-	-
Non-performing risk	8043	3,577,048	4,188,361
Total carrying amount	8045	7,972,956	9,241,383
Total carrying amount of financing granted to customers	8046	121,525,721	123,024,682

GUARANTEES RECEIVED		CURRENT PERIOD	PREVIOUS PERIOD
Value of collateral	8050	6,402,754	7,122,610
Of which: guarantees risks under special monitoring	8051	-	-
Of which: guarantees substandard risks	8052	-	-
Of which: guarantees non-performing risks	8053	3,339,361	3,583,379
Value of other guarantees	8054	-	-
Of which: guarantees risks under special monitoring	8055	-	-
Of which: guarantees substandard risks	8056	-	-
Of which: guarantees non-performing risks	8057	-	-
Total guarantees received	8058	6,402,754	7,122,610

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Credit institutions	8060	-	-
General Governments	8061	113,742	101,245
Other financial corporations and individual entrepreneurs (financial business)	8062	26,868	286,939
Other non-financial corporations and individual entrepreneurs (non-financial business)	8063	3,111,455	3,606,861
Of which: Financing for real estate construction and development (including land)	8064	333,383	372,886
Other households	8065	4,720,891	5,246,338
Total carrying amount	8066	7,972,956	9,241,383

Financing classified as non-current assets and disposal groups classified as held for sale	8067	-	-

IV. SELECTED FINANCIAL INFORMATION

20. REFINANCED OR RESTRUCTURED OPERATIONS (2/2)

Uds.: Thousands of euros

Reconciliation

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Balances at 31 December	8070	9,241,383	6,956,722
(+) Refinancings and restructurings in the period	8071	126,067	1,641,350
Token entry: impact recognised in the profit and loss account for the period	8072	-	-
(-) Debt repayments	8073	(1,181,575)	(881,876)
(-) Foreclosures	8074	(62,526)	(66,154)
(-) Derecognition (reclassification to written-off assets)	8075	(27,619)	(20,681)
(+)/(-) Other changes	8076	(122,774)	(78,056)
Balances at 30 December (*)	8080	7,972,956	7,551,305

Uds.: Thousands of euros

Real estate credit risk exposure - Spain

GROSS AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Financing for real estate construction and development (including land)	9000	889,843	1,042,727
Of which: under special monitoring	9001	-	-
Of which: substandard	9002	-	-
Of which: non-performing	9003	467,004	619,782
Total Gross amount	9005	889,843	1,042,727

IMPAIRMENT LOSSES		CURRENT PERIOD	PREVIOUS PERIOD
Financing for real estate construction and development (including land)	9010	(242,284)	(340,255)
Of which: under special monitoring	9011	-	-
Of which: substandard	9012	-	-
Of which: non-performing	9013	(223,168)	(321,909)
Total asset impairment losses	9015	(242,284)	(340,255)

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Financing for real estate construction and development (including land)	9020	647,559	702,472
Of which: under special monitoring	9021	-	-
Of which: substandard	9022	-	-
Of which: non-performing	9023	243,836	297,873
Total carrying amount	9025	647,559	702,472
Total carrying amount of financing granted to customers	9030	115,173,256	116,378,579

GUARANTEES RECEIVED		CURRENT PERIOD	PREVIOUS PERIOD
Value of collateral	9050	724,391	720,618
Of which: guarantees risks under special monitoring	9051	-	-
Of which: guarantees substandard risks	9052	-	-
Of which: guarantees non-performing risks	9053	250,954	361,004
Value of other guarantees	9054	-	-
Of which: guarantees risks under special monitoring	9055	-	-
Of which: guarantees substandard risks	9056	-	-
Of which: guarantees non-performing risks	9057	-	-
Total value of guarantees received	9058	724,391	720,618

FINANCIAL GUARANTEES		CURRENT PERIOD	PREVIOUS PERIOD
Financial guarantees given relating to real estate construction and development	9060	7,372	42,539
Amount recognised under liabilities	9061	29	3,059

Foreclosed assets and assets received as payment for debts - Spain

TOTAL GROSS		CURRENT PERIOD	PREVIOUS PERIOD
Foreclosed property and property received as payment for debts	9070	4,759,538	5,115,203
Of which: land	9071	353,554	397,885
Investments in real estate entities	9072	-	-
Total gross amount	9075	4,759,538	5,115,203

IMPAIRMENT LOSSES		CURRENT PERIOD	PREVIOUS PERIOD
Foreclosed property and property received as payment for debts	9080	(1,786,481)	(1,835,658)
Of which: land	9081	(174,411)	(200,716)
Investments in real estate entities	9082	-	-
Total asset impairment losses	9085	(1,786,481)	(1,835,658)

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Foreclosed property and property received as payment for debts	9090	2,973,057	3,279,545
Of which: land	9091	179,143	197,169
Investments in real estate entities	9092	-	-
Total carrying amount	9095	2,973,057	3,279,545

IV. SELECTED FINANCIAL INFORMATION

11. CHANGES IN THE COMPOSITION OF THE GROUP

Table 1:

BUSINESS COMBINATIONS AND OTHER ACQUISITIONS OF INCREASES IN HOLDING IN SUBSIDIARIES, JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES (CURRENT PERIOD)						
Name of company (or business line) acquired or merged	Category	Efective date of transaction (dd/mm/yyy)	(Net) cost of the combinations (a) + b) (thousand euros)		% of voting rights acquired	% of total voting rights in the company after acquisition
			(Net) amount paid in the acquisition + other costs directly attributables to the combination (a)	Fair value of equity instruments issued for the acquisition of de company (b)		

Table 1:

REDUCTION IN HOLDINGS IN SUBSIDIARES. JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES OR OTHER TRANSACTIONS OF A SIMILIAR NATURE (CURRENT PERIOD)					
Name of company (or business line) sold, spun off or retired	Category	Efective date of transaction (dd/mm/yyy)	% of voting rights sold or retired	% of total voting rigts in the company after disposal	Profit/(Loss) generated (thousand euros)

V. CONDENSED INTERIM FINANCIAL STATEMENTE EXPLANATORY NOTES

(Text field

Note 1.5 of the audited condensed interim financial statements of the Bankia Group for the six-month period ended June 30, 2018, includes relevant information about the amendments made to the current and prior period information, mainly due to the entry into force of IFRS 9 – Financial instruments on January 1, 2018.
In this regard it is stated that for the purpose of preparing the half-yearly financial report, the Group, pursuant to paragraph 2 of the single transitory provision contained in Circular 3/2018, of 28 June, National Securities Market Commission (Comisión Nacional del Mercado de Valores or CNMV), on periodic reporting by issuers of securities admitted to trading on regulated markets related to half-yearly financial reports, interim management statements and, where applicable, quarterly financial reports, used the presentation format of half-yearly reports contained in the repealed Circular 5/2015, of 28 October, National Securities Market Commission, which amends Circular 1/2008, of 30January, on periodic reporting by issuers of securities admitted to trading on regulated markets related to half-yearly financial reports, interim management statements and, where applicable, quarterly financial reports. Therefore, the financial statements contained in Chapter IV included in the half-yearly financial report, are different from those presented in the audited condensed consolidated interim financial statements of the Bankia Group for the six-month period ended June 30, 2018.
The Group prepared Chapter IV on selected financial information from the periodic reporting model, in accordance with the repealed circular, except for template 13 "Breakdown of financial instruments by nature and category", which was not populated pursuant to the content of the above-mentioned single transitory provision.
To comply with the requirements established in paragraph 2 of the single transitory provision, Chapter V includes a reconciliation between the captions contained in Chapter IV that are affected by the entry into force of the new Circular and those included in the audited condensed consolidated interim financial statements of the Bankia Group for the six-month period ended June 30, 2018 in Chapter V. In this sense, it is stated that the financial information in Chapter IV was prepared in accordance with the following instructions contained in the single transitory provision:
Table IV. 1 and 6 from Circular 5/2015, individual and consolidated balance sheet:
Caption "Financial assets designated at fair value through profit or loss" (fields 0050 and 1050) includes non-trading financial assets mandatorily at fair value through profit or loss. Caption "Available-for-sale financial assets" (fields 0055 and 1055) includes financial assets at fair value through other comprehensive income.
Caption "Loans and receivables" (fields 0060 and 1060) includes all financial assets at amortised cost.
Caption "Accumulated other comprehensive income – Items that will not be reclassified to profit or loss – Rest valuation adjustment" (fields 0393 and 1394) includes:
Accumulated changes in fair value changes of equity instruments measured at fair value through other comprehensive income;
Accumulated hedge ineffectiveness for equity instruments measured at fair value through other comprehensive income and
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.
Caption "Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Hedging derivatives. Cash flow hedges [effective portion]" (fields 0403 and 1403) also includes fair value changes of hedging instruments [not designated elements].
Caption "Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Available-for-sale financial assets – Debt instruments" (fields 0405 and 1405) includes fair value changes of debt instruments measured at fair value through other comprehensive income.
Table IV. 2 and 7 from Circular 5/2015, individual and consolidated profit and loss account:
Caption "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net" (fields 0512 and 1512) also includes gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net.
Caption "Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss" (fields 0526 and 1526) includes modification gains or losses, net from financial assets at fair value through other comprehensive income and financial assets at amortised cost.
Furthermore, the disclosure of the caption between "Financial assets measured at cost" (fields 0527 and 1527), "Available-for-sale financial assets" (fields 0528 and 1528), "Loans and receivables" (fields 0529 and 1529) and "Held to maturity investments" (fields 0530 and 1530) were not populated in accordance to the single transitoryprovision.
Table IV. 3 and 8 from Circular 5/2015, individual and consolidated statement of recognised income and expenses:
Caption "Other comprehensive income – Items that will not be reclassified to profit or loss – Other valuation adjustments" (fields 0623 and 1623) includes:
Accumulated changes in fair value changes of equity instruments measured at fair value through other comprehensive income;
Accumulated hedge ineffectiveness for equity instruments measured at fair value through other comprehensive income and
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.
Caption "Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Cash flow hedges [effective portion] (fields 0645 and 1645) includes fair value changes of debt instruments at fair value through other comprehensive income, including their movements in the subsequent fields.
Table IV. 5 and 10A from Circular 5/2015, individual and consolidated statement of cash flows (indirect method):
Caption "Cash flows used in operating activities – Net increase/(decrease) in operating assets – Other financial assets at fair value through profit or loss" (fields 0832 and 1832) includes net increase/(decrease) of non-trading financial assets mandatorily at fair value through profit and loss.
Caption "Cash flows used in operating activities – Net increase/(decrease) in operating assets – Available-for-sale financial assets" (fields 0833 and 1833) includes net increase/(decrease) of financial assets at fair value through other comprehensive income.

Traslation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

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

Condensed Consolidated Interim Financial Statements (Half-Year) and Consolidated Interim Management Report for the six-month period ended June 30, 2018

Translation of the condensed consolidated interim 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 20). 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 sheets at 30 June 2018 and 31 December 2017

(Thousands of euros)

ASSETS	NOTE	30/06/2018	31/12/2017(*)
Cash, cash balances at central banks and other demand deposits		**2,517,813**	**4,503,911**
Financial assets held for trading	**7.1**	**6,271,234**	**6,773,491**
Derivatives		6,151,270	6,697,537
Equity instruments		4,124	73,953
Debt securities		115,840	2,001
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Non-trading financial assets mandatorily at fair value through profit or loss		**8,811**	**-**
Equity instruments		-	-
Debt securities		340	-
Loans and advances		8,471	-
Central banks		-	-
Credit institutions		-	-
Customers		8,471	-
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	**7.3**	**17,873,249**	**22,744,890**
Equity instruments		73,771	70,929
Debt instruments		17,799,478	22,673,961
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*6,942,929*	*9,892,613*
Financial assets at amortised cost	**7.4**	**161,105,040**	**158,710,730**
Debt securities		34,803,469	32,658,113
Loans and advances		126,301,571	126,052,617
Central banks		-	-
Credit institutions		4,775,850	3,027,935
Customers		121,525,721	123,024,682
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*98,109,825*	*82,456,235*
Derivatives – hedge accounting		**2,558,375**	**3,067,035**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Investments in joint ventures and associates		**342,288**	**320,597**
Joint ventures		33,985	30,862
Associates		308,303	289,735
Assets under insurance contracts		**-**	**-**
Tangible assets	**10**	**2,348,940**	**2,423,634**
Property, plant and equipment		1,682,933	1,757,510
For own use		1,682,933	1,757,510
Leased out under an operating lease		-	-
Assigned to welfare projects (savings banks and credit cooperatives)		-	-
Investment property		666,007	666,124
Of which: leased out under operating leases		666,007	666,124
Memorandum item: acquired in financial lease		-	-
Intangible assets	**11**	**277,550**	**237,499**
Goodwill		92,062	93,262
Other intangible assets		185,488	144,237
Tax assets		**10,942,729**	**11,004,862**
Current tax assets		289,277	474,887
Deferred tax assets	17	10,653,452	10,529,975
Other assets	**12**	**1,095,119**	**873,955**
Insurance contracts linked to pensions		422,571	432,981
Inventories		-	-
Other		672,548	440,974
Non-current assets and disposal groups classified as held for sale	**9**	**2,867,145**	**3,271,333**
TOTAL ASSETS		**208,208,293**	**213,931,937**

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the consolidated balance sheet at 30 June 2018.

(*) The consolidated balance sheet at 31 December 2017 is presented solely for comparison and differs from the one included in the 2017 consolidated financial statements. See Note 1.5.

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

Consolidated balance sheets at 30 June 2018 and 31 December 2017

(Thousand of euros)

LIABILITIES AND EQUITY	NOTE	30/06/2018	31/12/2017(*)
Financial liabilities held for trading	**13.1**	**6,668,699**	**7,420,991**
Derivatives	13.2	6,446,336	7,077,562
Short positions		222,363	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 measured at amortised cost		**184,830,238**	**188,897,560**
Deposits		166,418,694	168,045,365
Central Banks	13.3	13,855,970	15,355,970
Credit institutions	13.4	23,867,107	22,293,596
Customers	13.5	128,695,617	130,395,799
Debt securities issued	13.6	17,451,236	19,784,810
Other financial liabilities	13.7	960,308	1,067,385
Memorandum item: subordinated liabilities		*2,481,822*	*2,510,922*
Derivatives – hedge accounting		**252,042**	**378,454**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Liabilities under insurance contracts		**-**	**-**
Provisions	**14**	**1,756,243**	**2,034,575**
Pensions and other post employment defined benefit obligations		431,337	442,407
Other long term employee benefits		-	-
Pending legal issues and tax litigation		268,563	363,803
Commitments and guarantees given		386,162	379,484
Other provisions		670,181	848,881
Tax liabilities		**664,696**	**707,072**
Current tax liabilities		454	1,624
Deferred tax liabilities	17	664,242	705,448
Share capital repayable on demand		-	-
Other liabilities		**819,582**	**871,394**
Of which: welfare fund (only savings banks and credit cooperatives)		-	-
Liabilities included in disposal groups classified as held for sale	**9**	**8,291**	**8,797**
TOTAL LIABILITIES		**194,999,791**	**200,318,843**
Equity		**12,894,396**	**13,222,423**
Capital	15.1	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		8,750,488	9,093,630
Reserves or accumulated losses of investments in joint ventures and associates		(156,095)	(131,457)
Other		8,906,583	9,225,087
(-) Treasury shares	15.2	(74,784)	(79,837)
Profit or loss attributable to owners of the parent		514,575	504,513
(-) Interim dividends		-	-
Accumulated other comprehensive income		**298,845**	**365,780**
Items that will not be reclassified to profit or loss		74,589	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		6,000	8,714
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income		19,825	15,790
Accumulated hedge ineffectiveness for equity instruments measured liability at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedge item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Accumulated 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		224,256	292,512
Hedge of net investments in foreign operations [effective portion]		-	-
Foreign currency translation		(459)	(720)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(22,408)	(10,163)
Fair value changes of financial assets measured at fair value through other comprehensive income		209,692	264,398
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		2,534	(1,119)
Share of other recognised income and expense of investments in joint ventures and associates		34,897	40,116
Minority interests [Non-controlling interests]		**15,261**	**24,891**
Accumulated Other Comprehensive Income		1,160	989
Other items		14,101	23,902
TOTAL EQUITY		**13,208,502**	**13,613,094**
TOTAL EQUITY AND TOTAL LIABILITIES		**208,208,293**	**213,931,937**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS	**18**	**33,631,921**	**31,683,978**
Loan commitments given		20,589,203	18,518,902
Financial guarantees given		372,949	415,095
Contingent commitments given		12,669,769	12,749,981

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the condensed consolidated balance sheet at 30 June 2018.

(*) The consolidated balance sheet at 31 December 2017 is presented solely for comparison and differs from the one included in the 2017 consolidated financial statements. See Note 1.5.

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP
Consolidated income statement for the six months ended 30 June 2018 and 2017

(Thousand of euros)

	30/06/2018	30/06/2017(*)
Interest income	1,256,954	1,165,865
(Interest expenses)	(209,750)	(170,902)
(Expenses on share capital repayable on demand)	-	-
A) NET INTEREST INCOME	**1,047,204**	**994,963**
Dividend income	7,994	7,313
Share of profit/(loss) of companies accounted for using the equity method	29,319	18,379
Fee and commission income	576,194	463,655
(Fee and commission expenses)	(42,321)	(38,546)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	270,174	217,331
Gains or (-) losses on financial assets and liabilities held for trading, net	33,991	60,336
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	72	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	(13,260)	(15,496)
Exchange differences [gain or (-) loss], net	5,774	4,298
Other operating income	29,187	27,921
(Other operating expenses)	(102,879)	(92,545)
Of which: Mandatory provisions to welfare fund (only savings banks and credit cooperatives)	-	-
Income of insurance and reinsurance contracts	-	-
(Expenses of liabilities covered by insurance or reinsurance contracts)	-	-
B) GROSS INCOME	**1,841,449**	**1,647,609**
(Administrative expenses)	(856,178)	(680,635)
(Staff expenses)	(596,038)	(460,813)
(Other administrative expenses)	(260,140)	(219,822)
(Depreciation)	(88,115)	(83,324)
(Provisions or (-) reversal of provisions)	36,393	2,742
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss or modification gains or (-) losses, net	(207,644)	(174,161)
(Financial assets at fair value through other comprehensive income)	(772)	2,118
(Financial assets at amortised cost)	(206,872)	(176,279)
C) TOTAL OPERATING INCOME, NET	**725,905**	**712,231**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	40,623	(3,000)
(Impairment or (-) reversal of impairment on non-financial assets)	(8,960)	(6,470)
(Tangible assets)	(5,856)	733
(Intangible assets)	(2,850)	(3,000)
(Other)	(254)	(4,203)
Gains or (-) losses on derecognition of non financial assets accounts and investments, net	2,913	1,100
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	(79,388)	(10,809)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**681,093**	**693,052**
(Tax expense or (-) income related to profit or loss from continuing operations)	(166,307)	(178,591)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	**514,786**	**514,461**
Profit or (-) loss after tax from discontinued operations	-	-
F) PROFIT OR (-) LOSS	**514,786**	**514,461**
Attributable to minority interest	211	624
Attributable to owners of the parent	514,575	513,837
EARNINGS PER SHARE		
Basic earnings/(loss) per share	0.16	0.18
Diluted earnings/(loss) per share	0.16	0.18

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the consolidated income statement for the six months ended 30 June 2018.

(*) The consolidated income statement for the six months ended 30 June 2017 is presented solely for comparison and differs from the one included in the condensed consolidated interim financial statements for the six months ended 30 June 2017. See Note 1.5.

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP
Consolidated statement of recognised income and expense for the six months ended 30 June 2018 and 2017

(Thousands of euros)

	30/06/2018	30/06/2017(*)
Profit or (-) loss	**514,786**	**514,461**
Other comprehensive income	**(239,122)**	**(113,812)**
Items that will not be reclassified to profit or loss	**1,321**	**7,820**
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Non-current assets and disposal groups held for sale	-	-
Share of other recognised income and expense of entities accounted for using the equity method	(2,714)	5,877
Fair value changes of equity instruments measured at fair value through other comprehensive income	5,764	2,776
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	(1,729)	(833)
Items that may be reclassified to profit or loss	**(240,443)**	**(121,632)**
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	370	(780)
Translation gains or (-) losses taken to equity	370	(780)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	(17,493)	1,231
Valuation gains or (-) losses taken to equity	(17,493)	1,231
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	(324,377)	(170,963)
Valuation gains or (-) losses taken to equity	(54,895)	(70,115)
Transferred to profit or loss	(269,482)	(100,848)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	5,279	(9,474)
Valuation gains or (-) losses taken to equity	5,279	(9,474)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of Investments in joint ventures and associates	(5,219)	5,313
Income tax relating to items that may be reclassified to profit or (-) loss	100,997	53,041
Total comprehensive income	**275,664**	**400,649**
Attributable to minority interest [Non-controlling interest]	382	(337)
Attributable to owners of the parent	275,282	400,986

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the consolidated statement of recognised income and expense for the six months ended 30 June 2018.

(*) The consolidated statement of recognised income and expense for the six months ended 30 June 2017 is presented solely for comparison and differs from the one included in the condensed consolidated interim financial statements for the six months ended 30 June 2017. See Note 1.5.

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

Consolidated statement of changes in total equity for the six months ended 30 June 2018

(Thousands of euros)

Sources of equity changes	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Minority interests		Total
												Accumulated Other Comprehensive Income	Other items	
Opening balance at 31 December 2017 [before 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					-	-	-		514,575		(239,293)	171	211	275,664
Other changes in equity	-	-	-	-	-	-	143,905	5,053	(504,513)	-	-	-	(10,012)	**(365,567)**
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					-	-	-	(59,159)				-	-	**(59,159)**
Sale or cancellation of treasury shares					-	-	(2,664)	64,212				-	-	**61,548**
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			-	-	-	-	(19,929)	-	-	-	-	-	(10,012)	**(29,941)**
Of which: discretionary provision to welfare funds (only savings banks and credit cooperatives)					-		-							**-**
Closing balance at 30 June 2018 [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,750,488**	**(74,784)**	**514,575**	**-**	**298,845**	**1,160**	**14,101**	**13,208,502**

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the consolidated statement of 5ecognized income and expense for the six months ended 30 June 2018.

(*) See Note 1.3.1 First-time application of IFRS 9

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

Consolidated statement of changes in total equity for the six months ended 30 June 2017 (*)

(Thousands of euros)

Sources of equity changes	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Minority interests: Accumulated Other Comprehensive Income	Minority interests: Other items	Total
Opening balance at 31 December 2016 [before restatement]	**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					-	-	-		**513,837**		**(112,851)**	**(961)**	**624**	**400,649**
Other changes in equity	(6,334,531)	-	-	-	-	-	6,819,309	**(16,747)**	**(804,163)**	**-**	**-**	**-**	**129**	**(336,003)**
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					-	-	-	(68,877)				-	-	**(68,877)**
Sale or cancellation of treasury shares					-	-	6,964	52,130				-	-	**59,094**
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	-	-	-	-	-	-	-	-			-		-	**-**
Share based payments	-	-		-				-					-	**-**
Other increase or (-) decrease in equity			-	-	-	-	(10,392)	-	-	-	-	-	129	**(10,263)**
Of which: discretionary provision to welfare funds (only savings banks and credit cooperatives)					-		-							**-**
Closing balance at 30 June 2017 [current period]	**2,879,332**	**-**	**-**	**-**	**-**	**-**	**9,148,867**	**(61,505)**	**513,837**	**-**	**376,184**	**1,440**	**43,683**	**12,901,838**

(*) The consolidated statement of changes in equity for the six months ended 30 June 2017 is presented solely for comparison and differs from the one included in the condensed consolidated interim financial statements for the six months ended 30 June 2017. See Note 1.5.

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

Consolidated statement of cash flows for the six months ended 30 June 2018 and 2017

(Thousands of euros)

	30/06/2018	30/06/2017
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**194,481**	**1,295,077**
Consolidated profit/(loss)	**514,786**	**514,461**
Adjustments to obtain cash flows from operating activities	**165,146**	**209,505**
Depreciation and amortisation	88,115	83,324
Other	77,031	126,181
Net increase/(decrease) in operating assets	**(1,196,161)**	**(6,992,417)**
Financial assets held for trading	128,969	19,229
Non-trading financial assets mandatorily at fair value through profit or loss	243	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	(6,089,764)	(5,745,260)
Financial assets at amortised cost	4,277,418	(1,458,827)
Other operating assets	486,973	192,441
Net increase/(decrease) in operating liabilities	**(1,728,664)**	**(6,497,826)**
Financial liabilities held for trading	(121,066)	(386,909)
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(1,762,904)	(5,914,725)
Other operating liabilities	155,306	(196,192)
Income tax receipts/(payments)	**47,052**	**76,520**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**459,521**	**297,324**
Payments	**75,511**	**104,477**
Tangible assets	64	47,089
Intangible assets	73,927	54,283
Investments in joint ventures and associates	366	3,000
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	1,154	105
Other payments related to investing activities	-	-
Proceeds	**535,032**	**401,801**
Tangible assets	15,871	7,874
Intangible assets	-	-
Investments in joint ventures and associates	112,642	25,464
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	406,519	368,463
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(2,640,100)**	**(1,012,400)**
Payments	**2,801,649**	**2,068,764**
Dividends	338,015	315,957
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	59,160	68,877
Other payments related to financing activities	2,404,474	1,683,930
Proceeds	**161,549**	**1,056,364**
Subordinated liabilities	-	497,270
Issuance of own equity instruments	-	-
Disposal of own equity instruments	61,549	59,094
Other proceeds related to financing activities	100,000	500,000
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(1,986,098)**	**580,001**
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	**2,517,813**	**3,433,757**
MEMORANDUM ITEM		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	852,581	651,692
Cash equivalents at central banks	859,719	1,913,098
Other financial assets	805,513	868,967
Less: Bank overdrafts refundable on demand	-	-
Total cash and similar at the end of period	**2,517,813**	**3,433,757**
Of which: held by Group entities but not available by the Group	-	-

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the consolidated statement of 7ecognized income and expense for the six months ended 30 June 2018.
(*)The consolidated statement of cash flow at 30 June 2017 is presented solely for comparison and differs from the one included in the 2017 consolidated financial statements. See Note 1.5.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

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

(1.1) Group description

Bankia, S.A. ("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 30 June 2018, the Bank's branch network comprised 2,306 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 regulation, supervision and solvency of credit institutions.

Bankia is the parent of a business group (the "Group" or "Bankia Group"). At 30 June 2018, the scope of consolidation of the Bankia Group encompassed 78 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 30 June 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 30 June 2018 held shares representing 61.25% of its share capital (61.65% 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 condensed consolidated interim financial statements for the six months ended 30 June 2018 were authorised for issue by Bankia's directors at the Board meeting held on 25 July 2018. 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 Bankia, S.A.'s separate financial statements for the six months ended 30 June 2018 and, for comparative purposes, information as at 31 December 2017 and for the six months ended 30 June 2017. (See Note 1.5).

(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.

(1.3) Reporting framework applied to draw up the condensed consolidated interim 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").

In this respect, the Bankia Group's consolidated financial statements for 2017 were presented in accordance with IFRS-EU, taking into account Bank of Spain Circular 4/2004, of 22 December, on public and confidential financial reporting rules and formats for credit institutions ("Circular 4/2004") and subsequent amendments, which implemented and adapted IFRS-EU for Spanish credit institutions.

The Group's consolidated financial statements for 2017 were prepared taking into account all accounting principles and standards and mandatory measurement criteria applicable in order to give a true and fair view, in all material respects, of the consolidated equity and financial position of Bankia, S.A. and subsidiaries composing the Bankia Group at 31 December 2017 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.

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 "Financial Instruments". It was adopted 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 adopted 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.

These condensed interim financial statements have been prepared and presented in accordance with IAS 34 "Interim Financial Reporting" and article 12 of Royal Decree 1362/2007 and take into account the requirements Circular 3/2018, of 28 June, National Securities Market Commission (Comisión Nacional del Mercado de Valores or CNMV), on periodic reporting by issuers of securities admitted to trading on regulated markets related to half-yearly financial reports, interim management statements and, where applicable, quarterly financial reports. These condensed consolidated interim financial statements will be included in the Interim Financial Report presented by the Bankia Group for the first half of 2018 in accordance with Circular 3/2018, considering its single transitional Provision.

In accordance with IAS 34, the condensed consolidated interim financial report is intended to provide an update on the latest complete set of annual consolidated financial statements, focusing on new activities, events and circumstances that took place during the first half of the year and not duplicating information previously reported in the latest annual consolidated financial statements. Consequently, the condensed consolidated interim financial statements do not include all the information and disclosures required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards. Therefore, for an appropriate understanding of the information provided in these interim financial statements, they should be read in conjunction with the Bankia Group's annual consolidated financial statements for the year ended 31 December 2017.

The accounting policies and measurement bases applied in the accompanying condensed consolidated interim financial statements are the same as those applied in the 2017 audited consolidated financial statements, but these also take into consideration the standards and interpretations that entered into force during the first half of 2018, which are described as follows, so as to provide a true and fair view of the Group's consolidated equity and financial position at 30 June 2018 and of its consolidated results from operations and consolidated cash flows for the six months ended 30 June 2018.

Main regulatory changes during the period from 1 January to 30 June 2018

A) New standards, amendments and interpretations with mandatory application the natural year that began on 1 January 2018 approved by European Union

Following is a list of the main mandatory standards, amendments or interpretations adopted 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 interim financial statements.

- **IFRS 9 "Financial instruments"**

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

  See Note 1.3.1.

- **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.

- **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 condensed consolidated interim 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 application 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 application 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 condensed consolidated interim 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 condensed consolidated interim financial statements.

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

  [Effective for annual periods beginning on or after 1 January 2019, with early application 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 1.3.1).

- **IFRS 16: "Leases"**

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

  The objective of IFRS 16 is to provide transparency on companies' lease assets and liabilities. The standard retains the dual model for lessor accounting ("finance lease" and "operating lease"). For lessees, IFRS 16 eliminates the dual accounting model and introduces a single model within the balance sheet, whereby the lessee is required to recognise most leases on the balance sheet as a right-of-use asset and a liability at inception, except for insignificant leases and leases with a term of fewer than 12 months.

  The Group is currently assessing the potential impact of application of that standard.

C) New mandatory standards, amendments and interpretations. Pending approval by the European Union

Following is a list of the main standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") that have yet to be adopted by the European Union and therefore were not applied in the preparation of these condensed consolidated interim financial statements:

- **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 that is not applied the equity method and that form part of the net investment in the associate.

- **IFRIC 23: "Uncertainty over income tax treatments"**

  [Effective for annual periods beginning on or after 1 January 2019, with early application 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.

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

  [Effective for annual periods beginning on or after 1 January 2019, with early application 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 application 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 application 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.

1.3.1 First-time application of IFRS 9

1.3.1.1. Changes in accounting policies and measurement criteria

Adoption of IFRS 9 has required changes to the accounting policies and measurement criteria applicable from 1 January 2018. The principles, accounting policies and measurement criteria described in the following section replaces those set out in Note 2 to the audit consolidated financial statements of the Bankia Group for the year ended 31 December 2017.

In accordance with the transitional provisions included in IFRS 9, the Group has elected not to restate comparative information. Therefore, the principles, accounting policies and measurement criteria explained 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.

i) Classification and measurement of financial assets and financial liabilities

[Replaces Note 2.2.4 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]

Financial instruments are classified in the Group's consolidated balance sheet into the following categories:

- **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 to the audit consolidated financial statements of the Bankia Group for the year ended 31 December 2017 and in accordance with section v) of this Note. Any impairment losses on these assets is recognised in accordance with section vii) of this Note. Debt securities included in fair value hedges are recognised in accordance with section iv) of this Note.

- **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 to the audited consolidated financial statements of the Bankia Group for the year ended 31 December 2017 and in accordance with section v) of this Note. Changes in the fair value of financial assets hedged in fair value hedges are recognised as explained in section iv) of this Note.

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 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 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 included in this portfolio denominated in currencies other than the euro are recorded as set out in Note 2.4 to the audited consolidated financial statements of the Bankia Group for the year ended 31 December 2017 and in accordance with section v) of this Note. Financial liabilities included in fair value hedges are recognised in accordance with section iv) of this Note.

Nevertheless, financial instruments that should be considered as non-current assets held for sale in accordance with IFRS 5 are recognised in the Bankia Group's condensed consolidated financial statements for the six months ended 30 June 2018 as explained in Note 2.20 to the Bankia Group's audited consolidated financial statements for the year ended 31 December 2017.

ii) Reclassifications between portfolios

[Replaces Note 2.2.5 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]

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.
- 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 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.

iii) Changes in stakes held in subsidiaries, joint ventures and associates and their impairment

[Replaces Note 2.1.3.5 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]

Subsidiaries

Acquisitions and disposals that do not give rise to a change of control are accounted for as equity transactions. No loss or gain is recognised in profit or loss and the goodwill initially recognised is not remeasured. The difference between the consideration paid or received and the decrease or increase in 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 at the reclassification date. The difference between these amounts is recognised in profit or loss or accumulated other comprehensive income, according to the subsequent measurement of the retained interest.

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 or accumulated other comprehensive income, as applicable. 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 or other comprehensive income, according to the subsequent valuation of the retained interest. 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.
- Present value of future cash flows (value in use)

iv) Hedge accounting and mitigation of risk

[Replaces Note 2.3 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]

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 the applicable legislation, 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's hedging transactions are classified into the following categories:

- **Fair value hedges**: these hedge exposure to changes in the fair value of recognised financial assets and liabilities or unrecognised firm commitments, or a component of any such item, that is attributable to a specific risk and could affect the consolidated income statement.
- **Cash flow hedges**: these hedge exposure to variability in cash flows that it attributable to a specific risk associated with all or a component of a recognised asset or liability or a highly probable forecast transaction, and could affect consolidated profit or loss.
- **Hedges of net investment in a foreign operation**: these hedge the currency risk deriving from investments in subsidiaries, associates, joint ventures and branches of the Bank whose activities are based or undertaken in a different country or in a currency other than the euro.

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

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

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

- In **fair value hedges**, the gains or losses arising on both the hedging instruments and the hedged items (associated to hedged risk), are recognised directly in the consolidated income statement. The balancing entry of changes in fair value of the hedged item attributable to hedged risk is recorded as an adjustment to value of the hedged instrument.
- In **cash flow hedges**, the gains or losses attributable to the portion of the hedging instruments that qualifies as an effective hedge are recognised temporarily in equity under "Accumulated other comprehensive income - Items that may be reclassified to profit or loss - Hedging derivatives. Cash flow hedges reserve [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.
- In **hedges of net investments in foreign operations**, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under "Accumulated other comprehensive income - Items that may be reclassified to profit or loss - Hedge of net investments in foreign operations [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 income statement until the gains or losses on the hedged item are recognised in the income statement or, if the hedge relates to a highly probable forecast transaction that will lead to the recognition of a non-financial asset or liability, they will be recognised as part of the acquisition or issue cost when the asset is acquired or the liability is assumed.

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

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

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.

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

If hedge accounting is discontinued for a cash flow hedge or a hedge of a net investment in a foreign operation, the cumulative gain or loss on the hedging instrument recognised in equity under “Equity – 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.

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

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

Fair value hedges

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

Cash flow hedges

- 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).
  - Inflation-linked debt securities, whose risk is hedged with inflation derivatives (mainly inflation swaps).
- Financial liabilities at amortised cost
  - Marketable debt securities issued by the Bank, whose risk is hedged with interest rate derivatives (basically swaps).
- High probable forecast transactions
  - There trasantions are hedged only when they are highly probable and present an exposure to variations in cash flows that could ultimately affect consolidated profit or loss.

v) Recognition of exchange differences

[Replaces Note 2.4.4 to the Bankia Group’s consolidated financial statements for the year ended 31 December 2017]

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

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

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”.

vi) Interest income, interest expense, dividends and similar items

[Replaces Note 2.5.1 to the Bankia Group’s consolidated financial statements for the year ended 31 December 2017]

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.

For purchased or originated credit-impaired financial assets, interest income is calculated applying the credit-adjusted effective interest rate to the financial asset.

vii) Impairment of financial assets

[Replaces Note 2.9 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]

Debt instruments measured at amortised cost or at fair value through other comprehensive income

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 VIII 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.

– 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.

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.

– 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.

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 risk level, require individual assessment:

- Borrowers classified in Stage 2 – Standard exposure under special monitoring and Stage 3 – Doubtful exposure, with credit exposure exceeding EUR 5 million.
- Transactions classified in Stage 3 – Doubtful exposure for reasons other than arrears, not classified solely on the basis of automatic classification factors.
- Transactions in Stage 3 – Doubtful exposure, identified as having low credit risk.
- Transactions classified in Stage 2 – Standard exposure under special monitoring and Stage 3 – Doubtful exposure not belonging to a homogeneous risk group and, therefore, for which internal methods for collective assessment of allowances for credit risk cannot be developed.

Once the transactions requiring individualised assessment are identified, the allowances of the transactions that meet the aboved mentioned characteristics are estimated individually, in addition to transactions classified in Stage 2 – Standard exposures under special monitoring as a result of the individual assessment in which a factor other than automatic classification has had a decisive impact.

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. 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 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.

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 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.

– Probability of cure: percentage of recovery on an asset if a default event occurs.

To estimate expected credit losses on a collective basis, the Group uses the same methodological framework, sources and tools as those used to estimate IRB regulatory capital parameters, which have received the required approval by the European Central Bank. However, as the requirements for calculating expected loss are different from those of capital models, the Group performs a specific calibration to adapt the model to the requirements of IFRS 9.

In this respect, the main difference is that whereas the capital framework establishes an approach aimed at measuring the average observed in an economic cycle (probability of default through-the-cycle) or in a downturn scenario (LGD downturn or best estimate), the accounting framework attempts to define an approach aimed at measuring the situation observed at each moment of the cycle, considering future conditions that may affect the transaction ("forward in time", or "FIT"). This difference constitutes the main reason for the calibration process, so that parameters reflect current economic and financial conditions, including forecasts of future conditions.

For credit exposures for which the Group does not have an internal model approved by the Supervisor for determining capital requirements, the Group applies the internal methods developed for estimating expected losses.

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.

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

– Gross Domestic Product ("GDP").

– Interest rate.

– Unemployment rate.

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.

viii) Consolidated statement of cash flows

[Replaces Note 2.21 to the Bankia Group's consolidated financial statements for the year ended 31 December 2017]

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 described in section i) above are classified, for the purpose of this statement, as operating activities, except for subordinated financial liabilities, marketable debt securities and investments in equity instruments classified as at fair value through other comprehensive income that are not strategic investments. For these purposes, a strategic investment is one made with the intention of establishing or maintaining a long-term business relationship with the investee, since, inter alia, one of the circumstances that could determine the existence of significant influence exists, even though this influence does not actually exist.

- Financing activities: activities that result in changes in the size and composition of the equity and borrowings that are not operating activities, such as subordinated liabilities and marketable debt securities.
- 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 at fair value through equity which are strategic investments.

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.

1.3.1.2 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 condensed consolidated interim 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 and the condensed consolidated interim financial statements for the six months ended 30 June 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.

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 items			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 – Jointly controlled 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 18,347,209 thousand at 31 December 2017), "Financial guarantees given" (EUR 415,095 thousand at 31 December 2017) and "Other commitments given" (EUR 12,921,674 thousand, at 31 December 2017).

1.3.1.3 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 items		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 2,068,182 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.
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.

1.3.1.4 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 – FRS 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**

1.3.1.5 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 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)**

(1.4) Responsibility for the information and estimates made

The information in these condensed consolidated interim financial statements is the responsibility of Bankia’s directors.

In the Group’s condensed consolidated interim financial statements for the six months ended 30 June 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.
- The recoverable amount on certain financial assets – considering the value of the collateral received- and non-financial assets (mainly property), holdings in the capital of associates or joint ventures, as well as contingent liabilities.
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term commitments.
- Estimate of the recoverable amount and of the costs to sell 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.
- The period for reversal for measurement of temporary differences and the recoverability of recognised tax assets.

- The useful life, recoverable value and fair value of tangible and intangible assets.
- 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 Note 14).

Although these estimates were made on the basis of the best information available at 30 June 2018 and at the date of preparation of these condensed consolidated interim financial statements on the events analysed, future events may make necessary to change these estimates (upwards or downwards). Any changes in 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 periods affected.

(1.5) Comparative information

In compliance with current legislation, the information contained in these condensed consolidated interim financial statements relating to 31 December 2017 and the six months ended 30 June 2017 is presented solely for the purpose of comparison with the six months ended 30 June 2018.

As explained in Note 1.3.1, in the accompanying condensed consolidated interim 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 and the condensed consolidated interim financial statements for the six months ended 30 June 2017.

As explained in Note 1.1, Appendix I includes the separate financial statements of Bankia, S.A. for the six months ended 30 June 2018 together with information, solely for purposes of comparison, as at 31 December 2017 and for the six months ended 30 June 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 by IFRS 9 and IFRS 15. Therefore, these differ from those included in the financial statements of Bankia, S.A. for the year ended 31 December 2017 and the condensed consolidated interim financial statements for the six months ended 30 June 2017, also in Appendix I.

(1.6) Seasonality of operations

The Group’s main operations relate to the typical activities of financial institutions. Therefore, its business is not highly seasonal.

(1.7) Environmental impact

In view of the business activities carried on by the Group, it does not have any environmental responsibilities, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in the condensed consolidated inerim financial statements.

(1.8) Minimum reserve ratio

At 30 June 2018 and throughout the first half of 2018, Bankia met the minimum reserve ratio required by applicable Spanish legislation.

(1.9) Provisions and contingent liabilities

When preparing these condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 (net)” in the consolidated income statement, unless expressly stated otherwise.

(1.9.1) Legal proceedings related to the 2011 IPO

Civil proceedings regarding the invalidity of the subscription of shares.

At present, there are claims being processed seeking the invalidity of the subscription of shares issued in 2011 in the public offering for the stock market listing of Bankia, S.A., including those relating to subsequent subscriptions. In application of prevailing legislation, this contingency was recognised in accordance with the information disclosed in Note 14.

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

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

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.

Within the piece of Civil Liability, in the framework of the instruction and in relation to the application for Bond,on 13 February 2015, the National Criminal Court issued a ruling establishing a joint bail deposit by BFA, Bankia and four former members of Bankia's Board of Directors of EUR 800 million; i.e. six equal parts. The 4/6 corresponding to the four former Directors corresponded to the deposit covered with a charge to the civil liability insurance policy.

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

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

The 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 (see 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. On 7 June 2018, Chamber 4 of the Criminal Court delivered its judgement on the evidence requested by the parties to the proceedings and set a trial date of 26 November 2018.

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

Via rulings of Madrid Central Court of Instruction 4 dated 17 May 2018, the separate cases regarding preferred securities involving Caja Madrid and Bancaja were closed.

The rulings, with the same legal reasoning and in the same direction, concluded that sufficient proof had not been provided of the existence of the crime of fraud — which requires the use of deceit — 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—.

There is another separate case related to credit cards which, through a ruling on 23 February 2017, a sentence was handed down against certain former directors and executives of Caja Madrid and Bankia, stating that Bankia should be beneficiary of the civil liability arising from the crime. Appeals against the decision have been filed by both the convicted parties and certain plaintiffs, which are still pending resolution by the Supreme Court.

The Group considered the lawsuit included in preliminary proceedings No. 59/2012 as a contingent liability with an uncertain outcome. Note 14 provides additional information on the current status of the proceeding and the criteria applied by the Group in its accounting treatment.

(1.9.2) Other litigation and/or claims in process

At the end of the first half of 2018, certain lawsuits and proceedings were in process against the Group arising from the ordinary course of its operations. The Group's directors consider that, with the information available and in view of the provisions made by the Group in this connection (see Note 14), the outcome of litigation and claims will not have a material effect on the consolidated financial statements of the Group.

The main claims against the Group and their current situation are as follows:

Class actions

- Civil proceedings regarding hybrid instruments (preferred participating securities and subordinated bonds), The EUR 246 million provision set aside for this was used in full in 2015. Under the terms of the agreement signed between Bankia and BFA, this provision covers the maximum loss for Bankia derived from the costs related to the enforcement of rulings against the

Bank in the various proceedings against it related to the aforementioned issues. There are other class action suits filed by ADICAE seeking the cessation and nullity of emissions and the sale of those hybrid instruments.

- Demands seeking invalidity of interest rate floor clauses. On 30 June 2018 there are 5,392 legal proceedings in progress. In addition, Bankia, as well as virtually all Spanish banks, is being sued in a class action being processed in Madrid mercantile court 11, under case no. 471/2010, A ruling on the appeal filed with the Madrid regional court declaring the absolute invalidity with full retroactive effect is pending. However, for the purposes of this class action, the legal proceeding has largely been rendered without effect in the wake of the out-of-court procedure provided for in Royal Decree-Law 1/2017. However, the regional court can issue an abstract assessment, declaring a material lack of transparency in the clauses, resulting in invalidation, in line with the jurisprudence established by the Supreme Court in May 2013. There are also claims being ruled on under the framework of that Royal Decree-Law.
- Lawsuits filed in accordance with Law 57/68. On 30 June 2018 there are a 679 legal proceedings in progress.
- Lawsuits presented in connection with mortgage arrangement fees. At 30 June 2018, a total of 11,670 suits had been filed, in addition to a class action presented by Asufin seeking the cessation and reimbursement of fees and the use of the IRPH mortgage price index.
- Lawsuits related to derivatives. There were 434 legal proceedings in progress at 30 June 2018.
- Administrative appeals processed in Section 6 of the High Court filed against the FROB: The appeals seek to render null and void the resolution issued by the FROB, of 16 April 2013, agreeing the recapitalisation and management of hybrid instruments and subordinated debt in execution of the BFA-Bankia Group's Restructuring Plan, governing the early redemption of the preferred participating securities and other bonds through an exchange for shares. Favourable rulings were received in proceedings, two on administrative appeal, and the rest are firm. On 5 July 2018, Section 3 of the Administrative Appeals Chamber of the Supreme Court issued a ruling on one of the administrative appeals, rejecting it.

Other lawsuits

- Two lawsuits against Bankia S.A., and others, in two courts of first instance in Madrid:
  i) Court of first instance No. 2 in Madrid: Corporación Industrial Bankia and other parties are being sued for breach of obligations under the Alazor Support Agreement, specifically in relation to stipulation two thereof (ratios and expropriations); the court has ruled in favour of Corporación Industrial Bankia at first and second instance and the appeal lodged by the plaintiff banks is now pending ruling by the Supreme Court.
  ii) Court of first instance No. 48 in Madrid: declaratory procedure against Bankia seeking compliance with the comfort letter provided by Bankia to guarantee compliance with the obligations assumed by CIBSA under the Support Agreement. Bankia has been handed down unfavourable rulings by the courts of first and second instance and plans to lodge an appeal before the Supreme Court.
- Lawsuit brought by the Banco de Valencia Small Shareholder Association "Apabankval": In 2012, Apabankval filed a lawsuit against the Board of Directors of Banco de Valencia and Deloitte S.L. for corporate crimes. It is in the pre-trial phase. The amount of the civil liability claims has yet to be quantified. The Apabankval lawsuit has given rise to pre-trial proceedings 65/2013-10 at Central Examining Court No. 1 of the National High Court.

  Subsequently, a second lawsuit was brought by several individuals ("Banco de Valencia"). Against this backdrop, in a ruling dated 6 June 2016, Central Court of Instruction 1 of the National Court admitted the addition to preliminary proceedings 65/2013-10 of a new claim submitted by shareholders of Banco de Valencia against several members of the board of directors of Banco de Valencia, external auditor and Bankia, S.A. ("in place of Bancaja") for the corporate crime of falsification of accounting documents set out in article 290 of the Spanish Penal Code. The new plaintiffs are seeking joint compensation of EUR 9.9 million.

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

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

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

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

  The FROB, through the State Attorney, filed an appeal against the ruling of 13 December 2017 rejecting the appeal for amendment, which is still outstanding. Bankia and BFA are joined thereunder as they consider the FROB's arguments to be materially correct and oppose any subsidiary civil liability on the part of BFA, which would extend to Bankia.

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.

- Claim filed with Court of Instruction No. 1 by the owners of the properties included in the scope of action of Unidad de Ejecución UE-1, Plaza de España de San Fernando de Henares, for alleged misappropriation by the San Fernando town council. 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, which order was also appealed. 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.
- Lawsuit filed by the Creditors' agreement Administrators of a property developed against BMN, Gesnostrum Sociedad Gestora, S.L.U. and others, as part of the classification case, seeking disqualification as a result of the negligent creditors' agreement ruling. Pending ruling by a court of first instance.
- Lawsuit filed by two companies, one in liquidation and the other in creditors' agreement proceedings (and of which the first plaintiff and BMN were shareholders), seeking damages for alleged breach of the shareholder agreement in relation to the acquisition of certain assets after they were transferred to SAREB. Pending ruling at first instance.
- Lawsuit filed against Bankia claiming the invalidity of the sale (through the sub-participation) by Bankia of syndicated share of a mortgage loan. Alternative, a claim is made for a legal ruling of enforcement and subsidiarily damages for the inability to enforce and collect the defaulted transaction.

(1.10) Deposit Guarantee Fund and Single 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.

At the date of authorisation for issue of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2018, the Management Committee of the FGDEC had yet to announce the annual contribution to be made by the entity to both the part relating to the guarantee of deposits and the part relating to the guarantee of securities for 2018. At 31 December 2017, the amount accrued in this connection was EUR 124,660 thousand.

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 installment 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 30 June 2018 and 31 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 124,052 and EUR 149,376 thousand respectively 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 the first half of 2017), using EUR 10,735 thousand (EUR 9,602 in the first half of 2017) of irrevocable payment commitments, recognising the cash collateral under "Loans and advances" and the remaining EUR 60,381 thousand (EUR 54,410 in the first half of 2017) "Other operating expenses" in the accompanying consolidated income statement.

(1.11) Events after the reporting period

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., from Ahorro Andaluz, S.A., and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A., from Aviva Europe, SE, by Bankia, S.A., for EUR 226 million, was completed, giving it whole ownership of both companies. These agreements are part of the reorganisation of the Group's bancassurance business begun following the merger by absorption of Banco Mare Nostrum, making an end to the bancassurance alliances with Aviva Europe, SE.

No significant events took place between 30 June 2018 and the date of preparation for issue of these condensed consolidated interim financial statements other than those mentioned in these condensed consolidated interim financial statements.

(1.12) 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 Bankia'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.

The 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 on 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 condensed consolidated interim financial statements is presented at 30 June 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), including the Private Banking and Asset Management Corporate Directorate, and also the Bankassurance Directorate distributed through a large multi-channel network in Spain and operating a customer-centric business model.

The Business Banking division serves legal persons with annual sales volumes of over EUR 6 million (Business Banking), 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 individuals, businesses and self-employed with revenues below this threshold are served by the Retail Banking area for these purposes.

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

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

- Internal transfer prices: an internal transfer price, cost or return, as appropriate, which replicates the market interest rates for the term of the various transactions is applied to average balances of Private Banking and Business Banking positions. The 1-month Euribor rate is applied to average balances of Corporate Centre positions.
- Cost allocations: direct and indirect costs, according to the activity carried out, are allocated to the different segments.

Geographical segment reporting regarding interest income for the six months ended 30 June 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	Distribution of profit of interest by geographic areas			
	30/06/2018		30/06/2017	
	Bank	Group	Bank	Group
National market	1,273,242	1,256,608	1,143,271	1,164,453
International market	-	346	-	1,412
European Union	-	-	-	-
Rest of O.E.C.D. countries	-	-	-	-
Rest of countries	-	346	-	1,412
Total	**1,273,242**	**1,256,954**	**1,143,271**	**1,165,865**

Segment results for the six months ended 30 June 2018 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
NET INTEREST INCOME	**596,988**	**192,678**	**257,538**	**1,047,204**
Return on equity instruments	-	74	7,920	7,994
Results of entities accounted for using the equity method	-	-	29,319	29,319
Net fees and commissions	459,868	72,890	1,115	533,873
+/- Gains and losses on financial assets and liabilities and exchange differences	440	30,774	265,537	296,751
+/- Other operating income and operating expenses	7,173	1,777	(82,642)	(73,692)
GROSS INCOME	**1,064,469**	**298,193**	**478,787**	**1,841,449**
Administrative expenses	(487,618)	(28,859)	(339,701)	(856,178)
Amortisation	(32,276)	(631)	(55,208)	(88,115)
OPERATING INCOME BEFORE PROVISIONS	**544,575**	**268,703**	**83,878**	**897,156**
Provisions or (-) reversal of provisions	4,275	32,947	(829)	36,393
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss or (-) modification gains, net)	(242,359)	(7,576)	42,291	(207,644)
Impairment losses on other assets (net) and other gains and losses	264	-	(45,076)	(44,812)
PROFIT/(LOSS) BEFORE TAX	**306,755**	**294,074**	**80,264**	**681,093**

The table below shows the Bank ordinary income by business segments for the years ended 30 June 2018:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
External customers	1,212,753	354,203	594,350	2,161,306
Inter-segment transactions	(121,802)	(55,308)	177,110	-
Total ordinary income (1)	**1,090,951**	**298,895**	**771,460**	**2,161,306**

(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 inancial 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" and "Other operating income" in the accompanying income statement for the six months period ended 30 June 2018, which can be regarded as comparable to the Bank's revenue from ordinary business.

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

Segment results for the six months ended 30 June 2017[(1)] are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
NET INTEREST INCOME	**463,020**	**179,465**	**352,478**	**994,963**
Return on equity instruments	-	91	7,222	7,313
Results of entities accounted for using the equity method	-	-	18,379	18,379
Net fees and commissions	345,689	77,308	2,112	425,109
+/- Gains and losses on financial assets and liabilities and exchange differences	376	29,169	236,924	266,469
+/- Other operating income and operating expenses	1,685	516	(66,825)	(64,624)
GROSS INCOME	**810,770**	**286,549**	**550,290**	**1,647,609**
Administrative expenses	(383,734)	(28,135)	(268,766)	(680,635)
Amortisation	(27,650)	(645)	(55,029)	(83,324)
OPERATING INCOME BEFORE PROVISIONS	**399,386**	**257,769**	**226,495**	**883,650**
Provisions or (-) reversal of provisions	(1,006)	9,435	(5,687)	2,742
(Impairments or (-) reversal of impairment of financial assets not measured at fair value through profit or loss or (-) modification gains, net)	(198,658)	(12,443)	36,940	(174,161)
Impairment losses on other assets (net) and other gains and losses	(30)	246	(19,395)	(19,179)
PROFIT/(LOSS) BEFORE TAX	**199,692**	**255,007**	**238,353**	**693,052**

(1) Minor inter-segment adjustments were made to the figures for the first half of 2017 to make them consistent with the criteria applied in the first half of 2018.

The table below shows the Bank ordinary income by business segments for the years ended 30 June 2017[(1)]:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
External customers	912,568	357,232	657,125	1,926,925
Inter-segment transactions	(59,523)	(69,275)	128,798	-
Total ordinary income (2)	**853,045**	**287,957**	**785,923**	**1,926,925**

[(1)] Minor inter-segment adjustments were made to the figures for the first half of 2017 to make them consistent with the criteria applied in the first half of 2018.

[(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 non-trading financial assets mandatorily at fair value through profit or loss", "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 30 June 2017, which can be regarded as comparable to the Bank's revenue from ordinary business.

Segment assets and liabilities of the Bank by business segments at 30 June 2018 are as follows:

(Thousands of euros)

Segment balance sheet	Retail Banking	Business Banking	Corporate Centre	Group
Financial assets at amortised cost – Loans and advances – Customers	91,709,373	28,678,331	1,138,017	121,525,721
Other assets	16,822,455	12,400,975	57,459,142	86,682,572
Total assets	**108,531,828**	**41,079,306**	**58,597,159**	**208,208,293**
Financial liabilities at amortised cost – Customers	102,683,068	13,534,615	12,477,934	128,695,617
Other liabilities	5,848,760	27,544,691	32,910,723	66,304,174
Total liabilities	**108,531,828**	**41,079,306**	**45,388,657**	**194,999,791**

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, net assets from deferred benefits and rights associated with insurance contracts are recognised in the Corporate Centre.

Segment assets and liabilities of the Bank by business segments at 31 Decembre 2017[(1)] are as follows:

(Thousands of euros)

Segment balance sheet	Retail Banking	Business Banking	Corporate Centre	Group
Financial assets at amortised cost - Loans and advances – Customers	94,811,777	26,241,716	1,971,189	123,024,682
Other assets	4,835,539	13,261,609	72,810,107	90,907,255
Total assets	**99,647,316**	**39,503,325**	**74,781,296**	**213,931,937**
Financial liabilities at amortised cost – Customers	101,162,785	14,084,998	15,148,016	130,395,799
Other liabilities	4,856,041	30,961,603	34,105,400	69,923,044
Total liabilities	**106,018,826**	**45,046,601**	**49,253,416**	**200,318,843**

[(1)] Minor inter-segment adjustments were made to the figures for the first half of 2017 to make them consistent with the criteria applied in the first half of 2018.

(1.13) Audit fees

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 the first half of 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 1,802 thousand.
- For other assurance and services similar to auditing required by regulations or supervisory authorities: EUR 153 thousand.
- For other professional services agreed: EUR 742 thousand. No expense was incurred for tax advisory services.

Meanwhile, in 2018, the various Bankia Group companies paid audit fees to firms other than the Parent's auditor amounting to EUR 153 thousand.

The services engaged by the Bankia Group meet the requirements of independence stipulated in Law 22/2015, of 20 July, of accounts auditing, and do not include any work that is incompatible with the auditing function.

(2) Business combinations, significant changes in interests in subsidiaries, joint ventures, associates or other equity instruments, and other significant events

Note 2.1 to the Group's consolidated financial statements for the year ended 31 December 2017 describes the criteria followed to consider an entity as a group company, a joint ventures or an associate, along with the consolidation and measurement methods applied to each for the preparation of those consolidated financial statements.

Appendices II, III and IV to the notes to the condensed consolidated interim financial statements provide a detail of companies considered group companies, associates and joint ventures, respectively, for the purpose of preparing these condensed consolidated interim financial statements.

Merger by absorption of BMN by Bankia

Note 1.16 to the Group's 2017 consolidated financial statements describes the merger by absorption of Banco Mare Nostrum, S.A. ("BMN") by Bankia, S.A., completed on 12 January 2018, following the issuance of the public merger deed before notary public, the capital increase carried out by Bankia, the placement on public record of the merger deed with the Valencia Mercantile Register, the admission to trading of the new Bankia shares issued and delivered to BMN shareholders and the cancellation of BMN shares. Previously, on 28 December 2017, Bankia acquired effective control of BMN after complying with the conditions precedent of the transaction, taking 1 December 2017 as the designated acquisition date from which BMN transaction are deemed to have been performed for accounting purposes by Bankia.

The foregoing should be taken into account when comparing the consolidated income statement, statement of income and expense, statement of changes in equity and statement of cash flows for the six months ended 30 June 2017, shown solely and exclusively for comparison purposes (see Note 1.5), prior to completion of the merger by absorption, with the same statements for the six-month period ended 30 June 2018.

As described in Note 1.16, the transaction was recognised as a business combination in accordance with IFRS 3, with Bankia, S.A. as the acquirer, maintaining the pre-existing carrying amounts of its assets and liabilities and applying the purchase method to BMN's businesses.In accordance with IFRS, it 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.

Other operations

In the first half of 2018, the Bank derecognised its stake of 19.76% in Banco Europeo de Finanzas, S.A., which is shown as a join ventures stake 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, S.A. 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 the company now qualifies as an associate from that date onward. The inclusion of the stake in the Group's scope of consolidation has had no significant impact on the Group's equity.

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

(3) Risk management

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 tolerance levels set by the governing bodies. For this purpose, 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 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, 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 framework of Capital Planning 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.

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

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

     The *Recovery Plan*, also approved by the Board, 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 aligned 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 the performance of the function, his main responsibilities and the rules and faculties for his appointment and replacement.
   - The status reinforces the independence of the CRO, carried out by the Corporate Risks Directorate, which must maintain constant functional reporting with the Risk Advisory Committee of the Board of Directors and its Chairman. The CRO also has regular, direct two-way access to Senior Management and the governing bodies.

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

   - The Corporate Risk Directorate is responsible for defining all of the Group's risk management policies, creating and validating all risk methodologies and models and constituting a powerful and structured second line of defence in risk management, an aspect that is crucial for the Group's corporate governance.
   - The Corporate Credit Risk Directorate is responsible for loan authorisation, monitoring and recoveries and for managing the real estate assets foreclosed by the group.

   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 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 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 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 Advisory Committee of the Board of Directors. This Committee is responsible for approving risks within the scope of delegation thereto and guiding and administering exercise of the delegations to lesser bodies. It is also responsible for reporting to the Board of Directors on those risks that may affect solvency, profits, operations or the reputation of the Group.
   - Management Committee. This committee is presented with the documentation analysed at previous meetings of the organisation's various units. Under the scope of the Risk Appetite Framework, this committee is in charge of proposing the pertinent measures when limits are approached.
   - Capital Committee. Among this committee's responsibilities are the monitoring of the regulatory framework and its potential impact on the Group's regulatory capital, and the monitoring and analysis of the main capital ratios and their components, as well as the leverage ratio. It also monitors the capital initiatives being carried out within the Group.
   - Assets and Liabilities Committee. This committee is charged with monitoring and managing structural balance sheet and liquidity risks, reviewing the balance sheet structure, business performance, product profitability, earnings, etc. bearing in mind the policies and authorities approved by the Board of Directors.
   - Risk Committee. This committee oversees the operation under its remit and performs a preliminary analysis and assessment of all credit risk which must be resolved by high-ranking levels (Board of Directors and the Board Risk Committee). It is also in charge of designing a risk authorisation system and interpreting regulations to improve operations in accordance with general criteria approved by the Board of Directors.
   - Provisioning Committee: to ensure compliance with prevailing standards for recognising impairments for credit risk; approve the framework of risk classification policies, criteria and approaches and of allowances under the general framework of policies established by the Board of Directors; to monitor and control the budget of non-performing loans and allowances, 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.
   - Model Committee. Its main function is the management, approval and follow-up of the Group's internal models. In addition, it inherits the functions of the already extinct Rating Committees. It is and Credit Scoring. That is to say, the Model Committee is also responsible for ensuring the integrity of the ratings and establishing criteria to discriminate between situations not collected by the rating models, providing stability to the internal rating valuation system developed by the Entity as, to formalize in a collegiate body the monitoring of 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 Retail, Business, Corporate Finance, 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, is overseen by the Corporate Risk Directorate (which reports to the CEO), in accordance with the policies, methods and procedures approved by the Bank's Board of Directors. 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:

- 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.
- Responsible risk approval. Customers should be offered the financing facilities that are tailored to their needs, for amounts and under terms and conditions that match their payment ability. The necessary support should be provided so that borrowers of good faith can overcome their financial difficulties.
- Stable general approval criteria, per borrower and transaction.
- Adaptation. Segment-specific criteria should combine stability with adaptation to the Group's strategic targets, as well as the prevailing economic environment.
- Adapting price to risk, considering both the customer as a whole and individual transactions.
- Risk concentration limits.
- Data quality. To assess risk appropriately, sufficient and accurate data are required. Therefore, the coherence and integrity of the data must be assured.
- 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.

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.
- 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.

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 IFRS 9 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.
- 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.

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 existence of significant incidents in (internal and external) databases would result in a rejection. Moreover, a set of criteria are in place to cap maximum loan terms, both absolute levels and in relation to the age of the loan applicant or maximum loan amounts. At any rate, loans are only granted in euros, thereby avoiding any currency risk.

A key issue for the mortgage segment is the set of criteria that define the eligibility of assets as mortgage collateral and the valuation criteria. In particular, the risk assumed by the borrower may not depend substantially on the potential return the borrower may obtain on the mortgaged property, but rather the borrower's ability to pay the debt by other means. Meanwhile, only appraisals by Bank of Spain authorised appraisers are accepted. These are regulated by Royal Decree 775/1997, thus ensuring the quality and transparency of the appraisals. In addition, appraisal values must be calculated unconditionally as set out in Ministerial Order 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 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: 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 VIII 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:

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

At the same time, the Scoring Committing 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; i.e. economic capital.

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

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

The entry into force of IFRS 9 (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 condensed 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 30 June 2018 and at 31 December 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:

30 June 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	Derivates – hedge accounting	Loan commitments given and financial guarantees given
Institutions: Government agencies	113,019	-	-	17,206,396	19,847,349	-	558,739
Institutions: Credit institutions and others	150	-	-	75,836	24,767,973	-	673,039
Companies	2,671	8,811	-	517,246	33,987,392	-	21,349,617
Retail customers	-	-	-	-	82,502,326	-	6,035,253
Consumer	-	-	-	-	5,434,152	-	90,290
Mortgage	-	-	-	-	70,361,876	-	883,826
Retail – SMEs	-	-	-	-	5,935,170	-	1,206,654
Cards	-	-	-	-	771,128	-	3,854,483
Derivatives	6,151,270	-	-	-	-	2,558,375	-
Equity instruments	4,124	-	-	73,771	-	-	-
Total	**6,271,234**	**8,811**	**-**	**17,873,249**	**161,105,040**	**2,558,375**	**28,616,648**
Memorandum item: Breakdown by country of the public agency							
Spanish government agencies	113,019	-	-	14,299,983	16,183,797	-	558,739
Italian government agencies	-	-	-	2,905,546	2,813,386	-	-
Other government agencies	-	-	-	867	850,166	-	-
TOTAL	**113,019**	**-**	**-**	**17,206,396**	**19,847,349**	**-**	**558,739**

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	Derivates – hedge accounting	Loan commitment given and financial guarantees given
Institutions: Government agencies	2,001	-	-	20,452,167	17,017,120	-	358,490
Institutions: Credit institutions and others	-	-	-	1,587,189	23,728,631	-	391,035
Companies	-	-	-	634,605	32,156,097	-	21,245,638
Retail customers	-	-	-	-	85,808,882	-	5,231,338
Consumer	-	-	-	-	4,026,819	-	49,522
Mortgage	-	-	-	-	74,244,122	-	851,831
Retail – SMEs	-	-	-	-	5,998,431	-	874,780
Cards	-	-	-	-	1,101,963	-	3,455,205
Other	-	-	-		437,547	-	-
Derivatives	6,697,537	-	-	-	-	3,067,035	-
Equity instruments	73,953	-	-	70,929	-	-	-
Total	**6,773,491**	**-**	**-**	**22,744,890**	**158,710,730**	**3,067,035**	**27,226,501**
Memorandum item: Breakdown by country of the public agency							
Spanish government agencies	2,001	-	-	16,172,103	15,659,214	-	358,490
Italian government agencies	-	-	-	4,279,208	376,769	-	-
Other government agencies	-	-	-	856	981,137	-	-
TOTAL	**2,001**	**-**	**-**	**20,452,167**	**17,017,120**	**-**	**358,490**

In addition, exposure to credit risk, by segment and activity, corresponding to investments in companies classified as assets of disposal groups at 30 June 2018 and 31 December 2017 is as follows:

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets at amortised cost	
	30/06/2018	31/12/2017
Institutions: Government agencies	5,046	2,748
Institutions: Credit institutions and others	7,270	11,320
Companies	4,822	9,795
Others	38	34
Total	**17,176**	**23,897**

Note: the maximum exposure of financial assets recognised on the balance sheet is their carrying amount. Without deducting collateral or other credit enhancements received.

(3.1.3) 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 8.07% at 30 June 2018 (8.89% at 31 December 2017).

(3.1.4) Netting agreements and collateral agreements

In addition to amounts that can be set off in accordance with IAS 32, there are other offsetting (netting) and collateral agreements that effectively reduce credit risk, but do not meet the criteria 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)

	30/06/2018		31/12/2017	
Derivatives (trading and hedging)	Assets	Liabilities	Assets	Liabilities
Gross exposure	**14,160,408**	**12,149,141**	**16,186,672**	**13,878,116**
Amount netted	(5,450,763)	(5,450,763)	(6,422,100)	(6,422,100)
Carrying amount	**8,709,645**	**6,698,378**	**9,764,572**	**7,456,016**
Netting agreement	(4,770,503)	(4,770,503)	(5,399,879)	(5,399,879)
Collaterals (*)	(3,038,520)	(1,953,747)	(3,383,850)	(2,083,771)
Net exposure	**900,622**	**(25,872)**	**980,843**	**(27,634)**

(*) Includes instruments received/delivered as collateral.

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

	30/06/2018		31/12/2017	
Collateral	Delivered	Received	Delivered	Received
Cash	5,618	13,798	5,840	35,454
Financial instruments	50,165	-	46,341	-
Total	**55,783**	**13,798**	**52,181**	**35,454**

(3.1.5) 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 VIII contains the classification and hedging policies and criteria applied by the Group in this type of transaction, along with the amount of refinancing operations by their risk classification (i.e. transactions, substandard or doubtful risk) and respective coverages of credit risk.

(3.1.6) Assets impaired and derecognised

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

(Thousands of euros)

ITEMS	1st half 2018	1st half 2017
Accounting balance at the beginning of the period	1,980,236	1,289,699
Additions from:		
Assets unlikely to be recovered	48,807	119,962
Uncollected past-due amounts	113,178	26,849
Sum	161,985	146,811
Derecognition through:		
Cash collection	(24,683)	(14,016)
Foreclosure of assets, sales and other causes	(310,925)	(113,089)
Sum	(335,608)	(127,105)
Net change due to exchange differences	176	(1,031)
Accounting balance at the end of the period	**1,806,789**	**1,308,374**

(3.1.7) Information regarding financing for property development, home purchasing, and foreclosed assets

In accordance with Bank of Spain guidelines, Appendix VII presents key information at 30 June 2018 and 31 December 2017 regarding financing for property development, home purchasing and assets acquired through foreclosure or in settlement of debts.

(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; maturity profile should be 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, in particular repo markets, to raise financing so that it meets its additional liquidity needs, as well as the long-term financing provided by the ECB through the TLTRO program. 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. Ongoing monitoring of assets enables the Group to 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 following table presents the bulk of the liquidity reserve estimated by the Group to confront internal and systemic stress events.

(Milllion of euros)

ITEMS	30/06/2018	31/12/2017
Cash (*)	414	2,206
Undrawn amount on the facility	14,460	10,918
Highly liquid available assets (**)	15,215	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 Finance Directorate, 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 Directorate (MORD), which operates as an independent unit, monitors and analyses liquidity risk, among other responsibilities. It promotes the integration of these activities in management by developing metrics and methodologies to ensure that liquidity risk remains within the tolerance levels.

Specific liquidity risk management targets are defined for these metrics under normal market conditions. The overriding objective is to achieve appropriate self-financing of on-balance sheet credit activity, with a reduction in the loan-to-deposit ratio (relationship between loans and advances and customer deposits) and budgetary monitoring of the level of self-financing in the retail and wholesale businesses, as well as the commercial activity as a whole. Secondly, there are efforts to promote appropriate diversification in the wholesale 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 prevent and manage situations of liquidity stress. This pivots around the Liquidity Contingency Plan (LCP), which sets out the committees in charge of monitoring and activating the LCP and the protocol for determining responsibilities, internal and external communication flows, and potential action plans to, where appropriate, redirect the risk profile within the Bank's tolerance limits.

The LCP is backed by specific metrics, in the form of LCP monitoring alerts, and by complementary metrics to liquidity risk and regulatory funding indicators, LCR. These ratios LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) have built-in stress scenarios for the ability to maintain available liquidity and funding sources (wholesale 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 30 June 2018 the LCR complies with the risk limits of the entity and the regulatory requirements.

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

- It builds more survival horizons, which implies adapting the regulatory assumptions to these horizons, and envisaging and adopting corrective measures to address future liquidity vulnerabilities.
- It creates varying degrees of stress for each survival horizon. This approach allows 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 possibilty of liquidy crisis.

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

Maturities of issues

The following table provides information on the term to maturities of the Group's issues at 30 June 2018 and 31 December 2017, by type of financial instrument, including promissory notes and issues placed via the network.

30 June 2018

(Thousands of euros)

ITEM	2018	2019	2020	>2020
Mortgage bonds and covered bonds	271,388	2,764,179	417,917	14,505,508
Senior debt	9,041	1,000,000	-	135,522
Subordinate, preference and convertible securities	-	1,000,000	-	1,425,000
Securitisations sold to third parties	-	-	-	1,715,078
Total maturities of issues (*)	**280,429**	**4,764,179**	**417,917**	**17,781,108**

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

31 December 2017

(Thousands of euros)

ITEM	2018	2019	2020	>2020
Mortgage bonds and covered bonds	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
Securitisations 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)

ITEMS	30/06/2018	31/12/2017
Covered bonds issuance capacity (Appendix VI)	17,088,605	15,539,614
Territorial bond issuance capacity	1,337,594	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:

30 June 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	2,517,813	-	-	-	-	-	2,517,813
Loans and advances to credit institutions	-	4,045,941	224,264	500,028	-	8	4,770,241
Loans and advances to customers	-	3,807,430	4,670,496	11,470,439	30,482,370	76,464,795	126,895,530
Financial assets held for trading and financial assets at fair value through profit or loss	-	15,098	-	345	3,589	97,148	116,180
Other portfolios - Debt securities	-	271,200	285,500	21,022,992	10,387,705	20,634,702	52,602,099
Derivatives (trading and hedging) (1)	-	182,390	434,270	1,771,314	5,295,458	6,476,975	14,160,407
Total	**2,517,813**	**8,322,059**	**5,614,530**	**34,765,118**	**46,169,122**	**103,673,628**	**201,062,270**
Liabilities							
Deposits from central banks and credit institutions	-	14,453,711	1,096,788	1,163,366	17,116,648	3,882,518	37,713,031
Customer deposits	81,092,424	5,322,833	5,568,817	24,209,565	7,958,558	3,370,593	127,522,790
Marketable debt securities	-	928	432	2,753,438	4,686,375	9,255,274	16,696,447
Other financial liabilities (2)	960,308	-	-	-	-	-	960,308
Derivatives (trading and hedging) (1)	-	132,240	486,427	1,538,806	4,800,061	5,191,610	12,149,144
Total	**82,052,732**	**19,909,712**	**7,152,464**	**29,665,175**	**34,561,642**	**21,699,995**	**195,041,720**

(1) Gross exposure excluding netting arrangements (see Notes 3.1.4 and Notes 7 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 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 3.1.7 and Notes 7 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 Entity's results. Interest rate risk management is designed to provide stability to interest 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 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 30 June 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 -0.93%.

- Impact on economic value of equity, understood as the present value of estimated cash flows from different assets and liabilities. At 30 June 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 -4.68% of equity and -2.56% of economic value of the Group.

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.

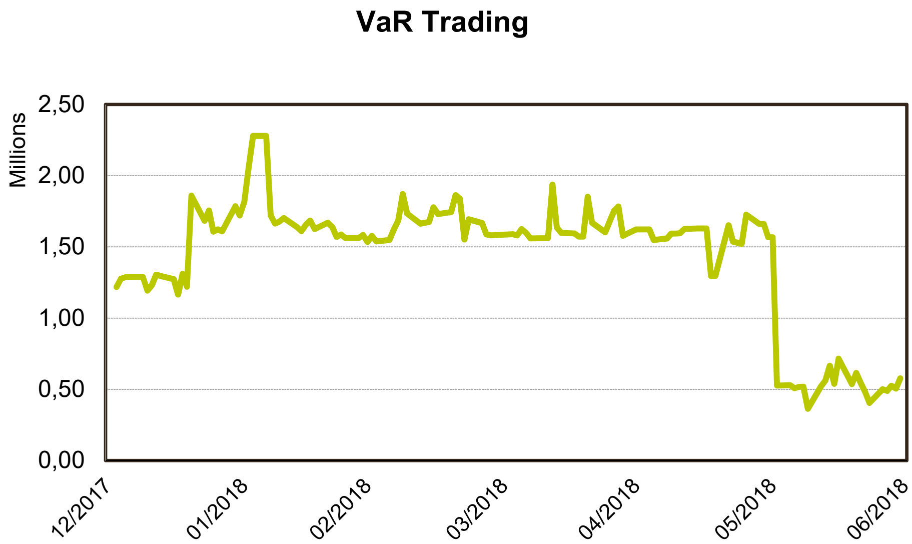
The Board of Directors delegates proprietary trading in financial markets to the Finance Directorate and its business areas, so they can exploit business opportunities using the most appropriate financial instruments at any given time, including interest rate, exchange rate and equity derivatives. In 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 Structural Risks Area, which reports to the Risk Directorate, 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 sense, variations in risk levels caused by changes in prices of financial products and their volatility can be detected.

The reliability of the VaR approach used is confirmed through backtesting, verifying that the VaR estimates are within the confidence level considered. Backtesting is extended to measure the effectiveness of the hedging derivatives. There were no changes in the methods or assumptions underlying the estimates included in the consolidated financial statements in the first half of 2018 compared to those used in 2017.

The following chart shows the trend in 1-day VaR with a 99% confidence level for operations in the markets area in activity trading 2018.



(4) Capital management

(4.1) Capital requirements

On 26 June 2013, Regulation No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the "CRR"), and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "CRD") were approved, repealing regulations on solvency in force until then. They came into effect on 1 January 2014 and will be phased in gradually until 1 January 2019.

The CRR and CRD regulate capital requirements in the European Union and include the recommendations set out in the Basel III capital regulatory framework 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 capital, establishing requirements for hybrid instruments to be included and limiting the calculation 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 fund, etc) and introduces changes to existing deductions. Nevertheless, it notes that the Regulation establishes a phase calendar until its final full implementatation between 5 and 10 years.
    - Establishment of minimum requirements (Pillar 1), 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 I capital divided by total exposure unadjusted for risk. The disclousure requirement is applicable from 2015 onwards.
- The aim and main purpose of the CRD, which must be transposed into national legislation by the Member States according to their criteria, is to coordinate national legislation regarding the access to the activity of credit institutions and investment

firms, the modalities for their governance and their supervisory framework. The CRD includes, inter alia, additional capital requirements to those established in the CRR, which will be phased in gradually until 2019. Failure to comply will imply restrictions on the discretionary distributions of profit, specifically:

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

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

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

Regarding combined capital buffer requirements, bearing in mind the phase-in period provided for in Law 10/2014, the capital conservation buffer applicable in 2018 is 1.875% (2017: 1.250%), corresponding to 75% (2017: 50%) of the total (2.5%). Similarly, as the Bank of Spain identified the Bank Group as an Other 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 the first half of 2018, it had to meet 75% of this buffer (2017:50%); i.e. 0.1875% (2017: 0.1250%). Finally, the Group's own countercyclical buffer, calculated based on the geographical location of its exposures, is 0%. These is because the Group's exposures are located in countries (mainly Spain) whose supervisors have established the buffer at 0% for exposures in their territories.

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 of 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 the 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. 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, amending certain aspects of Circular 2/2014 of 31 January. Its scope of application has been limited to the less significant entities, the contents of the Circular have been fine-tuned to reflect the guidelines issued by the ECB and it eliminates the rules regarding the transitional arrangements that were in effect until 2017.

In addition, in 2016 the European Central Bank published Regulation (EU) 2016/445, of 14 March 2016. With this regulation, the European Central Bank aims to further harmonise legislation applicable to credit institutions under its direct supervision (significant credit institutions) and establish a level playing field for credit institutions. This regulation became effective on 1 October 2016, supplementing the options and discretions conferred on the national competent authorities.

The Group applies the following to its minimum capital requirements:

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

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

The following table provides a detail of the Bankia Group’s capital levels at 30 June 2018 and 31 December 2017 and its capital requirements calculated in accordance with the CRR and CRD IV:

(Thousands of euros and %)

ITEM	30/06/2018 (*)	31/12/2017
Common Equity Tier I (CET 1)	**11,719,708**	**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 (**)	514,575	504,513
Reserves and treasury shares	8,637,988	9,001,491
Other comprehensive eligible and accumulated income	278,488	261,982
Non-competing minority interests	-	4,863
Deductions	(1,415,460)	(1,303,513)
Deferred tax assets depend on future incomes	(803,366)	(586,600)
Prudent valuation related to assets side (AVA)	(37,651)	(35,266)
Dividend to be deducted for regulatory purposes	(214,534)	(340,086)
Intangible assets and others deductions	(359,909)	(341,561)
Additional Tier I Capital (AT1)	**750,000**	**682,125**
TIER I (TIER1=CET1+AT1)	**12,469,708**	**12,855,578**
TIER2	**1,902,233**	**1,631,837**
Subordinated debt	1,672,270	1,672,270
Others eligible/deductibles elements	229,963	(40,433)
Total capital (TIER1+TIER2)	**14,371,941**	**14,487,415**
Total Risk Weighted Assets	**83,634,349**	**86,041,890**
Credit risk, counterparty and dilution	**75,731,666**	**77,957,877**
Standardised approach	35,278,757	36,942,430
Internal ratings-based approach	40,452,909	41,015,447
By market risk	**1,426,407**	**1,607,737**
By operational risk	**6,476,276**	**6,476,276**
Common Equity Tier I ratio	**14.01%**	**14.15%**
Equity Tier I ratio	**14.91%**	**14.94%**
Total capital ratio	**17.18%**	**16.84%**

(*) Estimated data.

(**) The entity intends to request authorisation for inclusion in the calculation of profit for the period, less the regulatory dividend calculated based on last year’s dividend payout.

At 30 June 2018, the Bankia Group showed a surplus of EUR 4,559 million (EUR 5,398 million at 31 December 2017) over the regulatory minimum Common Equity Tier I of 8.563% (7.875% at 31 December 2017) established considering Pillar I, Pillar II and the combined requirement of buffers.

On 30 June 2018, the Bankia Group shows a surplus of EUR 4,284 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 requirment 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 1 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. Since January 2014, there is only an indicative reference level of 3% of the Tier I Capital established by the Basel Committee on Banking Supervision. The proposed revisions to the CRR also include a binding leverage ratio requirement of 3% of Tier 1 capital.

The leverage ratio is calculated as an entity's Tier I 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 30 June 2018 and 31 December 2017 calculated in accordance with Commission Delegated Regulation (EU) No. 2015/62 is as follows:

(Thousands of euros and %)

ITEMS	30/06/2018 (*)	31/12/2017
Tier I capital	12,469,708	12,855,578
Exposure	210,399,290	213,504,901
Leverage ratio	**5.93%**	**6.02%**
(+) Exposure on balance	196,451,434	201,141,814
(+) Exposure on derivates	2,618,728	2,241,736
(+) Additions in counterparty risk in op. securities financing (SFTs)	3,859,966	3,254,634
(+) Exposure off-balance sheet (includes application of CCFs)	7,469,162	6,866,717
Total exposure on leverage ratio	**210,399,290**	**213,504,901**

(*) Estimated data.

At 30 June 2018, the leverage ratio exceeded the 3% minimum defined by the Basel Committee on Banking Supervision.

(4.3) 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 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).

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

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

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

(4.4) 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 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.

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 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 Group and in the impact analysis of potential changes in capital adequacy regulations. 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

Earnings per share

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 owners of the parent”, adjusted for the after tax amount corresponding to remuneration recognised in equity in connection with the contingent convertible bonds (Note 13), by the weighted average number of shares outstanding, excluding the weighted 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 the earnings per share corresponding to the six-month periods ending at 30 June 2018 and 2017:

(Thousands of euros)

ITEM	30/06/2018	30/06/2017
Attributable to owners of the parent	514,575	513,837
Adjusted for: remuneration on contingent convertible bonds	(15,734)	-
Net earnings/loss attributed to the Group (thousands of euros)	498,841	513,837
Of which:		
Earnings/Loss for the period from discontinued operations (net) (thousands of euros)	-	-
Earnings/Loss from ordinary business (thousands of euros)	498,841	513,837
Weighted average number of shares outstanding	3,066,495,921	2,864,964,501
Basic earnings/(loss) per share (in euros)	**0.16**	**0.18**
Basic earnings/(loss) per share for discontinued operations (in euros)	**-**	**-**
Basic earnings/(loss) per share for continuing operations (in euros)	**0.16**	**0.18**
Dilutive effect		
Entitlement to receive shares	-	-
Adjusted average number of shares for the calculation	3,066,495,921	2,864,964,501
Diluted earnings/(loss) per share (in euros)	**0.16**	**0.18**
Diluted earnings/(loss) per share for discontinued operations (in euros)	**-**	**-**
Diluted earnings/(loss) per share for continuing operations (in euros)	**0.16**	**0.18**

Dividend policy

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.

(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, 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	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for membership on Board committees	Compensations	Total 1st Half 2018
Mr. José Ignacio Goirigolzarri Tellaeche	250	-	-	-	-	-	**250**
Mr. José Sevilla Álvarez	250	-	-	-	-	-	**250**
Mr. Antonio Ortega Parra	250	-	-	-	-	-	**250**
Mr. Carlos Egea Krauel [(1)]	54	29	-	-	-	-	**83**
Mr Joaquín Ayuso García	-	50	-	-	-	-	**50**
Mr. Francisco Javier Campo García	-	50	-	-	-	-	**50**
Mrs. Eva Castillo Sanz	-	50	-	-	-	-	**50**
Mr. Jorge Cosmen Menéndez-Castañedo	-	50	-	-	-	-	**50**
Mr. José Luis Feito Higueruela	-	50	-	-	-	-	**50**
Mr. Fernando Fernández Méndez de Andés	-	50	-	-	-	-	**50**
Mr. Antonio Greño Hidalgo	-	50	-	-	-	-	**50**

(1) On 12 January 2018, Mr. Egea was appointed external director, 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 show are for the period from 1 January to 26 April 2018 as external director and from 27 April to 30 June 2018 as executive director.

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 were delivered as no amounts of variable compensation were paid in first half 2018.

iv) Long-term saving schemes

(Thousands of euros)		
Name	Contribution Funds and Pension Plans [1] 1st Half 2018 by the entity	Life Insurance Premiums 1st Half 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	-	-

(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 to the National Securities Market Commission, 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

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 1st half 2018
Mr. José Ignacio Goirigolzarri Tellaeche	250	-	250
Mr. José Sevilla Álvarez	250	-	250
Mr. Antonio Ortega Parra	250	-	250
Mr. Carlos Egea Krauel (1)	83	-	83
Mr. Joaquín Ayuso García	50	-	50
Mr. Francisco Javier Campo García	50	-	50
Mrs. Eva Castillo Sanz	50	-	50
Mr. Jorge Cosmen Menéndez-Castañedo	50	-	50
Mr. José Luis Feito Higueruela	50	-	50
Mr. Fernando Fernández Méndez de Andés	50	-	50
Mr. Antonio Greño Hidalgo	50	-	50

(1) On 12 January 2018, Mr. Egea was appointed external director, 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 show are for the period from 1 January to 26 April 2018 as external director and from 27 April to 30 June 2018 as executive director.

(6.2) 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. Joaquín Cánovas 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 ECC/1762/2012, of 3 August and Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

i) Gross remuneration

The following table shows the remuneration received by the senior executives, as defined above:

(Thousands of euros)

	Short-term remuneration	Long-term remuneration	Post-employmen benefits (1)	Termination benefits	Total (2)
Senior Executives	855	-	87	-	**942**

(1) Correspons to contribution mades in respect of pensions and life insurance premiums.

(2) 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 30 June 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 the 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) Situations 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 30 June 2018, none of the directors of the Bank are in any of the situations constituting a conflict of interest set out in 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 Enterprises Act, it is hereby stated that during the first half of 2018:

- On five occasions, Bank directors (Joaquín Ayuso García, Dª Eva Castillo Sanz, Jorge Cosmen Menéndez-Castañedo, Carlos Egea Krauel and Fernando Fernández Méndez de Andés) refrained from participating in the deliberation and voting on matters at the Board of Directors' meeting regarding transactions that they, or persons related to them, potentially had a direct or indirect conflict of interest with the Bank.
- On one occasion, directors José Ignacio Goirigolzarri Tellaeche, Antonio Ortega Parra and Francisco Javier Campo García, as directors of Bankia, S.A. and patrons of Fundación Bankia through dual training programmes, refrained from participating in the deliberation and voting on the proposed resolutions regarding the foundation.
- Moreover, in line with best corporate governance practices, Bankia executive directors José Ignacio Goirigolzarri Tellaeche, José Sevilla Álvarez and Antonio Ortega Parra, given their relationship as members of the Board of Directors of BFA, and José Ignacio Goirigolzarri Tellaeche, as natural person representative of the FROB, in his role director and Chairman of the Board of Directors, refrained from participating and voting in all deliberations and votes pertaining to the completion of the merger between Bankia and Banco Mare Nostrum.

(7) Financial assets

(7.1) Breakdown by nature and category

The breakdown of the balance of the Group's financial assets, excluding "Cash, cash balances at central banks and other demand deposits" and "Derivatives – Hedge accounting", classified by nature and category, at the end of the first half of 2018 is as follows:

(Thousands of euros)

FINANCIAL ASSETS	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
Trading derivatives	6,151,270	-	-	-	-
Equity instruments	4,124	-	-	73,771	-
Debt securities	115,840	340	-	17,799,478	34,803,469
Loans and advances	-	8,471	-	-	126,301,571
Central banks	-	-	-	-	-
Customers	-	-	-	-	4,775,850
Credit institutions	-	8,471	-	-	121,525,721
Total	**6,271,234**	**8,811**	**-**	**17,873,249**	**161,105,040**

The breakdown of the balance of the Group's financial assets, excluding "Cash, cash balances at central banks and other demand deposits" and "Derivatives – Hedge accounting", classified by nature and category, at 31 December 2017 is as follows:

(Thousands of euros)

FINANCIAL ASSETS	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
Trading derivatives	6,697,537	-	-	-	-
Equity instruments	73,953	-	-	70,929	-
Debt securities	2,001	-	-	22,673,961	32,658,113
Loans and advances					126,052,617
Central banks	-	-	-	-	-
Customers	-	-	-	-	3,027,935
Credit institutions	-	-	-	-	123,024,682
Total	**6,773,491**	**-**	**-**	**22,744,890**	**158,710,730**

(7.2) Financial assets held for trading. Trading derivatives

The following table presents a breakdown, by class of derivative, of the fair value of the Group's derivatives held for trading at 30 June 2018 and 31 December 2017:

(Thousands of euros)

ITEM	30/06/2018			31/12/2017		
	Fair value	Amount netted	Carrying amount	Fair value	Amount netted	Carrying amount
Unmatured foreign currency purchases and sales	39,506	-	39,506	72,198	-	72,198
Equity derivatives	5,945	-	5,945	7,935	-	7,935
Interest rate derivatives	11,320,685	(5,266,823)	6,053,862	12,682,927	(6,106,161)	6,576,766
Credit derivatives	2,935	-	2,935	1,485	-	1,485
Other	49,022	-	49,022	39,153	-	39,153
Total	**11,418,093**	**(5,266,823)**	**6,151,270**	**12,803,698**	**(6,106,161)**	**6,697,537**

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

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

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
By counterparty		
Credit institutions	75,836	1,611,383
Resident public sector	14,299,983	16,215,081
Non-resident public sector	2,906,413	4,280,064
Other resident sectors	226,986	211,736
Other non-resident sectors	365,211	427,783
Doubtful assets	-	3,467
Impairment losses	(1,180)	(4,624)
Total	**17,873,249**	**22,744,890**
By type of instrument		
Debt securities	17,799,478	22,673,961
Spanish government debt securities	14,299,983	16,215,080
Government bonds	13,991,216	15,850,135
Regional administrations	308,767	364,945
Foreign government debt securities	2,906,413	4,280,064
Issued by financial institutions	75,836	1,589,866
Other fixed-income securities	518,426	593,575
Impairment losses	(1,180)	(4,624)
Equity instruments	73,771	70,929
Total	**17,873,249**	**22,744,890**

The Group’s portfolio of financial assets at fair value through other comprehensive income does not contain assets assessed individually to be impaired due to credit risk at 30 June 2018 (EUR 3,467 thousand at 31 December 2017).

At 30 June 2018 and 31 December 2017, the Group did not have any assets classified in the financial assets at fair value through other comprehensive income portfolio with past-due amounts and no impaired.

The average effective annual interest rate of debt securities included in the financial assets at fair value through other comprehensive income portfolio at 30 June 2018 was 0.99% (1.28% at 31 December 2017).

A summary of changes in relation to impairment losses due to credit risk in the six months ended 30 June 2018 and 2017 included in the Group's financial assets at fair value through other comprehensive income, by identification criteria and type of counterparty, is as follows:

30 June 2018

(Thousands of euros)

DEBT SECURITIES	Individually assessed	Collectively assessed	Total
Balances at 31 December 2017	**3,398**	**1,226**	**4,624**
Adjustments for first-time application of IFRS 9	-	(719)	(719)
Balances at 1 January 2018	**3,398**	**507**	**3,905**
Impairment losses for the year charged to income	-	1,056	1,056
Available credit loss allowance	-	(284)	(284)
Net provision/(release) charged/(credited) to income statement	**-**	**772**	**772**
Amounts used for depreciated assets and other net movements	(3,398)	(99)	(3,497)
Balances at 30 June 2018	**-**	**1,180**	**1,180**
Of which:			
Type of counterparty:	**-**	**1,180**	**1,180**
Entities resident in Spain	-	799	799
Entities resident abroad	-	381	381

30 June 2017

(Thousands of euros)

DEBT SECURITIES	Individually assessed	Collectively assessed	Total
Balances at 31 December 2016	**4,656**	**3,258**	**7,914**
Impairment losses for the year charged to income	11	7	18
Available credit loss allowance	-	(2,136)	(2,136)
Net provision/(release) charged/(credited) to income statement	**11**	**(2,129)**	**(2,118)**
Amounts used for depreciated assets and other net movements	1	(3)	(2)
Balances at 30 June 2017	**4,668**	**1,126**	**5,794**
Of which:			
Type of counterparty:	**4,668**	**1,126**	**5,794**
Entities resident in Spain	-	460	460
Entities resident abroad	4,668	666	5,334

(7.4) 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	30/06/2018	31/12/2017
Financial assets at amortised cost		
Loans and advances	131,665,771	131,620,454
Credit institutions	4,770,241	3,022,314
Customers	126,895,530	128,598,140
Debt securities	34,809,290	32,661,684
Sum	**166,475,061**	**164,282,138**
Impairment losses	(5,557,171)	(5,767,094)
Other valuation adjustments	187,150	195,686
Total	**161,105,040**	**158,710,730**

Credit quality of the portfolio of financial assets at amortised cost

The following table shows financial assets at amortised cost, based on their credit risk classification, distinguishing between gross value and related impairment losses at 30 June 2018 and 1 January 2018.

(Thousands of euros)

ITEM	30/06/2018	1/01/2018
Gross amount		
Phase 1 – Standard risk	146,104,608	140,176,548
Phase 2 – Standard risk under special monitoring	10,463,243	11,952,799
Phase 3 – Doubtful risk	10,094,360	11,318,382
Sum	**166,662,211**	**163,447,729**
Impairment allowance		
Phase 1 – Standard risk	(229,858)	(226,037)
Phase 2 – Standar risk under special monitoring	(777,049)	(937,888)
Phase 3 – Doubtful risk	(4,550,264)	(5,255,830)
Sum	**(5,557,171)**	**(6,419,755)**
Net carrying amount		
Phase 1 – Standard risk	145,874,750	139,950,511
Phase 2 – Standard risk under special monitoring	9,686,194	11,014,911
Phase 3 – Doubtful risk	5,544,096	6,062,552
Sum	**161,105,040**	**157,027,974**

(*) Include "Other measurement adjustments"

Credit quality of financial assets at amortised cost portfolio. Guarantees received

(Thousands of euros)

ITEM	30/06/2018(*)	31/12/2017(*)
Value of the collateral	83,835,929	86,583,173
Of which: collateral with doubtful risks	9,188,088	10,032,655
Value of other guarantees and collaterals	-	86,583,173
Of which: collateral with doubtful risks	-	
Total	**83,835,929**	**86,583,173**

(*) The value of the guarantee or collateral is the lower of the guarantee received and the amount of the loan, except doubtful transactions, where the relevant measure is fair value.

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	30/06/2018	31/12/2017
By instrument type		
Time deposits	158,878	114,398
Reverse repurchase agreements	1,349,720	685,968
Other financial assets	3,255,618	2,221,312
Doubtful assets	6,025	636
Sum	**4,770,241**	**3,022,314**
Impairment losses	(1,205)	(626)
Other valuation adjustments	6,814	6,247
Total	**4,775,850**	**3,027,935**

The average effective annual interest rate of financial instruments included under this heading at 30 June 2018 was 0.99% (1.24% at 31 December 2017).

Financial assets at amortised cost. Loans and advances. Customers

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

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Public sector	5,470,555	5,595,621
Other financial corporations	2,161,311	2,876,863
Non-financial corporations	35,743,129	35,803,074
Households	83,698,647	84,506,472
Sum (1)	**127,073,642**	**128,782,030**
Impairment losses	(5,547,921)	(5,757,348)
Total	**121,525,721**	**123,024,682**

(1) Of which EUR 10,076,306 thousand corresponds to doubtful “Loans and advances” at 30 June 2018 (EUR 11,304,377 thousand at 31 December 2017). Includes “Other valuation adjustments”

The average effective annual interest rate of financial instruments included under this heading at 30 June 2018 was 1.70% (1.68% at 31 December 2017).

Doubtful assets

The movement produced during the first half of 2018 and 2017 of the balance os doubtful assets is detailed in the following table:

(Thousands of euros)

ITEM	1st half 2018	1st half 2017
Accounting balance at the beginning of the period	**11,304,377**	**10.717.085**
Additions	1,112,394	1,856,280
Disposals	(2,340,465)	(2,742,348)
Through foreclosure	(231,852)	(243,306)
Through portfolios sales	(527,243)	(142,410)
Through reversals and others	(1,381,867)	(2,121,234)
Through debt reductions and disposals of assets	(199,503)	(235,398)
Accounting balance at the end of the period	**10,076,306**	**9,831,017**

Impaired assets and assets including past-due amounts not considered to be impaired

The table below shows, for doubtful financial assets at amortised cost, the classification of the Bankia Group's doubtful assets related to "Loans and advances to customers" and "Loans and advances to credit institutions" included in "Loans and advances" at 30 June 2018 and 31 December 2017, by counterparty, age of the oldest past-due amount of each, and the type of guarantee or collateral:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
By counterparty		
Credit institutions	6,024	626
Public sector	132,567	128,209
Other financial corporations	22,302	31,110
Non-financial corporations	4,481,599	5,503,368
Households	5,020,616	4,839,441
Total	**9,663,108**	**10,502,754**
By age		
Up to 6 months	4,260,696	4,653,855
Between 6 and 9 months	429,923	506,216
9 to 12 months	333,747	230,321
More than 12 months	4,638,742	5,112,362
Total	**9,663,108**	**10,502,754**
Balance doubtful operations		
Full mortgage collateral	6,751,503	6,955,661
Other collateral	46,554	90,328
Without collateral	2,865,051	3,456,765
Total	**9,663,108**	**10,502,754**

The amount of products past due and not collected from the doubtful assets accumulated at 30 June 2018, amounts to EUR 431,485 thousand (EUR 401,117 thousand as of 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	30/06/2018	31/12/2017
Lower than or equal to 40%	1,118,310	972,300
Greater than 40% and lower than or equal to 60%	1,387,192	955,798
Greater than 60% and lower than or equal to 80%	1,789,432	1,975,405
Greater than 80%	2,503,123	3,142,486
Total	**6,798,057**	**7,045,989**

The table below shows the classification of assets past-due but not impaired related to "Loans and advances to customers" and "Loans and advances to credit institutions" at 30 June 2018 and 31 December 2017, by counterparty, age past-due and type of guarantee or collateral:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
By counterparty		
Credit institutions	5,460	515
Public sector	30,245	15,143
Other financial corporations	17,188	15,058
Non-financial corporations	256,430	300,859
Households	294,386	625,496
Total	**603,709**	**957,071**
By age		
Less than one month	214,070	330,847
Between 1 and 3 months	74,696	92,700
More than 3 months	314,943	533,524
Total	**603,709**	**957,071**
By type of collateral		
Full mortgage collateral	434,970	812,354
Other collateral	1,185	3,622
Without collateral	167,554	141,095
Total	**603,709**	**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	30/06/2018	31/12/2017
Lower than or equal to 40%	154,216	302,187
Greater than 40% and lower than or equal to 60%	131,924	236,913
Greater than 60% and lower than or equal to 80%	86,079	173,042
Greater than 80%	63,936	103,834
Total	**436,155**	**815,976**

The following table presents a summary of movements affecting impairment losses due to credit risk in the six months ended 30 June 2018 and 2017 recognised under "Loans and advances – Credit institutions" and "Loans and advances – Customers" under "Financial assets at amortised cost" in the consolidated balance sheets by identification criteria and type of the counterparties:

30 June 2018

(Thousands of euros)

ITEM	Allowance attributable to insolvency	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 for first-time application of IFRS 9	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	700,182	2,223	702,405
Available credit loss allowance	(465,817)	(3,767)	(469,584)
Net provision/(release) charged/(credited) to income statement	**234,365**	**(1,544)**	**232,821**
Amounts used for depreciated assets and other changes	(1,101,939)	(33)	(1,101,972)
Exchange differences	7,389	-	7,389
Balances at 30 June 2018	**5,545,706**	**3,420**	**5,549,126**
Individually assessed	1,920,495	-	1,920,495
Collectively assessed	3,625,211	3,420	3,628,631
Of which			
Type of counterparty:	**5,545,706**	**3,420**	**5,549,126**
Entities resident in Spain	5,133,625	-	5,133,625
Entities resident abroad	412,081	3,420	415,501

30 June 2017

(Thousands of euros)

ITEM	Allowance attributable to insolvency	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	1,430,711	8,008	1,438,719
Available credit loss allowance	(1,235,232)	(12,684)	(1,247,916)
Net provision/(release) charged/(credited) to income statement	**195,479**	**(4,676)**	**190,803**
Amounts used for depreciated assets and other changes	(785,307)	-	(785,307)
Exchange differences	(30,156)	-	(30,156)
Balances at 30 June 2017	**5,281,654**	**11,765**	**5,293,419**
Individually assessed	2,368,577	-	2,368,577
Collectively assessed	2,913,077	11,765	2,924,842
Of which			
Type of counterparty:	**5,281,654**	**11,765**	**5,293,419**
Entities resident in Spain	4,779,285	-	4,779,285
Entities resident abroad	502,369	11,765	514,134

Financial assets at amortised cost. Debt securities

The detail, by counterparty and by type of instrument, of this condensed consolidated balance sheet heading at 30 June 2018 and 31 December 2017 is as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
By counterparty		
Credit institutions	29,905	2,815
Resident public sector	10,848,288	10,204,196
Non-resident public sector	3,575,763	1,259,824
Other resident sectors	20,289,137	21,046,785
Other non-resident sectors	56,193	134,695
Doubtful assets	10,004	13,369
Sum	**34,809,290**	**32,661,684**
Impairment losses and fair value adjustments due to credit risk	(8,045)	(9,120)
Other valuation adjustments	2,224	5,549
Total	**34,803,469**	**32,658,113**
By type of instrument		
Spanish government debt securities	10,848,288	10,204,196
Foreign government debt securities	3,575,763	1,259,824
Bonds and obligations	20,387,463	21,203,213
Impairment loss	(8,045)	(9,120)
Total	**34,803,469**	**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– as explained in Note 1.15 to the 2017 consolidated financial statements.

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 Group and recognised under "Financial assets at amortised cost" at 30 June 2018 were as follows:

(Thousands of euros and %)

Bonds	Amount	Maturity	Interest rate
SAREB 2016-4 Bonds	7,624,200	31.12.2018	-
SAREB Float Bonds	5,550,100	31.12.2018	-
SAREB 2017-2 Bonds	2,425,000	28.02.2019	-
SAREB 2015-4 Bonds	2,043,200	31.12.2018	0.07%
SAREB 2018-1 Bonds	1,681,300	28.02.2019	-
SAREB 2016-2 Bonds	638,300	28.02.2019	0.19%

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.

At the maturity date, the unamortised cash amount was exchanged for other bonds with a similar maturity (rollover option) and bearing interest at the 3-month Euribor plus a differential, which was considered equivalent to market rates of interest for public debt with a similar term. Accordingly, the bonds were recorded at their nominal amount, with no impact recognised on the Group’s income statement for the first half of 2018. Rollovers of bonds carried out in previous years also had no impact whatsoever on the Group’s income statement for those periods.

The Group’s debt securities classified as financial assets at amortised cost included assets of EUR 10,004 thousand at 30 June 2018 (EUR 13,369 thousand at 31 December 2017) that were assessed individually to be impaired due to credit risk.

At 30 June 2018 and 31 December 2017, the Group had no debt securities classified as financial assets at amortised cost with past-due amounts and not impaired.

The average effective annual interest rate of debt securities included in financial assets measured at amortised cost portfolio at 30 June 2018 was 0.56% (0.76% at 31 December 2017).

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 six months ended 30 June 2018 and 2017 is as follows:

30 June 2018

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 december 2017	**-**	**9,120**	**9,120**
Adjustments for first-time application of IFRS 9	-	(253)	(253)
Balances at 1 january 2018	**-**	**8,867**	**8,867**
Impairment losses for the year charged to income	-	2,534	2,534
Available credit loss allowance	-	(3,590)	(3,590)
Net provision/(release) charged/(credited) to income statement	-	**(1,056)**	**(1,056)**
Amounts used for depreciated assets and other net movements	6,198	(5,964)	234
Exchange differences	-	-	-
Balances at 30 June 2018	**6,198**	**1,847**	**8,045**
Of which:			
Type of counterparty:	**6,198**	**1,847**	**8,045**
Entities resident in Spain	6,059	1,835	7,894
Entities resident abroad	139	12	151

30 June 2017

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 december 2016	**-**	**6,849**	**6,849**
Impairment losses for the year charged to income	-	123	123
Available credit loss allowance	-	(1,656)	(1,656)
Net provision/(release) charged/(credited) to income statement	**-**	**(1,533)**	**(1,533)**
Amounts used for depreciated assets and other net movements	-	1	1
Exchange differences	-	-	-
Balances at 30 June 2017	**-**	**5,317**	**5,317**
Of which:			
Type of counterparty:	**-**	**5,317**	**5,317**
Entities resident in Spain	-	2,570	2,570
Entities resident abroad	-	2,747	2,747

(8) Fair value

(8.1) Financial instruments

(8.1.1) Fair value of financial instruments

The fair value of a financial asset or liability on a specific date is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group 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 ask prices for the same instrument, the market price for a purchased asset or a liability to be issued is the bidding 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, 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. In addition, for derivatives not supported by a CSA (market standard) collateral agreement, an own or third party credit risk adjustment (CVA and DVA) is determined, differentiated in accordance with the internal counterparty rating.

    - 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 amounts for credit risk valuation adjustments in derivatives recognised in the consolidated balance sheet at 30 June 2018 were EUR 108 million for CVA (EUR 119 million at 31 December 2017) and EUR 5 million for DVA (EUR 7 million at 31 December 2017).

(8.1.2) 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 interim balance sheet and their related fair value:

(Thousands of euros)

ITEM	30/06/2018		31/12/2017	
	Balance sheet total	Fair value	Balance sheet total	Fair value
ASSETS				
Cash and balances with central banks and other demand deposits	2,517,813	2,517,813	4,503,911	4,503,911
Financial assets held for trading	6,271,234	6,271,234	6,773,491	6,773,491
Non-trading financial assets mandatorily at fair value through profit or loss	8,811	8,811	-	-
Financial assets at fair value through other comprehensive income	17,873,249	17,873,249	22,744,890	22,744,890
Financial assets at amortised cost	161,105,040	172,391,856	158,710,730	170,718,409
Non-current assets and disposal groups classified as held for sale – Other equity instruments	138,280	138,280	239,847	239,847
Hedging derivatives	2,558,375	2,558,375	3,067,035	3,067,035
LIABILITIES				
Financial liabilities held for trading	6,668,699	6,668,699	7,420,991	7,420,991
Financial liabilities at amortised cost	184,830,238	184,688,568	188,897,560	190,431,559
Hedging derivatives	252,042	252,042	378,454	378,454

For financial instruments whose carrying amount differs from their theoretical fair value, the latter was calculated as follows:

- The fair value of "Cash and balances with central banks" is measured at carrying amount, as the balances are short term.
- Fair value of " Financial assets at amortised cost " and "Financial liabilities at amortised cost" were estimated using the discounted cash flow method, taking market interest rates at the end of each 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 7.4), 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: Financial 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 has not recognised any financial assets or liabilities whose fair value differs from the transaction price and has not been evaluated through methodologies and assumptions that would allow them to be classified in Level 1 and Level 2.

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)

	30/06/2018			31/12/2017		
ITEM	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Financial assets held for trading	**121,233**	**6,061,189**	**88,812**	**79,411**	**6,606,913**	**87,167**
Debt securities	115,840	-	-	2,001	-	-
Equity instruments	4,124	-	-	73,953	-	-
Trading derivatives	1,269	6,061,189	88,812	3,457	6,606,913	87,167
Non-trading financial assets mandatorily at fair value through profit or loss	**150**	**190**	**8,471**	**-**	**-**	**-**
Debt securities	150	190	-	-	-	-
Equity instruments	-	-	-	-	-	-
Loans and advances	-	-	8,471	-	-	-
Financial assets at fair value through other comprehensive	**17,723,071**	**110,184**	**39,994**	**22,562,614**	**140,829**	**41,447**
Debt securities	17,723,071	76,407	-	22,552,583	121,378	-
Equity instruments	-	33,777	39,994	10,031	19,451	41,447
Non-current assets and disposal groups classified as held for sale – Other equity instruments	**52**	**-**	**138,228**	**31,773**	**-**	**208,074**
Other equity instruments	52	-	138,228	31,773	-	208,074
Hedging derivatives	**-**	**2,558,370**	**5**	**-**	**3,067,035**	**-**
LIABILITIES						
Financial liabilities held for trading	**222,451**	**6,440,783**	**5,465**	**343,435**	**7,072,574**	**4,982**
Trading derivatives	88	6,440,783	5,465	6	7,072,574	4,982
Short positions	222,363	-	-	343,429	-	-
Hedging derivatives	**-**	**252,030**	**12**	**-**	**378,454**	**-**

The following table presents the main valuation methods, assumptions and inputs used to measure the fair value of financial instruments classified as level 2 and 3, by type of instrument, and the related balances at 30 June 2018:

(Million of euros)

<table>
<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)
Libor Market Model (LMM)</td><td>Calculation of the present value of financial instruments as the present value of the future cash flows (discounted at market interest rates), bearing in mind: Estimation of prepayment rates, issuer credit risk and current market interest rates.
Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.</td><td>- Yield Curves
- Credit spreads
- Correlation</td><td>Debt securities: 76</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: 6,061

Liabilities: 6,441

Hedging Derivatives:

Assets: 2,558

Liabilities: 252</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>

(Million of euros)

Level 3 financial instruments	Valuation techniques	Main assumptions	Inputs	Fair value
Debt instruments	Present value method. The Gaussian Copula Model Libor Market model (LMM).	Calculation of the present value of financial instruments as the present value of the future cash flows (discounted at market interest rates), bearing in mind: Estimation of prepayment rates, issuer credit risk and current market interest rates. To measure asset backed securities (ABS), future prepayments are calculated based on conditional prepayment rates provided by the issuers. The "time-to-default" model is used to measure the probability of default. One of the main variables used is the correlation of defaults extrapolated from several index tranches (ITRAXX and CDX) with the underlying portfolio of our CDOs. Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.	• Prepayment rates • Credit spread • Default correlation • Interest rate correlation	Debt securities: (*) Loans and advances: 8
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: 178
Derivatives	For interest rate derivatives: the Libor Market (LMM), Hull and White model (HW)	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: 5
	For equity and currency derivatives: Dupire, Heston, Black, solved by numerical methods	The options are measured using generally accepted valuation models and include implied volatility observed	• Correlation • Term structure of volatilities • Dividends	
	Inflation derivatives: Jarrow y Yildrim	The Jarrow and Yildrim 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 are no operation at 30 June 2018

Any reasonably change in one or more variables 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 in the six months ended 30 June 2018 and 2017 were as follows:

First half of 2018

(Thousands of euros)

	FROM:	Level 1		Level 2		Level 3	
Transfers between levels	TO:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets							
Financial assets held for trading – Derivatives		-	-	-	2,011	-	84
Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
Liabilities							
Financial liabilities held for trading – Derivatives		-	-	-	17	-	11

First half of 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	-	-	-	-	12,561	-	-
Financial assets at fair value through other comprehensive income	-	-	-	33,244	-	-	
Liabilities							
Financial liabilities held for trading – Derivatives	-	-	-	-	27	-	6

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 2 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 0.07 million: as relevant observable inputs that represent key assumptions (credit risk) used in the valuation technique to measure certain derivatives have been found.

The movement in balances financial assets and financial liabilities categorised within Level 3 excluding those classified as "Non-current assets and disposal groups classified as held for sale", shown in the accompanying consolidated balance sheets at 30 June 2018 and 2017 follow:

(Thousands of euros)

	First half 2018		First half 2017	
	Assets	Liabilities	Assets	Liabilities
Opening balance	**128,614**	**4,982**	**105,717**	**7,069**
Gains (losses)	5,650	169	1,046	(1,988)
To profit and loss	3,205	169	1,046	(1,988)
To equity	2,445	-	-	-
Purchases, sales and settlements	(9,277)	112	(14,637)	1,467
Net inflows/(outflows) in Level 3	12,114	33	15,775	(9)
Transfers by stpes to Assets or Liabilities	181	181	-	-
Closing balance	**137,282**	**5,477**	**107,901**	**6,539**

(8.2) Non – financial assets

The most significant aspects related to fair value and assessment of the impairment of non-financial assets are detailed below.

(8.2.1) Foreclosed real estate assets classified as non-current assets held for sale

As described in Note 9.3, the Group has developed an internal approach to estimate discounts on the reference value and the cost of disposal of foreclosed assets or those received in payment of debt, on the basis of its experience in selling by asset category in relation to terms, prices and volume, and also factors in the price trends of these assets and the time it takes to sell them. The method therefore excludes those assets 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. These are measured by taking the reference value and applying the percentage discount rates estimated by the Bank of Spain, on the basis of its experience and the information it possesses on the banking sector, as set out in Bank of Spain Circular 4/2017.

Based on the above, the Group estimates that the carrying amount of foreclosed assets or those received in payment of debt classified as "Non-current assets and disposal groups classified as held for sale" does not differ significantly from their fair value estimated on the basis of the aforementioned discounts on reference value.

Information on the companies and agencies carrying out appraisals in the first half of 2018 and 2017 is provided below:

(% revalued)

Appraiser agency	30.06.18	31.12.17
Tinsa	63.29%	56.42%
Arco Valoraciones	21.11%	13.95%
Tecnitasa	12.71%	12.07%
Otros	0.49%	0.64%
Gesvalt	2.40%	8.65%
UVE	-	8.27%
Total	**100.00%**	**100.00%**

The valuations are classified as Level 3 in the methodologies described in the 2017 consolidated financial statements.

(8.2.2) Intangible assets - Goodwill

As explained in Note 2.16.1 to the 2017 consolidated financial statements, the cash-generating units to which goodwill has been allocated are tested for impairment, including the amount of goodwill allocated in their carrying amount. Impairment tests are carried out at least annually, or whenever there is any indication that an asset may be impaired.

Impairment tests of goodwill, 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 performance of the various cash-generating units that could give indications of impairment, the directors concluded that in the first half of 2018, there were no losses warranting the recognition of additional impairment to the EUR 1,200 thousand recognised in the accompanying consolidated income statement for the first half of 2018 (EUR 1,200 thousand in the first half of 2017).

(8.2.3) Investments in associates and joint ventures

The Group performed impairment tests on all its investments in associates and joint ventures showing evidence of impairment, as described in Note 1.3.1, in order to quantify the corresponding impairment allowance. Having identified the investments likely to suffer impairment losses, the recoverable amount of the investment was calculated, understood to be the higher of its fair value less costs of disposal and its value in use.

The tests carried out at 30 June 2018 did not uncover a need to make additional allowances for investments in associates and joint ventures, 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.

(9) Non current assets and disposal groups that are classified as held for sale

(9.1) Breakdown

Details of these items on the accompanying consolidated balance sheets at 30 June 2018 and 31 December 2017 are as follows:

30 June 2018

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Tangible assets for own use	419,029	(157,222)	261,807
Foreclosed tangible assets	4,011,782	(1,581,679)	2,430,103
Investments in associates and joint ventures	15,858	-	15,858
Other equity instruments	138,280	-	138,280
Assets included in disposal groups	21,097	-	21,097
Total assets	**4,606,046**	**(1,738,901)**	**2,867,145**
Liabilities included in disposal groups	8,291	-	8,291
Total liabilities	**8,291**	**-**	**8,291**

31 December 2017

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Tangible assets for own use	408,473	(171,638)	236,835
Foreclosed tangible assets	4,359,145	(1,628,142)	2,731,003
Investments in associates and joint ventures	53,556	(18,887)	34,669
Other equity instruments	239,847	-	239,847
Assets included in disposal groups	28,979	-	28,979
Total assets	**5,090,000**	**(1,818,667)**	**3,271,333**
Liabilities included in disposal groups	8,797	-	8,797
Total liabilities	**8,797**	**-**	**8,797**

At 30 June 2018, the fair value of non-current assets held for sale does not differ significantly from their carrying values.

(9.2) Non-current assets and disposal groups that are classified as held for sale. Tangible assets for own use

At 30 June 2018, this item basically comprises certain buildings for the Group'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. The Group recognises these assets at the lower of their carrying amount and fair value less cost to sell. As set out in Ministerial Order ECO/805/2003 or appraisal automated methods, 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.

(9.3) Non-current assets and disposal groups that are classified as held for sale. Tangible assets in payment of debts

Breakdown

Further details relating to the Group’s property assets at 30 June 2018 and 31 December 2017 are disclosed in Appendix VII.

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. This method is based on the Group’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 consolidated financial statements.

The methodology 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 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. At 30 June 2018, the application of internal methodolody as apposed to alternative solutions had no significant impact on the Group’s equity.

Significant changes

The change recognised in foreclosed assets in the six months ended 30 June 2018 and 2017 are as follows:

(Thousands of euros)		
ITEM	1st half 2018	1st half 2017
Accounting balance at the beginning of the period	**2,731,003**	**2,056,052**
Additions during the year and other changes	43,294	142,296
Disposals during the year	(298,302)	(212,297)
Net impairment losses	(45,892)	(55,457)
Accounting balance at the end of the period	**2,430,103**	**1,930,594**

Further, sales of foreclosed assets, by type, made in the six-month periods ended 30 June 2018 and 2017 are as follows:

(Thousands of euros)		
ITEM	1st half 2018	1st half 2017
Property assets		
Finished dwellings	241,527	182,104
Managed rural property and offices, commercial and industrial premises	37,631	22,085
Building plots, plots and other property assets	19,144	8,108
Total	**298,302**	**212,297**

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 assets management contract signed on 3 September 2013 with Haya Real Estate, S.L. was subscribed. These arregements are part of the process of 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.

(9.4) Non-current assets and disposal groups that are classified as held for sale. Other equity instruments and investments in joint ventures and associates

This includes balances related to investments in joint ventures and associates, and other investments initially recognised under “Financial assets at fair value through other comprehensive income" that the Group reclassified, pursuant to prevailing legislation, to "Non-current assets held for sale". The following table shows a breakdown of the balance by item under which the investment was recognised before its classification under "Non-current assets held for sale":

(Thousands of euros)		
ITEM	30/06/2018	31/12/2017
Other equity instruments	138,280	239,847
Investments in associates and joint ventures – joint ventures	3,450	22,260
Investments in associates and joint ventures – associates	12,408	12,409
TOTAL	**154,138**	**274,516**

(9.5) Disposal groups

Disposal groups primarily comprises the amount of financial assets and financial liabilities of certain financial sector subsidiaries that following approval of the Group's Restructuring Plan met the requirements for classification as "Non-current assets held for sale" and, therefore, were fully consolidated, and all their assets and liabilities presented and measured in accordance with the criteria established for disposal groups.

The following table shows a breakdown of the assets and liabilities corresponding to disposal groups by item under which they were recognised before their classification under "Non-current assets held for sale" at 30 June 2018 and 31 December 2017:

(Thousands of euros)

	30/06/2018	31/12/2017		30/06/2018	31/12/2017
Cash and balances with central banks and other demand depoits	14	168	Financial liabilities at amortised cost	2,092	4,496
Financial assets at amortised cost	17,176	23,897	Provisions	4,888	2,824
Tangible assets	128	257	Other liabilities	1,311	1,477
Intangible assets	210	247			
Other assets	3.569	4,410			
TOTAL ASSETS	**21,097**	**28,979**	**TOTAL LIABILITIES**	**8,291**	**8,797**

(10) Tangible assets

The movement of this item in the accompanying consolidated balance sheet for the six-month period ended at 30 June 2018 and 30 June 2017 is as follows:

30 June 2018

(Thousands of euros)

ITEM	For own use	Investment property	Total
Cost			
Balances at 31/12/2017	**4,864,636**	**962,880**	**5,827,516**
Additions/disposals (net)	1,580	(18,590)	(17,010)
Transfers to/from non-current assets held for sale and other changes	(66,834)	(6,545)	(73,379)
Balances at 30/06/2018	**4,799,382**	**937,745**	**5,737,127**
Accumulated depreciation			
Balances at 31/12/2017	**(2,972,394)**	**(59,293)**	**(3,031,687)**
Additions/disposals (net)	29,374	2,934	32,308
Depreciation during the year	(48,321)	(7,119)	(55,440)
Transfers to/from non-current assets held for sale and other changes	(9,903)	21,016	11,113
Balances at 30/06/2018	**(3,001,244)**	**(42,462)**	**(3,043,706)**
Impairment losses			
Balances at 31/12/2017	**(134,732)**	**(237,463)**	**(372,195)**
Net provision/(release) charged/(credited) to income statement	12	(5,868)	(5,856)
Transfers to/from non-current assets held for sale and other changes	19,515	14,055	33,570
Balances at 30/06/2018	**(115,205)**	**(229,276)**	**(344,481)**
Total at 31 December 2017	**1,757,510**	**666,124**	**2,423,634**
Total at 30 June 2018	**1,682,933**	**666,007**	**2,348,940**

30 June 2017

(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)	49,574	(10,359)	39,215
Transfers to/from non-current assets held for sale and other changes	(22,719)	29,593	6,874
Balances at 30/06/2017	**3,825,948**	**370,141**	**4,196,089**
Accumulated depreciation			
Balances at 31/12/2016	**(2,397,376)**	**(20,258)**	**(2,417,634)**
Additions/disposals (net)	56	894	950
Depreciation during the year	(40,475)	(2,437)	(42,912)
Transfers to/from non-current assets held for sale and other changes	10,099	438	10,537
Balances at 30/06/2017	**(2,427,696)**	**(21,363)**	**(2,449,059)**
Impairment losses			
Balances at 31/12/2016	**(8,064)**	**(66,194)**	**(74,258)**
Net provision/(release) charged/(credited) to income statement	-	733	733
Transfers to/from non-current assets held for sale and other changes	197	(3,017)	(2,820)
Balances at 30/06/2017	**(7,867)**	**(68,478)**	**(76,345)**
Total at 31 December 2016	**1,393,653**	**264,455**	**1,658,108**
Total at 30 June 2017	**1,390,385**	**280,300**	**1,670,685**

Recoverable amount at 30 June 2018 exceeded carrying amount.

Investment property

This item includes land, buildings and other structures held either to earn rentals or for capital appreciation.

At 30 June 2018, 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 period ended at 30 June 2018 net income from the Group's investment property totalled EUR 11,224 thousand (EUR 6,753 thousand at 30 June 2017).

(11) Intangible assets

(11.1) Goodwill

The breakdown of goodwill included under "Intangible assets" in the accompanying condensed consolidated balance sheet, by company, is as follows:

(Thousands of euros)

ENTITY	30/06/2018	31/12/2017
Bankia Pensiones, S.A. Entidad Gestora de Fondos de Pensiones	92,062	93,262
Total	**92,062**	**93,262**

Movements (gross amounts) in goodwill recognised under this item in the consolidated balance sheet in the six months ended 30 June 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	1st half 2018	1st half 2017
Carrying amount at beginning of period	**93,262**	**95,662**
Additions due to business combinations	-	-
Provisions charged to the income statement	(1,200)	(1,200)
Carrying amount at end of period	**92,062**	**94,462**

Note 8.2.2 describes the impairment testing of goodwill at 30 June 2018.

(11.2) Other intangible assets

The breakdown of assets under this heading on the accompanying consolidated balance sheets is as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
With a finite useful life	**185,894**	**144,638**
Computer software	1,101,907	1,032,436
Other	2,437	2,670
(Accumulated depreciation)	(918,450)	(890,468)
Total assets net of depreciation	**185,894**	**144,638**
Impairment losses	**(406)**	**(401)**
Total	**185,488**	**144,237**

The movements existing in this item on the consolidated balance sheet during the first half of 2018 and the first half of 2017 were as follows:

(Thousands of euros)

ITEM	1st half 2018	1st half 2017
With finite useful life		
Carrying amount at beginning of period	**144,237**	**124,153**
Additions	73,927	54,284
Depreciation charged to income	(32,676)	(40,412)
Other changes	-	(1)
Carrying amount at end of period	**185,488**	**138,024**
Total	**185,488**	**138,024**

Intangible assets with finite lives are amortised using the same criteria as for the depreciation of tangibe assets. Annual amortisation of items with a finite useful life is recognised under "Depreciation" in the consolidated income statement. The Group has no significant intangible assets other than goodwill, which has an indefinite useful life. These assets have an average useful life of 10 years and have been developed by companies that do not belong to the Group.

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.

(12) Other assets

Details of "Other assets" on the consolidated balance sheets at 30 June 2018 and 31 December 2017 are as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Insurance contracts linked to pensions	422,571	432,981
Inventories	-	-
Other items	672,548	440,974
Total	**1,095,119**	**873,955**

"Other items" heading includes, mainly, transactions in transit, accruals associated with operating income, and unaccrued expenses.

Inventories

The Group's most significant inventories at 30 June 2018 and 31 December 2017 are classified as follows:

(Thousands of euros)

ITEM	30/06/2018	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, in the six-month period ended 30 June 2018 and 2017, are as follows:

(Thousands of euros)

ITEM	1st half 2018	1st half 2017
Carrying amount at beginning of period	**682**	**31,742**
Net provisions charged against/(credited to) profit for the year	(254)	4,203
Other changes (*)	254	(35,945)
Carrying amount at end of period	**682**	**-**

(*) Relates mainly to amounts released from provisions due to sales.

Appendix VII contains information concerning foreclosed assets or assets acquired in settlement of debts classified as inventories, as required by applicable regulations.

(13) Financial liabilities

(13.1) Breakdown by nature and category

The following table shows the balances of "Financial liabilities" in the condensed consolidated balance sheet, by nature and category, at 30 June 2018:

(Thousands of euros)

FINANCIAL LIABILITIES	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Trading derivatives	6,446,336	-	-
Short positions	222,363	-	-
Deposits	-	-	166,418,694
Central banks	-	-	13,855,970
Credit institutions	-	-	23,867,107
Customers	-	-	128,695,617
Debt securities issued	-	-	17,451,236
Other financial liabilities	-	-	960,308
Total	**6,668,699**	**-**	**184,830,238**

The following table shows the balances of this item in the condensed consolidated balance sheet by nature and category at 31 December 2017:

(Thousands of euros)

FINANCIAL LIABILITIES	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Trading derivatives	7,077,562	-	-
Short positions	343,429	-	-
Deposits	-	-	168,045,365
Central banks	-	-	15,355,970
Credit institutions	-	-	22,293,596
Customers	-	-	130,395,799
Debt securities issued	-	-	19,784,810
Other financial liabilities	-	-	1,067,385
Total	**7,420,991**	**-**	**188,897,560**

(13.2) Financial assets held for trading. Trading derivatives

The breakdown, by type of derivative, of the fair value of the Group's trading derivatives at 30 June 2018 and 31 December 2017 is as follows:

(Thousands of euros)

	30/06/2018			31/12/2017		
ITEM	Fair value	Amount netted	Carrying amount	Fair value	Amount netted	Carrying amount
Unmatured foreign currency purchases and sales	39,319	-	39,319	37,554	-	37,554
Equity derivatives	7,863	-	7,863	7,941	-	7,941
Interest rate derivatives	11,606,629	(5,266,823)	6,339,806	13,084,705	(6,106,161)	6,978,544
Credit derivatives	3,390	-	3,390	1,665	-	1,665
Other	55,958	-	55,958	51,858	-	51,858
Total	**11,713,159**	**(5,266,823)**	**6,446,336**	**13,183,723**	**(6,106,161)**	**7,077,562**

(13.3) Financial liabilities at amortised cost. Deposits from central banks

The detail of "Deposits from central banks" in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Bank of Spain / European Central Bank	13,855,970	15,355,970
Sum	**13,855,970**	**15,355,970**
Valuation adjustments	-	-
Total	**13,855,970**	**15,355,970**

Regarding finance raised under the framework of the T-LTRO II programme, the Group has received notice from the ECB confirming its compliance with the requirements to receive the incentive included in the terms of the programme. As a result, the Group recognised EUR 27,574 thousand in the six months ended 30 June 2018 under “Interest income” in the consolidated income statement.

(13.4) Financial liabilities at amortised cost. Deposits from credit institutions

The detail, by type of transaction, of “Deposits from credit institutions” in the accompanying consolidated balance sheet is as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Mutual accounts	-	1
Term accounts	3,807,082	3,403,959
Repos	16,649,728	15,557,780
Other accounts	3,400,251	3,324,527
Sum	**23,857,061**	**22,286,267**
Valuation adjustments	10,046	7,329
Total	**23,867,107**	**22,293,596**

At 30 June 2018, this items of the consolidated balance sheet did not include any (one-off) non-marketable covered bonds issued by the Group (EUR 2,000 thousand at 31 December 2017).

The average effective annual interest rate on deposits from central banks and other credit institutions at 30 June 2018 was 0.23% (0.21 % at 31 December 2017).

(13.5) Financial liabilities at amortised cost. Deposits from customers

The detail, by counterparty and type of transaction, of “Customer deposits” in the accompanying consolidated balances sheets is as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Public sector	6,970,446	5,677,761
Current accounts	6,213,353	4,488,059
Term deposits	757,093	1,189,702
Other financial corporations	15,934,981	19,503,023
Current accounts	5,681,407	5,743,326
Term deposits	9,817,087	11,092,041
Repos	436,487	2,667,656
Non-financial corporations	15,517,034	16,186,456
Current accounts	12,920,436	12,408,062
Term deposits	2,596,598	3,778,394
Households	90,273,156	89,028,559
Current accounts	57,569,727	53,677,080
Term deposits	32,703,429	35,351,479
Total	**128,695,617**	**130,395,799**

This consolidated balance sheet items includes one-off non-marketable covered bonds issued by the Group amounting to EUR 6,676,241 thousand at 30 June 2018 (EUR 7,499,242 thousand at 31 December 2017).

The average effective annual interest rate of these instruments at 30 June 2018 was 0.13% (0.10 % at 31 December 2017).

(13.6) Financial liabilities at amortised cost. Debt securities issued

This heading includes the issues of marketable debt securities of the Group 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 first half year ended 30 June 2018 amounted to EUR 32,740 thousand (EUR 25,492 thousand at 30 June 2017), recognised under "Interest expense" in the consolodited income statement.

The average effective annual interest rate of these instruments at 30 June 2018 has been 1.02% (0.96 % at 31 December 2017).

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 issues liabilities in the six months ended 30 June 2018 and 2017:

30 June 2018

(Thousands of euros)

TYPE OF ISSUE	31/12/2017	Issues (*)	Repurchases or repayments (*)	Valuation adjustments, treasury and others	30/06/2018
Debt securities issued in an EU Member State requiring a prospectus to be registered.	19,784,810	100,000	(2,438,735)	5,161	17,451,236
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**	**100,000**	**(2,438,735)**	**5,161**	**17,451,236**

(*)Nominal amounts

30 June 2017

(Thousands of euros)

TYPE OF ISSUE	31/12/2016	Issues (*)	Repurchases or repayments (*)	Valuation adjustments, treasury and others	30/06/2017
Debt securities issued in an EU Member State requiring a prospectus to be registered.	19,846,163	500,000	(1,189,370)	(494,560)	18,662,233
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**	**500,000**	**(1,189,370)**	**(494,560)**	**18,662,233**

(*) Nominal amounts

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.

Appendix V provides a detail of issues, repurchase or redemptions of debt instruments carried out by the Bank or other Group companies in the six months ended 30 June 2018 and 2017.

Other information

For credit seniority purposes, issues of subordinated bonds rank junior to the claims of all the general creditors of the issuers.

The subordinated bond issue recognised under "Financial liabilities at amortised cost" at 31 December 2017 includes an option for the issuer to 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 issuance of CoCos convertible into Bankia ordinary shares and targeting exclusively qualified investors pays a discretionary coupon subject to certain conditions being met. The instruments are perpetual, although they may be redeemed at Bankia's discretion in the situations envisaged in their terms and conditions. They will be converted into new ordinary of Bankia if Bankia or the Group report a Common Equity Tier 1 ratio of less than 5.125%, calculated in accordance with 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.

Issues of "Medium Term Notes" are guaranteed by the issuing Group entities or are secured by restricted deposits.

Covered bonds were issued in accordance with Mortgage Market Law 2/1981, of 25 March, and the related implementing provisions.

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 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 consolidated balance sheet headings is provided in Note 3.2, "Liquidity risk of financial instruments".

(13.7) 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	30/06/2018	31/12/2017
Obligations payable	191,300	192,760
Deposits received	2,140	15,031
Tax collection accounts	227,043	243,166
Special accounts and other items	496,320	568,998
Financial guarantees	43,505	47,430
Total	**960,308**	**1,067,385**

(14) Provisions

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

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Pensions and other post employment defined benefit obligations	431,337	442,407
Pending legal issues and tax litigation	268,563	363,803
Commitments and guarantees given	386,162	379,484
Other provisions	670,181	848,881
Total	**1,756,243**	**2,034,575**

The changes in the provisions recognised in the consolidated balance sheet in the six-months ended 30 June 2018 and 2017 and the purposes thereof are as follows:

30 June 2018

(Thousands of euros)

ITEM	Pensions and other post employment defined benefit obligations	Pending legal issues and tax litigation	Provision for risk and contingent commitments	Other provisions	Total
Balances at 31 December 2017	**442,407**	**363,803**	**379,484**	**848,881**	**2,034,575**
Adjustments for firs-time application of IFRS 9	-	-	43,114	-	43,114
Balances at 1 January 2018	**442,407**	**363,803**	**422,598**	**848,881**	**2,077,689**
Provisions charged to the income statement	-	-	6,608	1,850	8,458
Reversals credited to the income statement	-	(841)	(44,010)	-	(44,851)
Net provisions/(reversals) charged to profit recognised for the year	**-**	**(841)**	**(37,402)**	**1,850**	**(36,393)**
Use of funds and other movements	(11,070)	(94,399)	966	(180,550)	(285,053)
Balances at 30 June 2018	**431,337**	**268,563**	**386,162**	**670,181**	**1,756,243**

30 June 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**	**421,071**	**389,690**	**192,679**	**1,405,104**
Provisions charged to the income statement	-	49,557	43,473	2,493	95,523
Reversals credited to the income statement	-	-	(51,386)	(46,879)	(98,265)
Net provisions/(reversals) charged to profit recognised for the year	**-**	**49,557**	**(7,913)**	**(44,386)**	**(2,742)**
Use of funds and other movements	(9,134)	(263,366)	(3,011)	(2,912)	(278,423)
Balances at 30 June 2017	**392,530**	**207,262**	**378,766**	**145,381**	**1,123,939**

Provisions for taxes and other legal contingencies

The balance of "Provisions for taxes and other legal contingencies" which 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 1.9, the Group is involved in various legal proceedings related to Bankia's IPO.

Criminal procedure in the National Court

Both Bankia's IPO and its 2011 financial statements were investigated in preliminary proceedings no. 59/2012 in Central Court of Instruction 4 of the National Court (Audiencia Nacional). This proceeding was initiated, among others, by Unión Progreso y Democracia ("UPyD") against Bankia, BFA and their respective management bodies, accusing them of (i) fraud; (ii) misappropriation; (iii) falsification of financial statements; (iv) fraudulent or disloyal administration, and (v) price rigging.

The presiding judge of Central Court of Instruction No. 4 of the National Court (Audiencia Nacional) has concluded the pre-trial stage, continuing with the proceedings in an abbreviated procedure, through a fast-track ruling of 11 May 2017. In its ruling, the judge defined the punishable acts, classified them (as two alleged offences: (i) falsifying balance sheets and annual accounts, as set out in article 290 of the Spanish Penal Code, and (ii) misleading investors, as set out in article 282 bis therein) and determined the guilty parties. Accordingly, the ruling determines the prosecution of the Bank's former chairman, Rodrigo De Rato Figaredo, the former deputy chairman, José Luis Olivas Martínez, and 32 other individuals (directors and senior executives of Bankia and the external auditor of the 2011 financial statements), as well as Banco Financiero y de Ahorros (BFA) and Bankia.

An appeal for amendment may be filed along with a subsequent appeal to the criminal chamber of the National Court. Appeals have been filed by private prosecutors and individual cases, as well as by the FROB and the persons indicted.

Meanwhile, the fast-track ruling has been referred to the Tax Ministry, along with the accusations submitted, seeking either the commencement of a trial or an acquittal.

The Tax Ministry filed a prosecution report on 12 June 2017, accusing exclusively Rodrigo De Rato Figaredo, José Luis Olivas Martínez, José Manuel Fernández Norniella and Francisco Verdú Pons of misleading investors, as provided for in article 282 bis of the Spanish Penal Code, seeking to hold Bankia vicariously liable with respect to the amount of indemnity payable to the retail investors party to the proceedings who have not already been indemnified by Bankia. The prosecution report also expressly seeks dismissal of the criminal case against BFA and Bankia based on (i) their culture of corporate ethics, (ii) the change of management team, (iii) their cooperation throughout the legal investigation despite their status as victim, (iv) their behaviour throughout the process for initiating an investigation to clarify the distribution and use of credit cards, and, lastly, (v) the fact that they reimbursed all retail investors participating in the IPO on 20 July 2011 for their initial investment.

Prosecution reports have also been submitted by private prosecutors (CIC, 15M Pa Rato, ADICAE, etc.), as well as by the FROB and the various individual accusations, which have been forward to the parties for the related allegations.

On 19 June 2017, the FROB filed a prosecution report, in line with the case presented in the Tax Ministry's report, against Rodrigo De Rato Figaredo, José Luis Olivas Martínez, José Manuel Fernández Norniella and Francisco Verdú Pons for misleading investors, as provided for in article 282 bis of the Spanish Penal Code, without seeking to hold Bankia vicariously liable, stating that the defendants should be held directly liable, jointly and severally, and as such, should indemnify the FROB for the decrease in BFA's and Bankia's assets caused by the civil proceedings initiated by the investors who took part in Bankia's IPO.

On 26 June 2017, the Court issued a ruling rejecting the appeals for amendment filed against the fast-track, having resolved to refer to the appellate court.

On 15, 18 and 26 September 2017, the Criminal Chamber of the National High Court ruled on the appeals lodged against the transformation ruling, dismissing all of the appeals presented, other than that presented by the *Confederación Intersindical de Crédito* (the savings banks' employees' union or CIC for its acronym in Spanish) with respect to the dismissal of the criminal liability charges against the external auditor at the IPO time, which was ruled admissible, such that this process is ongoing.

On 17 November 2017, Central Examining Court No. 4 of the National High Court ordered the start of the hearings. Specifically, the court has ordered the start of the hearings for the crimes of financial statement forgery (categorised in article 290 of Spain's Criminal Code) and investor fraud (article 282 *bis* of the Criminal Code) against certain former directors and executives. On 7 June 2018, Chamber 4 of the Criminal Court delivered its judgement on the evidence requested by the parties to the proceedings and set a trial date of 26 November 2018.

In light of the above, the Group has treated this contingency, in accordance with the criteria explained in Note 1.9.1, 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.

At 31 December 2015, the Group estimated a total contingency arising from these proceedings of EUR 1,840 million, which included EUR 1,040 million related to the cost of reimbursing shares pursuant to the enforcement of rulings and EUR 800 million to cover the related court costs and, as appropriate, any late-payment interest. At 31 December 2015, the estimates and assumptions were considered by an independent expert.

In execution of the Transactional Agreement - Convenio Transaccional - over the sharing between BFA, Tenedora de Acciones, S.A.U. and Bankia of the costs arising from the civil lawsuits brought by retail investors against the entities for the placement on the primary market of shares of Bankia and its addendum, provisions have been recognised in the amounts of EUR 416 million and EUR 320 million, respectively (EUR 736 million in total).

At 30 June 2018, there are a total of 802 civil proceedings ongoing with respect to shares purchased in the IPO and subsequently.

As a result, the Group utilised provisions in the first half of 2018 of EUR 17 million, the full amount of which corresponded to Bankia (EUR 9 million for invalidity due to reimbursement of shares and EUR 8 million for damages, interest and expenses)

As a result of these, at 30 June 2108, the Group had used provisions amounting to EUR 1,864 million, of which EUR 760 million related to Bankia (EUR 550 million in respect of nullity for reimbursement of shares, and EUR 210 in indemnities, interest and expenses) and EUR 1,104million to BFA in application of the agreement entered into between the two institutions where Bankia assumed a first-loss tranche of 40% of the estimated cost and BFA the remaining 60%. Accordingly, the contingency related to retail investors who subscribed shares in the IPO is considered to be practically resolved.

Civil proceedings by institutional investors

Meanwhile, and as of 30 June 2018 a total of 75 judgements at first instance had been handed down in relation to lawsuits concerning the primary market. Of these, 20 were favourable (16 legal persons and four natural persons) and 55 adverse (44 legal persons and 11 natural persons). On appeal, a total of 28 judgements have been delivered by the provincial courts of Spain, 22 of which were unfavourable (relating to five natural persons and 17 legal persons) and 6 adverse (all relating to legal persons).

9 appeals have been lodged (four by high-profile investors, which have been duly contested by Bankia in due time and form, and five have been lodged by Bankia, given the high profile of the investors).

The Group's directors consider that the provision set aside on 30 June 2018 is sufficient to cover the amounts that the Group would have to pay as a result of the civil proceedings in progress. In any event, 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 1.9.2, the Bank has recognised the provisions it estimates will be necessary as of the reporting date.

The change in provisions in the first half of 2018 related mainly to the utilisation of provision for the class action lawsuits described in Note 1.9.2 to the accompanying condensed consolidated interim financial statements.

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 in the first half of 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 the first half of 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 the six months ended 30 June 2018.

(15) Equity

(15.1) 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, were registered with the Valencia Companies Register on 8 January 2018 (see Note 2).

At 30 June 2018, share capital amounted to EUR 3,084,963 thousand at 30 June 2018, 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 the first half-year of 2018 and 2017, no transaction costs were recognised for the issuance or acquisition of own equity instruments.

Bankia, S.A.'s main shareholders at 30 June 2018 and 31 December 2017 were as follows:

	Number of shares		% of participation	
Shareholder	30/06/2018	31/12/2017	30/06/2018	31/12/2017
BFA, Tenedora de Acciones, S.A.U.	1,889,657,317	1,881,195,830	61.25%	60.98%

(15.2) Transactions with treasury shares

In the half-years ended 30 June 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:

(Thousand euros and number of shares)

	30/06/2018		30/06/2017	
ITEMS	No. shares	Amount (thousands of euros)	No. shares	Amount (thousands of euros)
Balance at 1 January	**20,023,158**	**79,837**	**52,059,789**	**44,758**
+ Purchases during the period	16,162,011	59,159	55,501,494	68,877
- Sales and other changes (1)	(16,296,096)	(64,212)	(91,821,068)	(52,130)
Balances at 30 June	**19,889,073**	**74,784**	**15,740,215**	**61,505**
Net gain/(loss) on transactions with treasury shares (reserves)		(2,664)		6,964

(1) Includes the reverse split explained 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.

(15.3) Reserves

The Group's consolidated statement of changes in total equity for the six months ended 30 June 2018 and 2017 includes shows the changes to consolidated equity for this item in the period.

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 30 June 2018 (EUR 575,866 thousand at 31 December 2017).

(15.4) Accumulated other comprehensive income

This item mainly includes the net amount of changes in fair value of available-for-sale financial assets, and valuation adjustments recognised in equity of associates.

(15.5) Non-controlling interests

This item includes the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Group, including the Group's share of profit/(loss) for the period.

(15.6) Investments in listed companies

Other than Bankia, S.A., no other Group subsidiary was listed on an active market at 30 June 2018.

(15.7) Other information

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 disapply preemptive subscription rights up to a maximum of 20% of share capital resulting from the resolutions adopted at the beginning of this Note.
- 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 (1,500,000,000) euro;

as well as the authority to increase the share capital in the requisite amount, and the authority, if applicable, to disapply preemptive subscription rights up to a maximum of 20% of share capital resulting from the resolutions adopted at the beginning of this Note.

- Authorisation for the derivative acquisition of own shares in accordance with the limits and requirements established in the Corporations Act.

(16) Composition and distribution by gender of employee

The number of Group employees, by gender and professional category (including executive directors and senior managers at the Bank) at 30 June 2018 and 2017 is as follows:

	Workforce at 30 june 2018				Workforce at 31 december 2017			
	Men	Women	Year-end workforce	Average head count for >= 33% (1)	Men	Women	Year-end workforce	Average head count for >= 33% (1)
Directors	**4**	**-**	**4**	**-**	**3**	**-**	**3**	**-**
Senior executives	**4**	**1**	**5**	**-**	**3**	**1**	**4**	**-**
Other employees by remuneration level	**7,051**	**8,906**	**15,957**	**193**	**5,949**	**7,180**	**13,129**	**155**
Level I	107	11	118	1	118	10	128	1
Level II	490	150	640	6	496	116	612	3
Level III	755	299	1,054	9	797	294	1,091	12
Level IV	1,067	791	1,858	20	923	689	1,612	17
Level V	1,127	1,187	2,314	25	629	652	1,281	13
Level VI	984	1,380	2,364	35	1,135	1,651	2,786	39
Level VII	559	952	1,511	19	212	385	597	6
Level VIII	433	963	1,396	19	386	888	1,274	18
Level IX	316	688	1,004	13	254	440	694	8
Level X	689	1,435	2,124	14	303	712	1,015	5
Level XI	497	1,013	1,510	31	683	1,316	1,999	31
Level XII	12	28	40	-	7	21	28	-
Level XIII	-	1	1	-	2	2	4	-
Level XIV	8	7	15	-	-	3	3	-
Group 2 and others	7	1	8	1	4	1	5	2
Total Bankia, S.A.	**7,059**	**8,907**	**15,966**	**193**	**5,955**	**7,181**	**13,136**	**155**
Other Group companies	243	284	527	7	154	187	341	3
Total	**7,302**	**9,191**	**16,493**	**200**	**6,109**	**7,368**	**13,477**	**158**

(1) Group's Bankia has adopted alternative measures for complying with the reserve quota for employees with disabilities.

The table below shows the average workforce of the Bank and Group at 30 June 2018 and 2017, by gender, in accordance with the provisions of Organic Law 3/2007, of 22 March:

	Bank		Group	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Average workforce	**16,238**	**13,075**	**16,771**	**13,415**
Men	7,295	5,955	7,542	6,109
Women	8,943	7,120	9,229	7,306

(17) Tax assets and liabilities

Pursuant to the tax legislation in force in the countries in which the consolidated companies operate, 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 30 June 2018 and 31 December 2017, bearing in mind the impact of the retrospective application of article 19.3 of the TRLIS, (Consolidated Text of the Spanish Corporations Act) today article 11.12 of the LIS, (Corporations Act) are as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Monetisable:	**7,491,762**	**7,530,546**
Allowances for credit impairment	5,367,357	5,406,140
Impairment losses on foreclosed assets	1,237,078	1,237,079
Additions to provisions for pensions	280,811	280,811
Other originating at Group companies	606,516	606,516
Non-monetisable:	**3,161,690**	**2,999,429**
Allowances for credit impairment	285,484	71,464
Impairment losses recognised on financial assets	85,917	75,741
Additions to provisions for pensions	7,875	9,751
Others provisions	331,893	387,423
Tax assets relating to unused tax credits and tax relief	88,367	88,369
From loss on available-for-sale financial assets	39,048	43,579
Recognised unused tax losses	2,323,106	2,323,102
Total of deferred tax assets	**10,653,452**	**10,529,975**

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Deferred tax liabilities arising at the Bank	**644,269**	**684,771**
Unrealised gains on available-for-sale financial assets	473,518	463,806
Unrealised gains on properties	150,961	151,878
Other	19,790	69,087
Deferred tax liabilities arising at other Group entities	**19,973**	**20,677**
Total of deferred tax liabilities	**664,242**	**705,448**

To assess the recoverability of the net deferred tax assets recognised by the Group at 30 June 2018, amounting to EUR 9,989,210 thousand (EUR 9,824,527 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 2018 to 2020 and trends over the next two years. 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-the Group had deferred tax assets amounting to EUR 7,491,762 thousand (EUR 7,530,546 thousand at 31 December 2017) that meet the requirements under this law. Accordingly, this recovery is expected to be through the offset of future profit, their future recovery is guaranteed through the monetisation mechanisms established in 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.

(18) Guarantees provided and drawable by third parties

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 30 June 2018 and 2017 is as follows:

(Thousands of euros)

ITEM	30/06/2018	31/12/2017
Loan commitments given	**20,589,203**	**18,518,902**
Immediately drawable	15,302,182	14,455,766
Conditionally drawable	5,287,021	4,063,136
Financial guarantees given	**372,949**	**415,095**
Contingent commitments given	**12,669,769**	**12,749,981**
Other guarantees, indemnities and other contingent risks	7,204,206	8,010,654
Irrevocable documentary credits issued	367,032	373,733
Irrevocable documentary credits confirmed	82,845	74,289
Other contingent risk	414	5,521
Other commitments given(1)	5,015,272	4,285,784
Total	**33,631,921**	**31,683,978**

(1) Includes, mainly, commitments to purchase financial assets and documents presented for collection in the various clearing systems.

A significant portion of these guarantees will expire without any payment obligation materialising for the Group. 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 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	30/06/2018	31/12/2017
Loan commitments given	20,589,203	18,518,902
Of which, classified as doubtful	477,241	429,073
Recognised as liabilities in the balance sheet (1)	77,814	24,863
Total loan commitments given	**20,589,203**	**18,518,902**
Financial guarantees	372,949	415,095
Of which, classified as doubtful	96,227	101,079
Recognised as liabilities in the balance sheet (1)	23,973	28,533
Total financial guarantees given	**372,949**	**415,095**
Other guarantees, indemnities and other contingent risk	12,669,769	12,749,981
Of which, classified as doubtful	620,062	694,332
Recognised as liabilities in the balance sheet (1)	284,375	326,088
Total other commitments given	**12,669,769**	**12,749,981**
Total guarantees issued available by third parties	**33,631,921**	**31,683,978**

(1) Amount related to "Provision - Commitments and guarantees given" (Note 14).

(19) 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, a breakdown of the balances recognised on the condensed balance sheet at 30 June 2018 and the gains and losses recognised on the condensed consolidated income statement for the six-month period ended 30 June 2018 arising from transactions with related parties is as follows:

(Thousands of euros)

ITEMS	Associates	Joint ventures	Significant shareholders (1)	Board of Directors and senior executives	Other related parties
ASSETS					
Loans and advances – Customers	255,175	298,245	331	947	1,647
Impairment of financial assets	(114,357)	(229,103)	-	-	-
Other assets	-	-	2,155	-	-
Total	**140,818**	**69,142**	**2,486**	**947**	**1,647**
LIABILITIES	-	-	-	-	-
Deposits – Customers	286,789	115,793	47,457	2,882	84,124
Total	**286,789**	**115,793**	**47,457**	**2,882**	**84,124**
OTHER					
Contingent commitments granted	13,942	9	-	199	281
Guarantees granted	12,901	3	2,401	9	38,448
Total	**26,843**	**12**	**2,401**	**208**	**38,729**
PROFIT OR LOSS					
Interest income (2)	2,428	3,246	-	1	11
Interest expense (2)	(2,495)	(59)	(72)	-	(75)
Profit/(loss) of companies accounted for using the equity method	25,190	4,129	-	-	-
Commission income/expense	235	370	3,740	57	255
Other results	-	-	-	(2)	-
Provision for impairment of financial assets	2,178	(753)	-	-	-

(1) Transactions between Bankia and shareholder BFA only.

(2) Finance income and expense are presented gross.

The following are balances recorded in the consolidated balance sheet and consolidated income statement at 30 June 2017, which have their origin in operations with related parties:

(Thousands of euros)

ITEMS	Associates	Joint ventures	Significant shareholders (1)	Board of Directors and senior executives	Other related parties
ASSETS					
Loans and advances – Customers	257,564	30,395	387,123	1,176	297
Impairment of financial assets	(116,253)	(30,395)	-	-	-
Other assets	-	-	3,840	-	-
Total	**141,311**	**-**	**390,963**	**1,176**	**297**
LIABILITIES					
Deposits – Customers	66,758	1,221	81,946	1,453	58,779
Total	**66,758**	**1,221**	**81,946**	**1,453**	**58,779**
OTHER					
Contingent commitments granted	767	-	-	119	69
Guarantees granted	11,976	-	2,401	9	3
Total	**12,743**	**-**	**2,401**	**128**	**72**
PROFIT OR LOSS					
Interest income (2)	1,264	-	-	1	1
Interest expense (2)	(819)	-	(140)	(1)	(22)
Profit/(loss) of companies accounted for using the equity method	18,379	-	-	-	-
Commission income/expense	161	-	4,694	39	15
Provision for impairment of financial assets	(483)	1,190	-	-	-

(1) Transactions btween Bankia and Shareholder BFA only.

(2) Interest income and expenses are presented by their gross amount.

The list of associates and joint ventures is included in Appendices III and IV. “Other related parties” includes interim statements held by close family relations of Bank directors (inter alia, directors' spouses and their own and their spouses' ancestors, descendants and siblings) and by entities related to such persons, as well as the Employees Pension Fund, which the Bank is aware.

All the transactions between the Group and its related parties were performed on an arm’s-length basis.

In addition, at 30 June 2018, the FROB, through BFA, Tenedora de Acciones, S.A.U., held a 61.25% (61.65% taking treasury share policy in consideration) 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 30 June 2018 are disclosed in the following notes to the condensed consolidated financial statements:

- Note 7.3 Financial assets at fair value through other comprehensive income.
- Note 7.4 Financial assets measured at amortised cost.
- Note 13.5 Financial liabilities at amortised cost - Customer deposits.

The income and expense recognised in the consolidated income statements for the half-year 2018 and 2017 are as follows:

(Thousands of euros)

ITEM	30/06/2018	30/06/2017
Public sector interest income (*)	29,254	30,739
(Public sector interest expense) (*)	(1,299)	(1,690)

(*) Finance 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 30 June 2018 include:

- “Loans and advances - Customers” includes EUR 0.3 million of guarantees issued to BFA as collateral on financial transactions;
- “Deposits - Customers” includes a demand deposit (interest-bearing) made by BFA for EUR 47 million;
- “Other assets” includes mainly receivables related to the accrual of fees and commissions explained below;
- “Guarantees granted” includes the amounts drawn on the line of guarantees granted by Bankia to BFA;
- "Net fee and commission income" in the income statement includes income from services rendered by the Bank to recover BFA assets completely deteriorated and assests written off, calculated in accordance with the total amount recovered and from guarantees issued;
- The table above showing related-party figures at 30 June 2018 includes finance costs and income, respectively, in connection with the loan and deposit transactions mentioned under the above headings.

Bankia and BFA have also entered into the following contracts and agreements:

- A framework agreement governing relations between the two institutions.
- A Service Level Agreement that enables BFA to correctly perform its activity by using Bankia's human and material resources, while avoiding redundancies.
- A CMOF “(Contrato Marco de Operaciones Financieras)” Master Agreement on derivatives trading between the two institutions.
- A Global Master Repurchase Agreement (GMRA) and a Collateral Assignment Agreement linked to fixed-income asset sale and repurchase transactions.
- A European Master Financial Transactions Agreement (EMFTA) covering securities loans and fixed-income repo agreements.
- A cost-sharing agreement for lawsuits related to preferred participating securities and subordinated bonds.
- An agreement establishing an access mechanism allowing BFA, through the Bank, to avail of the liquidity and funding mechanisms set up by the ECB for credit institutions, as well as private deals inherent in the business of credit institutions.

- An agreement to apportion the cost of civil proceedings and claims filed in relation to Bankia's IPO.
- BFA/Bankia cooperation protocol. Article 11.2 CRR, designed to regulate relations between BFA and Bankia with respect to defining and implementing the necessary mechanisms and procedures to comply with the obligations imposed by article 11.2 of Regulation (EU) No 575/2013 and, in particular, to verify that BFA complies with the capital requirements imposed by applicable legislation.

All transactions between the two entities are carried out on normal market terms.

(20) Explanation added for translation to English

These condensed consolidated interim 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 Group 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 sheets at 30 June 2018 and 31 December 2017

(Thousands of euros)

ASSETS	30/06/2018	31/12/2017 (*)
Cash, cash balances at central banks and other demand deposits	**1,829,162**	**3,755,070**
Financial assets held for trading	**6,286,220**	**6,719,052**
Derivatives	6,166,255	6,712,727
Equity instruments	4,125	4,324
Debt securities	115,840	2,001
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	**8,811**	-
Equity instruments	-	-
Debt securities	340	-
Loans and advances	8,471	-
Central banks	-	-
Credit institutions	-	-
Customers	8,471	-
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	**17,859,209**	**22,725,897**
Equity instruments	63,894	57,190
Debt securities	17,795,315	22,668,707
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	6,942,929	9,892,613
Financial assets at amortised cost	**161,496,603**	**159,027,488**
Debt securities	34,931,786	32,797,525
Loans and advances	126,564,817	126,229,963
Central banks	-	-
Credit institutions	4,777,003	3,029,283
Customers	121,787,814	123,200,680
Memorandum item: loaned or advanced as collateral with right to sell or pledge	98,109,825	82,456,235
Derivatives – hedge accounting	**2,549,170**	**3,058,341**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in subsidaries, joint ventures and associates	**2,937,275**	**2,840,144**
Group entities	2,743,869	2,678,645
Joint ventures	29,774	31,589
Associates	163,632	129,910
Tangible assets	**2,328,241**	**2,402,415**
Property, plant and equipment	1,670,846	1,745,382
For own use	1,670,846	1,745,382
Leased out under an operating lease	-	-
Assigned to welfare projects (savings banks and credit cooperatives)	-	-
Investment property	657,395	657,033
Of which: leased out under operating leases	657,395	657,033
Memorandum item: acquired in financial lease	-	-
Intangible assets	**184,094**	**142,669**
Goodwill	-	-
Other intangible assets	184,094	142,669
Tax assets	**10,278,579**	**10,345,204**
Current tax assets	236,699	426,958
Deferred tax assets	10,041,880	9,918,246
Other assets	**1,182,870**	**909,821**
Insurance contracts linked to pensions	422,571	432,981
Inventories	-	-
Other	760,299	476,840
Non-current assets and disposal groups classified as held for sale	**2,746,116**	**3,117,805**
TOTAL ASSETS	**209,686,350**	**215,043,906**

(*) The consolidated balance sheet at 31 December 2017 is presented solely for comparison and differs from the one included in the 2017 consolidated financial statements. See Note 1.5.

BANKIA, S.A.
Balance sheets at 30 June 2018 and 31 December 2017

(Thousands of euros)

LIABILITIES AND EQUITY	30/06/2018	31/12/2017 (*)
Financial liabilities held for trading	**6,703,077**	**7,449,989**
Derivatives	6,480,714	7,106,560
Short positions	222,363	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	**187,007,682**	**190,916,511**
Deposits	170,272,758	170,537,855
Central banks	13,855,970	15,355,970
Credit institutions	23,846,303	22,212,284
Customers	132,570,485	132,969,601
Debt securities issued	15,727,922	19,288,228
Other financial liabilities	1,007,002	1,090,428
Memorandum item: subordinated liabilities	2,481,822	2,510,922
Derivatives – hedge accounting	**251,170**	**377,469**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	**-**
Provisions	**1,677,699**	**1,953,867**
Pensions and other post employment defined benefit obligations	431,337	442,407
Other long term employee benefits	-	-
Pending legal issues and tax litigation	260,177	352,324
Commitments and guarantees given	386,235	380,422
Other provisions	599,950	778,714
Tax liabilities	**644,268**	**686,139**
Current tax liabilities	-	1,368
Deferred tax liabilities	644,268	684,771
Share capital repayable on demand	**-**	**-**
Other liabilities	**818,901**	**867,586**
Of which: welfare fund (only savings banks and credit cooperatives)	-	-
Liabilities included in disposal groups classified as held for sale	-	-
TOTAL LIABILITIES	**197,102,797**	**202,251,561**
Equity	**12,327,749**	**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	8,006,460	8,384,243
(-) Treasury shares	(74,784)	(79,837)
Profit or loss attributable to owners of the parent	691,956	468,752
(-) Interim dividends	-	-
Accumulated other comprehensive income	**255,804**	**315,070**
Items that will not be reclassified to profit or loss	68,703	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	19,939	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 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		
Items that may be reclassified to profit or loss	187,101	250,516
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	(458)	(714)
Hedging derivatives. Cash flow hedges reserve [effective portion]	(22,408)	(10,163)
Fair value changes of financial assets measured at fair value through other comprehensive income	209,818	264,648
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	149	(3,255)
TOTAL EQUITY	**12,583,553**	**12,792,345**
TOTAL EQUITY AND TOTAL LIABILITIES	**209,686,350**	**215,043,906**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS	**33,843,309**	**31,915,570**
Loan commitment given	20,752,858	18,699,632
Financial guarantees given	372,949	414,912
Contingent commitments	12,717,502	12,801,026

(*) The consolidated balance sheet at 31 December 2017 is presented solely for comparison and differs from the one included in the 2017 consolidated financial statements. See Note 1.5.

BANKIA, S.A.
Income statement for the six months ended 30 June 2018 and 2017

(Thousands of euros)

	30/06/2018	30/06/2017 (*)
Interest income	1,273,242	1,143,271
(Interest expenses)	(228,522)	(195,887)
(Expenses on share capital repayable on demand)	-	-
A) NET INTEREST INCOME	**1,044,720**	**947,384**
Dividend income	208,746	37,978
Fee and commission income	523,652	425,398
(Fee and commission expenses)	(37,813)	(35,862)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	270,399	217,488
Gains or (-) losses on financial assets and liabilities held for trading, net	35,903	71,015
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	73	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	(13,259)	(15,496)
Exchange differences [gain or (-) loss], net	5,753	4,258
Other operating income	28,562	28,083
(Other operating expenses)	(100,330)	(92,236)
Of which: Mandatory provisions to welfare fund (only savings banks and credit cooperatives)		
B) GROSS INCOME	**1,966,406**	**1,588,010**
(Administrative expenses)	(840,626)	(671,252)
(Staff expenses)	(580,989)	(453,259)
(Other administrative expenses)	(259,637)	(217,993)
(Depreciation)	(87,356)	(82,396)
(Provisions or (-) reversal of provisions)	38,205	(32,711)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(211,007)	(149,782)
(Financial assets at fair value through other comprehensive income)	(772)	2,112
(Financial assets at amortised cost)	(210,235)	(151,894)
C) TOTAL OPERATING INCOME, NET	**865,622**	**651,869**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	47,049	31,644
(Impairment or (-) reversal of impairment on non-financial assets)	(5,640)	712
(Tangible assets)	(5,640)	712
(Intangible assets)	-	-
(Other)	-	-
Gains or (-) losses on derecognition in nonfinancial assets accounts and investments, net	2,359	1,100
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	(68,078)	(41,451)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**841,312**	**643,874**
(Tax expense or (-) income related to profit or loss from continuing operations)	(149,356)	(149,648)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	**691,956**	**494,226**
Profit or (-) loss after tax from discontinued operations	-	-
F) PROFIT OR (-) LOSS FOR THE PERIOD	**691,956**	**494,226**

(*) The consolidated income statement for the six months ended 30 June 2017 is presented solely for comparison and differs from the one included in the condensed consolidated interim financial statements for the six months ended 30 June 2017. See Note 1.5.

BANKIA, S.A.

Statement of recognised income and expense for the six months ended 30 June 2018 and 2017

(Thousands of euros)

	30/06/2018	30/06/2017 (*)
Profit or (-) loss for the period	**691,956**	**494,226**
Other comprehensive income	**(231,624)**	**(123,213)**
Items that will not be reclassified to profit or loss	**4,149**	**2,776**
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Non-current assets and disposal groups held for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	5,927	2,776
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	(1,778)	-
Items that may be reclassified to profit or loss	**(235,773)**	**(125,989)**
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	366	(1,103)
Translation gains or (-) losses taken to equity	366	(1,103)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	(17,493)	1,232
Valuation gains or (-) losses taken to equity	(17,493)	1,232
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	(324,555)	(171,861)
Valuation gains or (-) losses taken to equity	(54,848)	(70,990)
Transferred to profit or loss	(269,707)	(100,871)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	4,863	(7,061)
Valuation gains or (-) losses taken to equity	4,863	(7,061)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	101,046	52,804
Total comprehensive income for the period	**460,332**	**371,013**

(*) The consolidated statement of recognised income and expense for the six months ended 30 June 2017 is presented solely for comparison and differs from the one included in the condensed consolidated interim financial statements for the six months ended 30 June 2017. See Note 1.5.

BANKIA, S.A.

Statement of changes in total equity for the six months ended 30 June 2018

(Thousands of euros)

Sources of equity changes	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	Accumulated Other Comprehensive Income	Total
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									**691,956**		**(231,624)**	**460,332**
Other changes in equity	-	-	-	-	-	-	109,264	5,053	(468,752)	-	-	(354,435)
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 of partners)	-	-	-	-	-	-	(338,015)	-		-		(338,015)
Purchase of treasury shares					-	-	-	(59,159)				(59,159)
Sale or cancellation of treasury shares					-	-	(2,664)	64,212				61,548
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			-	-	-	-	(18,809)	-	-	-	-	(18,809)
Of which: discretionary provision to welfare funds (only savings banks and credit cooperatives)					-		-					-
Closing balance 30/06/2018 [current period]	**3,084,963**	**619,154**	**-**	**-**	**-**	**-**	**8,006,460**	**(74,784)**	**691,956**	**-**	**255,804**	**12,583,553**

BANKIA, S.A.

Statement of changes in total equity for the six months ended 30 June 2017 (*)

(Thousands of euros)

Sources of equity changes	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	Accumulated Other Comprehensive Income	Total
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					-	-	-		**494,226**		**(123,213)**	**371,013**
Other changes in equity	(6,334,531)	-	-	-	-	-	**6,734,817**	**(16,747)**	**(719,455)**	-	-	**(335,916)**
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 (or remuneration of partners)	-	-	-	-	-	-	(315,957)	-		-		**(315,957)**
Purchase of treasury shares					-	-	-	(68,877)				**(68,877)**
Sale or cancellation of treasury shares					-	-	6,964	52,130				**59,094**
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	-	-	-	-	-	-	-	-			-	-
Share based payments	-	-		-				-				-
Other increase or (-) decrease in equity			-	-	-	-	(10,176)	-	-	-	-	**(10,176)**
Of which: discretionary provision to welfare funds (only savings banks and credit cooperatives)					-		-					-
Closing balance 30/06/2017 [current period]	**2,879,332**	**-**	**-**	**-**	**-**	**-**	**8,431,151**	**(61,505)**	**494,226**	**-**	**318,841**	**12,062,045**

(*) The consolidated statement of changes in equity for the six months ended 30 June 2017 is presented solely for comparison and differs from the one included in the condensed consolidated interim financial statements for the six months ended 30 June 2017. See Note 1.5.

BANKIA, S.A.

Statement of cash flows for the six months ended 30 June 2018 and 2017

(Thousands of euros)

	30/06/2018	30/06/2017 (*)
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**1,390,235**	**506,173**
Profit/(loss) for the period	**691,956**	**494,226**
Adjustments to obtain cash flows from operating activities	**157,672**	**200,786**
Depreciation and amortisation	87,356	82,396
Other	70,316	118,390
Net increase/(decrease) in operating assets	**(810,403)**	**(6,870,815)**
Financial assets held for trading	193,014	27,042
Non-trading financial assets mandatorily at fair value through profit or loss	315	
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	(6,085,020)	(5,742,449)
Financial assets at amortised cost	4,355,605	(1,435,181)
Other operating assets	725,683	279,773
Net increase/(decrease) in operating liabilities	**(316,848)**	**(7,136,174)**
Financial liabilities held for trading	(121,066)	(386,909)
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(377,678)	(6,547,771)
Other operating liabilities	181,896	(201,494)
Income tax receipts/(payments)	**47,052**	**76,520**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**550,690**	**164,126**
Payments	**78,156**	**104,088**
Tangible assets	102	46,877
Intangible assets	73,701	54,111
Investments in joint ventures and associates	3,340	3,000
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	1,013	100
Other payments related to investing activities	-	-
Proceeds	**628,846**	**268,214**
Tangible assets	15,871	7,874
Intangible assets	-	-
Investments in joint ventures and associates	226,506	16,911
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	386,469	243,429
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(3,866,833)**	**(95,198)**
Payments	**4,028,382**	**2,492,463**
Dividends	338,015	315,957
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	59,160	68,877
Other payments related to financing activities	3,631,207	2,107,629
Proceeds	**161,549**	**2,397,265**
Subordinated liabilities	-	497,270
Issuance of own equity instruments	-	-
Disposal of own equity instruments	61,549	59,094
Other proceeds related to financing activities	100,000	1,840,901
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(1,925,908)**	**575,101**
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	**1,829,162**	**2,656,872**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	852,574	651,685
Cash equivalents at central banks	859,719	1,913,098
Other financial assets	116,869	92,089
Less: Bank overdrafts refundable on demand	-	-

(*) The consolidated statement of cash flow at 30 June 2017 is presented solely for comparison and differs from the one included in the 2017 consolidated 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 30 June 2018 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
			Direct	Indirect	
ABITARIA CONSULTORÍA Y GESTIÓN, S.A.	Other independent services	Madrid – Spain	100.00	-	100.00
ARRENDADORA AERONÁUTICA, AIE	Purchase and lease of aircraft	Madrid – Spain	68.17	-	68.17
ARRENDADORA DE EQUIPAMIENTOS FERROVIARIOS, S.A.	Purchase and lease of trains	Barcelona - Spain	85.00	-	85.00
BANKIA FONDOS, S.G.I.I.C., S.A.	Manager of collective investment undertakings	Madrid - Spain	100.00	-	100.00
BANKIA HABITAT, S.L. UNIPERSONAL	Real Estate	Valencia - Spain	100.00	-	100.00
BANKIA INVERSIONES FINANCIERAS, S.A. UNIPERSONAL	Corporate management	Madrid - Spain	100.00	-	100.00
BANKIA MEDIACIÓN, OPERADOR DE BANCA SEGUROS VINCULADO, S.A. UNIPERSONAL	Insurance intermediary-Bancassurance operator	Madrid - Spain	100.00	-	100.00
BANKIA PENSIONES, S.A., ENTIDAD GESTORA DE FONDOS DE PENSIONES	Pension fund manager	Madrid - Spain	35.74	64.26	100.00
BEIMAD INVESTMENT SERVICES COMPANY LIMITED	Business management advisory services	Beijing - People's Republic of China	100.00	-	100.00
BMN BROKERS CORREDURIA DE SEGUROS, S.A. UNIPERSONAL	Insurance intermediary	Madrid – Spain	100.00	-	100.00
BMN MEDIACIÓN OPERADOR DE BANCA-SEGUROS VINCULADO, S.L. UNIPERSONAL	Insurance intermediary-Bancassurance operator	Madrid – Spain	100.00	-	100.00
CENTRO DE SERVICIOS OPERATIVOS E INGENIERIA DE PROCESOS, S.L.U.	Other independent services	Madrid – Spain	100.00	-	100.00
CORPORACIÓN EMPRESARIAL MARE NOSTRUM, S.L. UNIPERSONAL	Corporate management	Madrid – Spain	100.00	-	100.00
CORPORACIÓN FINANCIERA HABANA, S.A. (1)	Industry, commerce and services financing	La Habana - Republic of Cuba	60.00	-	60.00
CORPORACIÓN INDUSTRIAL BANKIA, S.A. UNIPERSONAL	Corporate management	Madrid – Spain	100.00	-	100.00
COSTA EBORIS, S.L. UNIPERSONAL, EN LIQUIDACIÓN (2)	Real Estate	Valencia – Spain	-	100.00	100.00
ENCINA LOS MONTEROS, S.L. UNIPERSONAL, EN LIQUIDACIÓN (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. UNIPERSONAL	Consultinng and managment services	Madrid – Spain	100.00	-	100.00
GESNOSTRUM SOCIEDAD GESTORA, S.L. UNIPERSONAL	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
GRAMA DESARROLLOS COMERCIALES, S.L. EN LIQUIDACIÓN (1) (2)	Real Estate development	Madrid - Spain	100.00	-	100.00
INMOGESTIÓN Y PATRIMONIOS, S.A.	Corporate management	Madrid - Spain	0.10	99.90	100.00
INNOSTRUM DIVISION INMOBILIARIA, S.L. UNIPERSONAL	Real Estate development	Madrid - Spain	100.00	-	100.00

Company	Business activity	Location	% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
			Direct	Indirect	
INVERSION GENERAL DE GRANADA 2 , S.L. EN LIQUIDACION (1) (2)	Real Estate development	Granada - Spain	75.00	-	75.00
INVERSIONES PROGRANADA, S.A. UNIPERSONAL, EN LIQUIDACIÓN (2)	Corporate management	Granada - Spain	-	100.00	100.00
INVERSIONES Y DESARROLLOS 2069 MADRID, S.L. UNIPERSONAL, EN LIQUIDACIÓN (2)	Real Estate	Madrid - Spain	100.00	-	100.00
KEVIR INVERSIONES, S.L. UNIPERSONAL, EN LIQUIDACIÓN (1) (2)	Real Estate development	Madrid - Spain	-	100.00	100.00
MEDIACIÓN Y DIAGNÓSTICOS, S.A.	Corporate management	Madrid - Spain	100.00	-	100.00
NAVICOAS ASTURIAS, S.L., EN LIQUIDACIÓN (1) (2)	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. UNIPERSONAL	Real Estate development	Madrid - Spain	100.00	-	100.00
SECTOR DE PARTICIPACIONES INTEGRALES, S.L.	Corporate management	Madrid - Spain	100.00	-	100.00
SEGURBANKIA, S.A. UNIPERSONAL, CORREDURÍA DE SEGUROS DEL GRUPO BANKIA	Insurance intermediary	Madrid - Spain	100.00	-	100.00
SUMMA SEGURIDAD, S.L. UNIPERSONAL, EN LIQUIDACIÓN (1) (2)	Private secutity	Murcia - Spain	-	100.00	100.00
VALENCIANA DE INVERSIONES MOBILIARIAS, S.L. UNIPERSONAL	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. UNIPERSONAL, EN LIQUIDACIÓN (2)	Consultinng and managment services	Madrid - Spain	100.00	-	100.00
VIAJES BMN, S.L. UNIPERSONAL EN LIQUIDACIÓN (1) (2)	Travel agency	Granada - Spain	100.00	-	100.00

(1) Classified under "Non current assets and disposal group classified as held for sale".
(2) Companies with processes initiated to carry out their liquidation.

Appendix III – Associates and joint ventures

The key details on associates and joint ventures at 30 June 2018 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
			Direct	Indirect	
Associates					
AVALMADRID, S.G.R.	SEMs funding	Madrid - SPAIN	25.52	-	25.52
BANKIA MAPFRE VIDA, S.A., DE SEGUROS Y REASEGUROS	Life insurance	Madrid - SPAIN	19.39	29.61	49.00
CAJA DE SEGUROS REUNIDOS, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A., "CASER"	Insurance	Madrid - SPAIN	15.00	-	15.00
NETTIT COLABORATIVE PAYMENT, S.L.	Other services	Madrid - SPAIN	30.00	-	30.00
REDSYS SERVICIOS DE PROCESAMIENTO, S.L.	Payment methods	Madrid - SPAIN	15.94	-	15.94
Joint ventures					
CAJAGRANADA VIDA, COMPAÑÍA DE SEGUROS Y REASEGUROS, S.A.	Life insurance	Granada - SPAIN	50.00	-	50.00
CAJAMURCIA VIDA Y PENSIONES DE SEGUROS Y REASEGUROS, S.A.	Life insurance	Murcia - SPAIN	50.00	-	50.00

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 30 June 2018 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
			Direct	Indirect	
Joint ventures					
CARTERA PERSEIDAS, S.L.	Corporate management	Madrid – SPAIN	11.82	-	11.82
INMACOR DESARROLLOS, S.A. DE CV	Real estate development	Playa del Carmen, Quintana Roo – MEXICO	-	72.57	72.57
INMOBILIARIA PIEDRA BOLAS, S.A. DE CV	Real estate development	Playa del Carmen, Quintana Roo - MEXICO	-	72.57	72.57
METRO HOUSE INVEST, S.L.	Real estate development	Palma Mallorca - SPAIN	-	50.00	50.00
O2 CENTRO WELLNESS GRANADA, S.L.	Sports	Granada - SPAIN	50.00	-	50.00
PLAYA PARAISO MAYA, S.A. DE CV	Real Estate	Playa del Carmen, Quintana Roo – MEXICO	-	72.57	72.57
PROMOCIONES Y PROYECTOS MURCILOR, S.L., EN LIQUIDACIÓN	Real estate development	Murcia – SPAIN	50.00	-	50.00
PROYECTOS Y DESARROLLOS HISPANOMEXICANOS. S.A., DE CV	Real Estate	Playa del Carmen, Quintana Roo – MEXICO	-	72.57	72.57
QUIMANNA HORTAL, S.L. EN LIQUIDACIÓN	Real estate development	Barcelona – SPAIN	50.00	-	50.00
SOL EDIFICAT PONENT, S.L.	Real estate development	Barcelona - SPAIN	50.00	-	50.00
Associates					
ALAZOR INVERSIONES, S.A., EN LIQUIDACIÓN	Other activities related to road transport	Madrid - SPAIN	-	20.00	20.00
ARRENDADORA FERROVIARIA, S.A.	Purchase and lease of trains	Barcelona – SPAIN	29.07	-	29.07
CARTAGENA JOVEN, S.L., EN LIQUIDACIÓN	Real estate development	Murcia – SPAIN	30.00	-	30.00
CIUTAT SAVALL, S.L. EN LIQUIDACIÓN	Real estate development	Palma de Mallorca – SPAIN	-	45.00	45.00
FALSTACEN, S.L.	Hotel development	Granada - SPAIN	24.10	-	24.10
FERROMOVIL 3000, S.L.	Purchase and lease of train equipment	Madrid – SPAIN	30.00	-	30.00
FERROMOVIL 9000, S.L.	Purchase and lease of train equipment	Madrid – SPAIN	30.00	-	30.00
GESTIO DE MITJANS DE PAGAMENT, S.L. EN LIQUIDACIÓN	Payments methods	Palma de Mallorca – SPAIN	20.00	-	20.00
MONTEBLANCO DESARROLLO INMOBILIARIO, S.L.	Real estate development	Sevilla – SPAIN	35.00	-	35.00
MURCIA EMPRENDE, SOCIEDAD DE CAPITAL RIESGO DE REGIMEN SIMPLIFICADO, S.A.	Private equity	Murcia – SPAIN	28.68	-	28.68
NEWCOVAL, S.L.	Real Estate	Valencia – SPAIN	-	50.00	50.00
NUEVA VIVIENDA JOVEN DE MURCIA, S.L. EN LIQUIDACIÓN	Real estate development	Murcia – SPAIN	49.89	-	49.89
PLAN AZUL 07, S.L.	Real estate development	Madrid – SPAIN	31.60	-	31.60
RIVIERA 2012, S.L., EN LIQUIDACIÓN	Real estate development	Madrid – SPAIN	33.00	-	33.00
ROYACTURA, S.L.	Real Estate	Madrid – SPAIN	-	45.00	45.00
SERALICAN, S.L., EN LIQUIDACIÓN	Foods	Las Palmas de Gran Canarias – SPAIN	40.00	-	40.00
S'ESTEL NOU PALMA, S.L. EN LIQUIDACIÓN	Real Estate	Palma de Mallorca - SPAIN	-	45.03	45.03
SHARE CAPITAL, S.L.	Real Estate	Valencia – SPAIN	-	43.02	43.02
URBANIZADORA FUENTE DE SAN LUIS, S.L., EN LIQUIDACIÓN	Real Estate	Valencia – SPAIN	9.90	15.56	25.46
URBANO DIVERTIA, S.L.	Real estate development	Murcia – SPAIN	25.00	-	25.00
VEHÍCULO DE TENENCIA Y GESTIÓN 9, S.L., EN LIQUIDACIÓN	Real estate development	Madrid – SPAIN	22.87	19.79	42.66

Appendix V – Movement in issues

Details of issues, repurchases and repayments of debt securities in 30 June 2018 and 2017 by the Bank or Group companies.

30/06/2018

(Million of euros)

Issuer information	Data concerning issuances, repurchases and repayments in 1st half of 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	Repayment	BBB (high)	ES0214950190	Bond CM 16/06/23	16/06/18	16/06/23	AIAF	euro	172	-	5.75%	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	XS0147547177	Bond Caymadrid	06/05/02	01/04/32	Luxemburgo Bank	euro	0.2	6	Irregular coupon until 2013. after zero coupon	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	ES0214977110	Bond BANCAJA 22/05/18	22/05/06	22/05/18	AIAF	euro	50	-	1.50%	Bankia Personal Guarantee
Spain	Repayment	BBB (high)	XS0362375544	Bond CM EMTN 2008-2 14/05/18	14/05/08	14/05/18	London Bank	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	-	4.25%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	-	ES0313307029	Bankia 2014-2 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 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 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 facility bonds	10/07/14	10/07/18	AIAF	euro	0.9	0.9	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307012	Bankia 2014-8 facility bonds	10/07/14	10/07/20	AIAF	euro	0.3	1.3	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307102	Bankia 2014-11 facility bonds	11/08/14	10/08/18	AIAF	euro	0.4	0.4	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307136	Bankia 2014-14 facility bonds	10/10/14	10/10/18	AIAF	euro	0.4	0.4	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307020	Bankia 2014-15 facility bonds	10/10/14	10/10/20	AIAF	euro	0.6	3.2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307151	Bankia 2014-17 facility bonds	10/11/14	10/11/18	AIAF	euro	1.0	1.0	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307177	Bankia 2014-19 facility bonds	10/12/14	10/12/18	AIAF	euro	0.5	0.5	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307038	Bankia 2014-20 facility bonds	10/12/14	10/12/20	AIAF	euro	0.3	1.4	EUR 6M+ 2.35%	Bankia Personal Guarantee
Miscellaneous	Repayment	-	Miscellaneous	Securitisation bonds	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	126	-	-	-

(1) The rating of covered bonds securities is by DBRS on 22 September 2017.

The rest of the rating were assigned by DBRS on 4 July 2018.

(2) Redemption of the Caymadrid bond was due tu a change in issuer (debtor). Bankia was guarantor of the bond and, following Caymadrid's liquidation, became a director debtor of the Caymadrid bond.

30/06/2017

(Million of euros)

Issuer information	Data concerning issuances, repurchases and repayments in 1st half of 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	Subordinated Bond 2017-1	15/03/17	15/03/27	AIAF	euro	500	500	3.38%	Bankia Personal Guarantee
Spain	Repayment	BBB-	XS0289213497	Bond 9ª Issues de Bancaja Emisiones	08/03/07	08/03/17	LSE	euro	20	-	97% x 10y	Bankia Personal Guarantee
Spain	Repayment	BBB-	ES0214977144	12ª Obligation simples	14/02/07	14/02/17	AIAF	euro	500	-	4.38%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307029	Bankia 2014-2 ICO facility bonds	10/05/14	10/05/18	AIAF	euro	0.4	1	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	1	EUR 6M+2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307052	Bankia 2014-5 ICO facility bonds	10/06/14	10/06/18	AIAF	euro	0.3	1	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	3	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307012	Bankia 2014-8 ICO facility bonds	10/07/14	10/07/20	AIAF	euro	0.3	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	0.4	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	0.4	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	1	3	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	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307038	Bankia 2014-20 ICO facility bonds	10/12/14	10/12/20	AIAF	euro	0.3	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Miscellaneous	Repayment	-	Miscellaneous	Securitisation bonds	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	664	-	-	-

(1) Latest credit rating assigned by Fitch Rating for subordinated bond 2017-1 securities is from 7 March 2017.
Ratings of other issues by Fitch Ratings on 15 February 2017.

Appendix VI – Information on the mortgage market

Covered bonds, marketable and non-marketable, issued by the Group and outstanding at 30 June 2018 are recognised in the consolidated balance sheet under "Financial liabilities at amortised cost" (Note 13). The Group has no mortgage bonds 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 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** 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.

- 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 are mandatory for the Committee resulting from applying the powers to the transaction, so at this level in terms of powers the person in charge of enforcing compliance with the Policies should appear in the approval of the transaction.

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 covered 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 bonds and covered bonds issued by Bankia

Pursuant to current legislation, the principal and interest of the mortgage bonds issued by Bankia are specially secured (entry in the Property Register is not required) by mortgages on all the mortgage bonds that are registered in Bankia's name at any time, without prejudice to its unlimited liability. The mortgage 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(1)(1) of Insolvency Law 22/2003 of 9 July. Without prejudice to the foregoing, in accordance with Article 84(2)(7) of Insolvency Law 22/2003, during the solvency proceedings the payments relating to the repayment of the principal and interest of the covered bonds 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 covered bonds, and the finance provider must be subrogated to the position of the security-holders.

In the event that the measure indicated in Article 155(3) of Insolvency Law 22/2003, of 9 June, is required, the payments to all holders of the mortgage bonds issued would be made on a pro rata basis, irrespective of the issue dates of the bonds.

Information concerning covered bonds

Note 13 discloses the outstanding balances of non-marketable (one-off) covered bonds issued by the Bankia. In addition, Appendix VI in consolidated financial statements individually itemises the outstanding balances of marketable covered bonds issued by Bankia with their maturities, currencies and reference rates.

The following table itemises the aggregate nominal value of marketable and non-marketable covered bonds outstanding at 30 June 2018 and 31 December 2017 issued by Bankia, regardless of whether or not they are recognised as liabilities of the Bank (in the latter case, due to the fact that they were not placed with third parties or because they were repurchased by Bankia), based on their residual maturity period, with a distinction made, in the case of those recognised by 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 Bankia and outstanding at 30 June 2018 and 31 December 2017, with their average residual maturity period.

(Thousands of euros)

MORTGAGE SECURITIES	Nominal value 30/06/2018	Average residual maturity period (months) 30/06/2018	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	-		-	
Covered bonds issued	**27,711,741**		**30,496,742**	
Of which: recognised on the liability side of the balance sheet	18,115,991		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)	**8,900,000**		**8,900,000**	
Residual maturity up to one year	100,000		-	
Residual maturity over one year but not more than two years	1,300,000		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	5,000,000		5,000,000	
Residual maturity over ten years	-		2,500,000	
Deposits (2)	**6,776,241**		**7,501,242**	
Residual maturity up to one year	458,387		1,138,387	
Residual maturity over one year but not more than two years	1,380,746		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	585,185		1,610,186	
Residual maturity over five years but not more than ten years	2,431,923		2,331,922	
Residual maturity over ten years	895,000		990,000	
Mortgage participation certificates issued	**691,234**	**109**	**447,582**	**111**
Issued in a public offering	686,930	109	442,891	111
Other issues	4,304	113	4,691	115
Mortgage transfer certificates issued	**10,130,797**	**242**	**11,156,104**	**244**
Issued in a public offering	39,158	130	371,061	132
Other issues	9,918,690	242	10,785,043	248

(1) These securities are recognised under "Financial liabilities at amortised cost – Marketable debt securities" in the accompanying balance sheet at 30 June 2018 and 31 December 2017 (see Note 13).

(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 30 June 2018 and 31 December 2017 (see Note 13).

The nominal value at 30 June 2018 and 31 December 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) 30/06/2018	Undrawn balances (nominal value) (2) 31/12/2017
Mortgage loans that back the issuance of covered bonds (1)	**482,940**	**463,187**
Of which:		
Potentially eligible (3)	88,942	251,209
Not eligible	393,998	211,978

(1) At 30 June 2018 and 31 December 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 covered bonds under Article 3 of Royal Decree 716/2009.

With regard to lending operations, the table below shows the breakdown at 30 June 2018 and 31 December 2017 of the nominal value of mortgage loans and credit facilities that back the issue of covered bonds issued by Bankia (as already mentioned, as at the reporting date 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 Bankia and pending collection (including, where applicable, those acquired through mortgage participation certificates and mortgage transfer certificates), even if they have been derecognised, irrespective of the proportion of the risk of the loan to the last available appraisal for purposes of the mortgage market, less the mortgage loans and credits transferred through mortgage participation certificates and mortgage transfer certificates, regardless of whether or not they were derecognised from the balance sheet, and those designated as security for financing received (the amount recognised on the asset side of the consolidated balance sheet is also indicated for mortgage loans and credits transferred):

(Thousands of euros)

ITEMS	Nominal value 30/06/2018	Nominal value 31/12/2017
Total loans	**83,860,724**	**86,829,591**
Mortgage certificates issued	**828,203**	**598,318**
Of which: loans maintained on the balance sheet	*691,234*	*447,582*
Mortgage transfer certificates issued	**10,308,466**	**11,347,071**
Of which: loans maintained on the balance sheet	*10,130,797*	*11,156,104*
Mortgage loans pledged as security for financing received	**-**	**-**
Loans that back the issue of mortgage bonds and covered bonds	**72,724,055**	**74,884,202**
Loans not eligible	16,615,787	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	8,160,340	8,958,092
Other	8,455,447	8,242,979
Eligible loans	56,108,268	57,683,131
Loans to cover mortgage bonds issues	-	-
Loans eligible to cover covered bonds issues	56,108,268	57,683,131
Ineligible amounts (1)	107,836	137,686
Eligible amounts	56,000,432	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 between eligible loans and covered bonds issued is presented, along with issuance capacity and percentage of overcollateralization:

(Thousands of euros)

ITEMS	Nominal value 30/06/2018	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	56,000,432	57,545,445
Issue limit = 80% of eligible mortgage loans and credits	44,800,346	46,036,356
Covered bonds issued	27,711,741	30,496,742
Covered bonds issuance capacity (1) (Note 3.2)	17,088,605	15,539,614
Memorandum item:		
Percentage of overcollateralization of the portfolio	262%	246%
Percentage of overcollateralization of the eligible portfolio	202%	189%

(1) At 30 June 2018, EUR 9,595,750 thousand of covered bonds remained on the balance sheet. Therefore, the issuance capacity would be EUR 26,684,355 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 30 June 2018 and 31 December 2017 of the nominal value of the loans and credits that back covered bonds issued by Bankia and of those loans and credits that are eligible, without taking into consideration the restrictions on their eligibility established in Article 12 of Royal Decree 716/2009, based on (i) if they arose from 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)

ITEM	Loans that back mortgage bonds and covered bonds 30/06/2018	Loans that back mortgage bonds and covered bonds 31/12/2017(*)	Of which: eligible loans 30/06/2018	Of which: eligible loans 31/12/2017(*)
TOTAL	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
ORIGIN OF OPERATIONS	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
Originated by Bankia	72,252,033	74,402,981	55,648,691	57,209,670
Subrogated to other entities	472,022	481,221	459,577	473,461
Other	-	-	-	-
CURRENCY	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
Euro	72,581,276	74,722,365	56,034,811	57,683,131
Other currencies	142,779	161,837	73,457	-
PAYMENT SITUATION	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
Normal payment situation	66,053,009	68,449,406	55,271,269	57,092,516
Other situations	6,671,046	6,434,796	836,999	590,615
AVERAGE RESIDUAL MATURITY	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
Up to ten years	11,962,424	11,471,291	9,454,427	8,105,231
More than ten years and up to 20 years	28,139,091	27,554,158	24,422,478	23,850,714
More than 20 years and up to 30 years	20,610,761	21,284,509	17,002,277	18,004,785
More than 30 years	12,011,779	14,574,244	5,229,086	7,722,401
INTEREST RATES	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
Fixed	3,718,034	3,555,730	3,109,293	2,502,093
Floating	62,426,368	64,411,079	48,150,998	50,026,518
Mixed	6,579,653	6,917,393	4,847,977	5,154,520
OWNERS	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
Legal entities and natural person entrepreneurs	9,917,527	11,037,176	5,451,050	6,095,942
Of which: constructios and property developments (land included)	*816,493*	*822,421*	*327,448*	*280,387*
Other	62,806,528	63,847,026	50,657,218	51,587,189
TYPE OF COLLATERAL	**72,724,055**	**74,884,202**	**56,108,268**	**57,683,131**
Assets/completed buildings	71,072,670	73,569,774	55,545,600	57,306,077
Residential	64,144,257	64,227,196	51,281,786	51,999,393
Of which: government-subsidised housing	*2,330,844*	*2,344,421*	*1,917,550*	*1,986,143*
Commercial	2,907,890	4,900,714	1,935,020	3,179,507
Other buildings and constructions	4,020,523	4,441,864	2,328,794	2,127,177
Assets/buildings under construction	230,359	211,153	63,311	34,819
Residential	119,642	113,957	34,277	4,392
Of which: government-subsidised housing	*4,157*	*2,121*	*724*	*123*
Commercial	22,900	29,479	9,691	12,241
Other buildings and constructions	87,817	67,717	19,343	18,186
Land	1,421,026	1,103,275	499,357	342,235
Developed	285,039	410,832	61,499	127,945
Other	1,135,987	692,443	437,858	214,290

(*) Minor inter-segment adjustments were made to the figures for the first half of 2017 to make them consistent with the criteria applied in the first half of 2018.

The nominal value of eligible mortgage loans and credits at 30 June 2018 and 31 December 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 tables below:

30 June 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 covered bonds and mortgage bonds					**56,108,268**
Housing	15,610,151	21,037,646	14,668,265	-	**51,316,062**
Other assets	2,778,437	2,013,769			**4,792,206**

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 covered bonds 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 covered bonds are as follows

(Thousands of euros)

MOVEMENTS	Eligible loans	Non eligible loans	Eligible loans	Non eligible loans
	First half of 2018		First half of 2017	
Balance at 1 January	**57,683,131**	**17,201,071**	**46,775,730**	**14,297,406**
Disposals at the period	**(5,207,572)**	**(3,118,661)**	**(2,449,141)**	**(1,476,793)**
Principal due cashed	(34,654)	(39,215)	(11,563)	(136,022)
Prepayments	(483,907)	(396,230)	(569,526)	(411,119)
Subrogation by other entities	-	-	-	-
Others	(4,689,011)	(2,683,216)	(1,868,052)	(929,652)
Additions at the period	**3,632,709**	**2,533,377**	**1,359,084**	**1,158,699**
Originated by the entity	3,630,558	2,532,368	897,035	917,362
Subrogation of other entities	-	-	2,260	-
Others	2,151	1,009	459,789	241,337
Balance at 30 June	**56,108,268**	**16,615,787**	**45,685,673**	**13,979,312**

Finally, at 30 June 2018 and 31 December 2017 there were no replacement assets backing the Bank's covered bonds issues.

Appendix VII – Exposure to property and construction risk (transactions in Spain)

1. Exposure to property and construction risk (transactions in Spain)

The table below shows cumulative figures on the financing granted by the Group's credit institutions at 30 June 2018 and 31 December 2017 for the purposes of construction and property development and the respective credit risk coverage in place at that date (1):

30 June 2018

(Thousands of euros)

ITEMS	Total gross	Excess over value of collateral (2)	Specific coverage
Loans recognised by credit institutions comprising the Group (transactions in Spain)	889,843	298,632	(242,284)
Of which: Doubtful	467,004	216,050	(223,168)
Memorandum item:			
Assets written off (4)	386,851		

Memorandum item (Consolidated group figures):

(Thousands of euros)

Items	Carrying amount
1. Loans and advances to customers, excluding the public sector (transactions in Spain) (5)	115,173,256
2. Total consolidated assets (all transactions)	208,208,293
3. Impairment and provisions for non-doubtful exposure (all transactions) (3)	(1,094,510)

(1) For the purposes of this table, credits are classified by purpose rather than the borrower's NACE code. If the borrower is a property company but uses the financing received for a purpose other than construction or property development, the transaction is excluded from this table. Conversely, if the borrower is a company whose core business is not construction or property development-related but uses the financing received for property development purposes, the transaction is included in this table.

(2) The difference between the amount of exposures and the maximum amount of collateral and personal guarantees without appreciable risk that can be considered in calculating impairment.

(3) The excess of the gross amount of the financing over the value of any property rights received as collateral, calculated pursuant to Annex IX of Circular 4/2017, in accordance with the nature of the mortgaged asset (all transactions).

(4) Gross amount of the loan for the purpose of construction and property development granted by Group credit institutions (transactions in Spain) and assets written off.

(5) The carrying amount is the value at which the assets are recognised on the balance sheet after deduction of any amount allocated to cover such assets.

31 December 2017

(Thousands of euros)

ITEMS	Total gross	Excess over value of collateral (2)	Specific coverage
Loans recognised by credit institutions comprising the Group (transactions in Spain)	1,042,727	327,379	(340,255)
Of which: Doubtful	619,782	258,778	(321,909)
Memorandum item:			
Assets written off (4)	544,936		

Memorandum item (Consolidated group figures):

(Thousands of euros)

Items	Carrying amount
1. Loans and advances to customers, excluding the public sector (transactions in Spain) (5)	116,378,579
2. Total consolidated assets (all transactions)	213,931,937
3. Impairment and provisions for non-doubtful exposure (all transactions) (3)	(796,297)

(1) For the purposes of this table, credits are classified by purpose rather than the borrower's NACE code. If the borrower is a property company but uses the financing received for a purpose other than construction or property development, the transaction is excluded from this table. Conversely, if the borrower is a company whose core business is not construction or property development-related but uses the financing received for property development purposes, the transaction is included in this table.

(2) The difference between the amount of exposures and the maximum amount of collateral and personal guarantees without appreciable risk that can be considered in calculating impairment.

(3) The excess of the gross amount of the financing over the value of any property rights received as collateral, calculated pursuant to Annex IX of Circular 4/2017, in accordance with the nature of the mortgaged asset (all transactions).

(4) Gross amount of the loan for the purpose of construction and property development granted by Group credit institutions (transactions in Spain) and assets written off.

(5) The carrying amount is the value at which the assets are recognised on the balance sheet after deduction of any amount allocated to cover such assets.

The table below breaks down construction and property development financing granted by Group credit entities at 30 June 2018 and 31 December 2017:

(Thousands of euros)

ITEMS	Finance intended for construction and property development (gross)	
	30/06/2018	31/12/2017
1. Not mortgage-secured	61,697	100,079
2. Mortgage-secured (1)	828,146	942,648
2.1. Finished buildings (2)	561,355	706,151
2.1.1. Housing	277,873	411,189
2.1.2. Other	283,482	294,962
2.2. Buildings under construction (2)	75,305	39,993
2.2.1. Housing	41,429	29,754
2.2.2. Other	33,876	10,239
2.3. Land	191,486	196,504
2.3.1. Urban land	139,548	111,742
2.3.2. Other land	51,938	84,762
Total	**889,843**	**1,042,727**

(1) Includes all mortgage-secured transactions regardless of ratio of outstanding amount to the latest appraised value.

(2) If a building is used for both residential (housing) and commercial (offices and/or premises) purposes, the related financing is classified under the category of the predominant purpose.

2. Loans to households for home purchases. Transactions recognised by credit institutions (transactions in Spain)

The table below presents the detail at 30 June 2018 and 2017 of financing granted by the credit institutions comprising the Group for the purpose of home purchase (business in Spain):

(Thousands of euros)

	Total gross	Of which: Doubtful	Total gross	Of which: Doubtful
ITEMS	30/06/2018		31/12/2017	
Loans for home purchases	67,984,396	3,678,276	68,943,183	3,980,561
Non-mortgage-secured	697,353	48,615	619,923	23,739
Mortgage-secured	67,287,043	3,629,661	68,323,260	3,956,822

The table below presents the detail of mortgage-secured loans to households for home purchases at 30 June 2018 and 31 December 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):

30 June 2018

(Thousands of euros)

	LTV ranges					
ITEMS	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Total gross	15,210,922	22,720,368	19,978,720	4,660,023	4,717,010	67,287,043
Of which: doubtful	126,991	205,449	366,988	520,621	2,409,612	3,629,661

31 December 2017

(Thousands of euros)

	LTV ranges					
ITEMS	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Total gross	14,356,158	21,357,353	20,087,604	6,316,183	6,205,962	68,323,260
Of which: doubtful	127,768	220,178	455,416	720,586	2,432,874	3,956,822

3. Information concerning property assets foreclosed or received in payment of debts (transactions in Spain)

In order to dispose of its foreclosed assets with the smallest possible impact on the income statement, the Group hired Haya Real Estate to manage, administer and sell the Group's foreclosed assets, under the supervision of Bankia's Real Estate Assets areas, including the entire asset portfolio incorporated through the merger with BMN.

In order to maintain assets in the best possible conditions for sale and ensure efficient control of the expenditure incurred in the process, technical maintenance procedures are deployed along with control and management of turnover arising from the assets remaining on the portfolio. Consideration is also given to maintaining lease contracts on assets in the portfolio and management of occupancy situations concerning the assets.

Attention is also paid to activities arising from the marketing process: customer care, review of the assets published and management of offers through various sales channels: branch network, brokers, web, events and trade fairs, etc.

A number of projects were successfully completed in the first half of 2018, while various new projects were put in place so as to enhance the real estate portfolio by acquiring further knowledge of the assets. In tandem with this, we have been improving available information in a bid to increase sales. This will ultimately allow us to continue reducing our stock of foreclosed assets.

A key milestone was reached in the first quarter of the year, in which the Group successfully completed the process of integrating into Bankia's systems all the information on the assets acquired through the merger with BMN. This will provide a global picture of the business and allow for unified management of asset management and sales activities.

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 single aim of disposal of assets, in the least amount of time possible and at the least possible detriment to the income statement. (including cost of sales).
- Disposal mechanisms focus first on sale and also rentals with or without a purchase option secondarily to a lesser extent and in specific circumstances related to the Housing Social Fund and/or special rentals. In the case of unique assets (specific buildings, offices, commercial premises, industrial buildings and land), the general policy adopted 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, auctions in sales 'corners', property sales desks at certain branches, brokers, trade fairs and events, (Direct force of sale and sale of portfolios).

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 website www.haya.es with their retail prices.
- References to set prices: the price references will be those of comparable assets, the appraisal value of each asset, reports by mediators and the carrying amount.
- 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 assets acquired by the Group through foreclosure (transactions in Spain) at 30 June 2018 and 31 December 2017, classified by type (a):

(Thousands of euros)

ITEMS	Gross amount (b)	Impairment allowance	Gross amount (b)	Impairment allowance
	30/06/2018		31/12/2017	
1. Property assets from financing intended for construction and property development (c)	771,711	(309,046)	828,044	(333,760)
1.1. Finished buildings	369,827	(112,797)	360,606	(97,473)
1.1.1. Housing	284,378	(92,764)	300,530	(82,112)
1.1.2. Other	85,449	(20,033)	60,076	(15,361)
1.2. Buildings under construction	48,330	(21,838)	69,553	(35,571)
1.2.1. Housing	45,573	(21,015)	67,968	(35,430)
1.2.2. Other	2,757	(823)	1,585	(141)
1.3. Land	353,554	(174,411)	397,885	(200,716)
1.3.1. Urban land	77,825	(43,006)	179,932	(82,096)
1.3.2. Other land	275,729	(131,405)	217,953	(118,620)
2. Property assets from mortgage-secured financing granted to households for home purchases	2,902,283	(1,236,548)	3,188,402	(1,229,970)
3. Other property assets received in settlement of debt (d)	1,085,544	(240,887)	1,098,757	(271,928)
4. Equity instruments, investments and financing to companies holding such assets	6,486	(6,486)	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 received in payment of debts (e)	-	-	-	-

(a) Includes foreclosed assets or assets received in payment of debts from financing granted by the Entity in relation to its businesses in Spain, as well as equity investments in and financing granted to the entities holding these assets.

(b) Amounts before the deduction of any impairment.

(c) Includes property asset arising in connection with loans to construction and property development companies, regardless or the sector and main economic activity of the company or individual entrepreneur delivering the asset.

(d) Includes property assets not arising in connection with loans to construction and property development companies, or to households for home purchases.

(e) Includes all equity investments in and financing to entities holding the foreclosed property assets or assets received in payment of debts.

The above tables set out property assets acquired through foreclosure or in settlement of debts, other than the consideration referred to in the foregoing (a), and classified by the Group on the basis of ultimate purpose, mainly under “Non-current assets held for sale” and “Tangible assets – Investment property” and, to a lesser extent, under “Other assets – Inventories” in the accompanying consolidated 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 30 June 2018 and 31 December 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)

ITEMS	30/06/2018	31/12/2017
Collaterals	724,391	720,618
Other collateral		-
Total	**724,391**	**720,618**

The detail of the guarantees extended at 30 June 2018 and 31 December 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)

ITEMS	30/06/2018	31/12/2017
Financial guarantees extended	7,372	42,539
Recognised in the liability of the consolidated balance sheet	29	3,059

Appendix VIII – 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.
- 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, once transcurred a cure period, can be verified the customer can make payment on schedule and have the willingness 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 identification of the 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 sense, 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 past due or that would be 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			2nd Refinancing (2)
	<=24 months		>24 months	
	Debt reductions(1) No	Debt reductions (1) Yes		
<= 50%	Standard under special monitoring	Doubtful	Doubtful	Doubtful
> 50%	Doubtful	Doubtful	Doubtful	Doubtful

(1) Debt reductions above % of the allowances and provisions established in Appendix IX of Bank of Spain Circular 4/2017
(2) It will be classified as doubtful if the refinanced operation was doubtful at the moment of the refinancing or if the refinanced 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 debt reductions agreements and sustainable debt.

Cure criteria have also been established so that refinanced transactions can change their risk classification, in accordance with the following scheme:

- Refinanced 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 dates.
  - The borrower is not in litigation or creditors' agreement.
  - Not present past due amounts.
  - The customer does not have any other transactions classified as doubtful.
  - There have been no payments in arrears by more than 90 days in the past year.
  - The borrower has settled 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 standard under special montoring 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 dates.
  - Not present past due amounts.
  - The customer does not have any other transactions under special monitoring or classified as doubtful or write-off.
  - The borrower has settled 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 of their classification as under doubtful risk, and their respective allowances of credit risk at 30 June 2018 and 31 December 2017:

30 June 2018

(thousand of euros)														
	TOTAL							Of which: DOUBTFUL						
	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due tu credit risk	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due tu 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	29	40,108	2,645	96,326	93,850	-	(22,692)	16	1,185	2,326	54,547	53,418	-	(22,692)
Other financial institutions and natural person entrepeneurs (financial business)	54	38,211	17	2,775	2,532	12	(14,118)	37	13,484	10	1,389	1,159	-	(13,785)
Non financial institutions and natural person entrepeneurs (non-business)	8,322	2,829,354	8,067	2,201,148	1,817,997	103,749	(1,919,047)	6,063	1,950,105	4,437	1,331,717	1,057,983	76,587	(1,795,877)
Of which Construction and property development (including land)	1,644	308,136	1,785	390,698	304,472	265	(365,451)	1,543	300,924	880	274,663	197,108	54	(358,564)
Other households	21,481	396,150	42,205	5,400,569	4,384,310	304	(1,075,828)	14,114	299,273	21,104	2,717,557	2,150,090	124	(959,855)
Total	**29,886**	**3,303,823**	**52,934**	**7,700,818**	**6,298,689**	**104,065**	**(3,031,685)**	**20,230**	**2,264,047**	**27,877**	**4,105,210**	**3,262,650**	**76,711**	**(2,792,209)**
Adjustment of value for colective impairment							(1,447,521)							
Adjustment of value for specific impairment							(1,584,164)							
ADITIONAL INFORMATION														
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

31 December 2017

(thousand of euros)

	TOTAL							Of which: DOUBTFUL						
	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due tu credit risk	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due tu 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 entrepeneurs (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-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)**
Adjustment of value for colective impairment							(1,672,964)							
Adjustment of value for specific 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 first half year of 2018 and 2017 were as follows:

(Thousands of euros)

Items	1st half 2018	1 st half 2017
Balances at 31 December	**9,241,383**	**6,956,722**
(+) Refinancing and restructuring	126,067	1,641,350
(-) Debt depreciation	(1,181,575)	(881,876)
(-) Foreclosure	(62,526)	(66,154)
(-) Disposals (reclassified as written off)	(27,619)	(20,681)
(+/-) Other changes	(122,774)	(78,056)
Balances at 30 June (*)	**7,972,956**	**7,551,305**

(*) The acumulated impairment at the 1st half year 2018 was EUR 305,864 thousand (EUR 383,817 thousand at the 1st half-year end 2017).

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

INTERIM MANAGEMENT REPORT

JUNE 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 FIRST SEMESTER 2018

1.1. - 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 June 2018, the network comprised a total of 2,306 branches. Meanwhile, the workforce resizing process got under way in April, resulting in 1,543 departures through to 30 June 2018, with more than 200 further departures arranged for the latter half of the year. The Group started to achieve initial cost synergies in April, although these will be more significant in the second half of the year.

As regards the business reorganization, the Group entered into a number of agreements in the first half of 2018 designed to accelerate the synergies envisaged in the 2018-2020 Strategic Plan. Accordingly, as from April all of the Group's real estate-related activities are managed by Haya Real Estate 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., on 3 September 2013, was novated. In addition, an agreement was signed with Credit Agricole Consumer Finance in May covering the consumer lending business in Spain through a joint venture, which will market its products exclusively in Spain through non-banking channels. Lastly, in July, after the end of the half year, the acquisition of 100% of the share capital of Caja Granada Vida and Cajamurcia Vida y Pensiones was completed, once all the required permits from the regulatory authorities were secured.

1.2. - 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 regions 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 mutual funds, payment services and insurance and the new lines of business that the Group could 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 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).

1.3. - Earnings performance

Net attributable profit in the first half of 2018 totaled EUR 515 million, matching the figure reported in the same period of 2017. The integration of BMN, coupled with growth in business with customers, active cost management and control of the cost of risk, were the main profit drivers in the period, successfully countering the impact on interest income of lower earnings on fixed-income securities, maturities and repricings of the mortgage portfolio.

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 25.6% on the first half of 2017 (+1.4% on a like-for-like basis if we factor in earnings at BMN in the first half of 2017).

Operating expenses (administrative expenses, depreciation and amortization) were up 23.6% year on year following the merger with BMN, although on a like-for-like basis this heading would be down by some 1.7% thanks to the cost-to-income measures rolled out by the Group and the initial cost synergies achieved from the merger.

A further highlight in the period was the improvement seen in impairments and provisions, which were down 22.8% year-on-year even after adding over EUR 20,000 million in customer loans from BMN, to the Group's balance sheet, as a result of the merger.

1.4. - Business activity and volume

Digital customers continued to grow at a healthy pace over the first half of the year. At 30 June 2018, they accounted for 40.9% of total Bankia customers, compared with 40.5% at December 2017 and 37.6% at December 2016.

The progress made in the commercial strategy has also been evidenced in the lending activity, enabling the Bankia Group to record further growth in new lending for both businesses and individuals through mortgages and consumer loans.

Regarding customer funds, we have seen a favorable evolution in sight accounts and off balance sheet resources (mainly in mutual funds) revealing increases of 6% and 8. 6%, respectively, from December 2017, benefiting from the shift in our customer savings out of term deposits.

1.5. - Further improvements in risk management and in reducing problem assets

The key variables related to the credit quality of assets continued to fare well in the first half of 2018. Non-performing loans (NPLs) fell by 10.8% from the end of December, while the NPL ratio shed 0.8 percentage points to reach 8.1% at the end of June 2018. 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 first half of 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 9.3% from December 2017,

1.6. - Capital strength

At 30 June 2018, the Bankia Group's Phase-in CET 1 ratio, including profit for the six months, net of the dividend expected to be charged to reserves, stood at 14.01%, factoring in the effect of early application and the full impact of the implementation of IFRS 9 on 1 January 2018, without applying the transitional arrangements contemplated in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017, and established to cushion the impact.

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 545 bps (EUR 4,559 million) above the minimum capital requirement for CET 1 SREP communicated by the ECB to the Group for 2018 (8.563%). At 30 June 2018, the Bankia Group's Phase-in Total Capital ratio was 17.18%. This implies a surplus of 512 bps (EUR 4,284 million) above the minimum requirements for Total Capital SREP for 2018 (12.063%).

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. - Funding and liquidity structure.

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 at 30 June 2018 represented 65.8% of external funding sources (63.6% at December 2017), leaving the Group operating with a stable LTD ratio of 92%.

Additionally, Bankia taps capital markets in order to supplement its structural liquidity needs. At 30 June 2018, wholesale issuances accounted for 9.4% of the Group's borrowings and consisted primarily of mortgage covered bonds. At 30 June 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 in the first half of 2018.

On 6 April, S&P upgraded Bankia's 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 Spain's 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 raised Bankia's rating outlook from Stable to Positive and affirmed its rating at BBB-, citing an improved domestic franchise following the merger with BMN, solid capital post-merger, adequate liquidity and funding sources and an experienced management team adept at mergers.

1.9. - Shareholder payment

Increasing shareholder returns is one of the Bankia Group's top priorities. Thus, on 20 April 2018, Bankia paid a gross dividend of EUR 340.1 million (EUR 0.11024 per share) out of 2017 profit, which represents an increase of 7.1% on the figure paid out in the previous year. 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

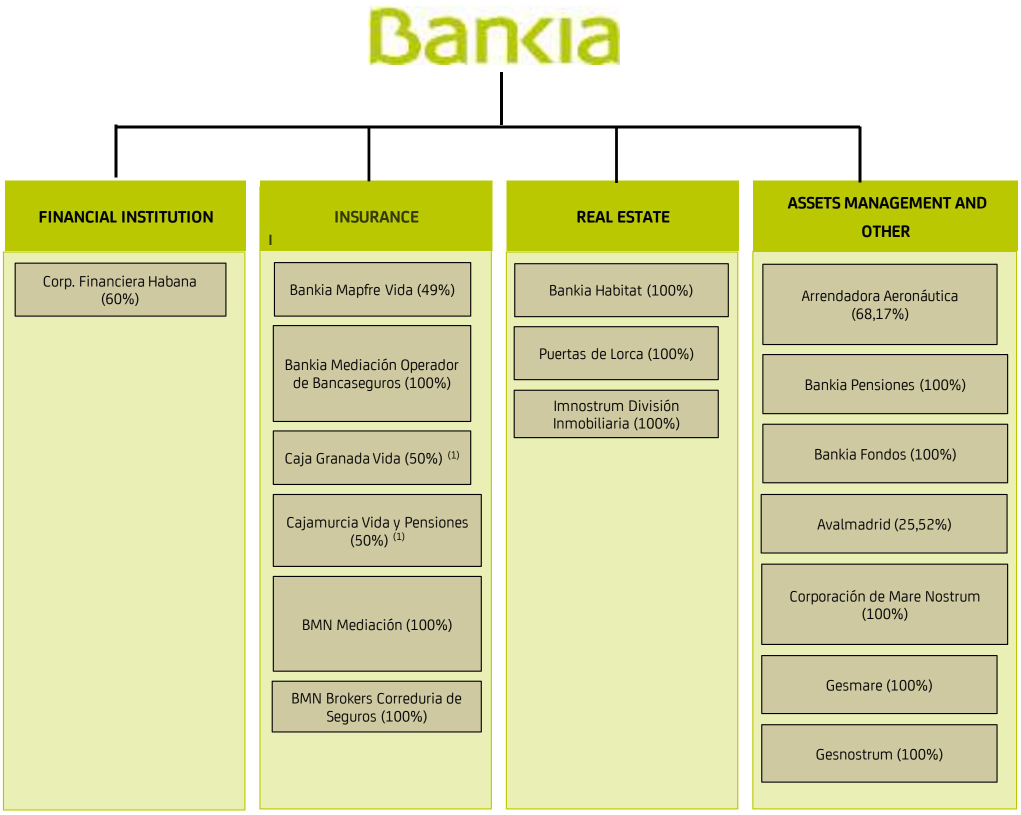
Bankia is a financial group with a presence throughout all the national territory, with an activity that is mainly focused on traditional retail banking, corporate banking, asset management and private banking businesses. Its social purpose includes all types of activities, operations, acts, contracts and services related to the banking sector, in general, or directly or indirectly related thereto, permitted to it by current legislation, including the provision of investment services and ancillary services and performance of the activities of an insurance agency.

BFA is Bankia's biggest shareholder, with a 61.25% stake at 30 June 2018.

Organisationally, Bankia is the Group's parent. At 30 June 2018, the consolidation scope comprised 78 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.

Of these, 40 are Group companies, 12 are join ventures and 26 are associates. Bankia mainly does business in Spain. The Group had total assets at 30 June after the integration of BMN of EUR 208,208 million. The Group's branch network comprised 2,306 offices at the year-end. Section 2.3 below provides a breakdown of the branch office network by region.

Investments in companies included in the Bankia Group's scope of consolidation are held directly in Bankia's portfolio or indirectly through other holdings. The most important are:



(1) After the end of June 2018, Bankia has extended to 100% the participation in theses companies at 10 July 2018.

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 9 meetings in the first half of 2018**
(7 independent directors and 4 executive directors at 30 June 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 • 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. Its responsibilities also includes, among others, proposing the appointment, reappointment and removal of, and establishing the appropriate relationships with, the external auditors, and reviewing and supervise compliance with the Company's governance and compliance rules.	**Four external independent directors:** - Mr. Antonio Greño Hidalgo (Chairman) - Mr. Joaquín Ayuso García (Director) - Mr. Jorge Cosmen Menéndez-Castañedo (Director) - Mr. José Luis Feito Higueruela (Director) The Audit and Compliance Committee held 8 meetings in the first half of 2018.
Appointments Committee and Responsible Management Committee	
The Appointments Committee has general authority to propose and report on appointments and removals of directors and senior managers. It is also responsible for, among others, assessing the ability, diversity and experience required for the Board of Directors, and the necessary time and dedication to carry out their duties in an effective manner. It defines the necessary functions and abilities for candidates wishing to cover vacancies. It examines and organizes the succession plan for governance bodies. Other responsibilities include the review of the Company's corporate social responsibility policy, ensuring that it is geared towards value creation, and monitoring of the corporate social responsibility strategy and practices and assessing their	**Nowadays it is composed by external independent directors:** - Mr. Joaquín Ayuso García (Chairman) - Mr. Francisco Javier Campo García (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Appointments Committee and Responsible Management Committee held 9 meetings in the first half of 2018.

degree of compliance, and everything related to social, environmental, political an reputational risks of society.	
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 5 meetings in the first half of 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 20 meetings in the first half of 2018.
Board Risk Committee	
The Board Risk Committee adopts decisions regarding risks within the authority delegated to it by the Board of Directors. The Board Risk Committee is responsible for establishing and overseeing compliance with the Bank's risk control mechanisms, approving the most important operations and establishing overall limits. It is also responsible for reporting to the Board of Directors on risks that may affect the Company's capital adequacy, recurring results, operations or reputation, among other responsibilities.	**An Executive director and three external independent directors:** - Mr. José Sevilla Álvarez (Chairman) - Mr. Francisco Javier Campo García (Director) - Mrs. Eva Castillo Sanz (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Board Risk Committee held 21 meetings in the first half of 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. 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 Committee's four independent directors were: Joaquín Ayuso García (Lead Independent Director and Chairman of the Appointments and Responsible Management Committee), as Chairman, and Francisco Javier

Campo García (Chairman of the Risk Advisory Committee), Eva Castillo Sanz (Chairman of the Remuneration Committee) and Antonio Greño Hidalgo (Chairman of the Audit and Compliance Committee), as members.

The 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.

Bankia also has a Management Committee, composed of the Chairman of the Board of Directors, Mr. José Ignacio Goirigolzarri, CEO Mr. José Sevilla, Executive Director and General Manager of People, Resources and Technology Mr. Antonio Ortega, General Secretary and Deputy General Director of the General Secretariat Mr. Miguel Crespo, Deputy General Director of Communication and External Relations Mrs. Amalia Blanco, the Deputy General Director of Retail Banking Mr. Fernando Sobrini and the Deputy General Director of Business Banking Mr. Gonzalo Alcubilla and investees and associates, Joaquín Cánovas, who was appointed in January 2018 and took office after the Bank of Spain had confirmed his suitability for office. His appointment was entered on the Register of Senior Officers on 7 May 2018.

Turning to **appointments**, the Board of Directors agreed to nominate Carlos Egea as executive director on 25 January 2018, who was previously included under the category of other non-executive directors.

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 Álvaro Rengifo Abbad, agreed to keep the number of board members at 12, meaning that the vacancy remained open.

The Bank is now in the process of nominating a new board member to fill the opening and is looking to ensure diversity when selecting the new member.

- **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.

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).

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 1.12 of the Bankia Group's financial statements provides a breakdown of the results of each business line at 30 June 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 2,306 branches, distributed geographically as follows:

Autonomous communities	Offices number
Andalucía	325
Aragon	11
Asturias	11
Baleares	156
Canarias	104
Cantabria	20
Castilla - La Mancha	103
Castilla - León	125
Cataluña	134
Ceuta	5
Extremadura	10
Galicia	22
La Rioja	52
Madrid	639
Melilla	1
Región de Murcia	162
Navarra	3
País Vasco	17
Valencia	406
TOTAL	**2,306**

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 customers are a strategic business for Bankia, as one of Spain’s largest financial institutions in this area. The Entity focuses on traditional banking products such as payroll and pension deposits, mortgages, term deposits, credit cards, insurance, investment and pension funds, and other asset management services, which it offers to high net-worth customers who need specialised financial and tax advice.

This area focuses on **retail activity** following a universal **banking model**. Its objective is to 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. To achieve this, it segments customers in accordance with the need for specialised service and the needs of each customer type. Customer segmentation allows Bankia to assign specific customers to specialist managers, who are in charge of the customer's relationship with the Bank. This approach yields greater customer satisfaction and generates new sources of business. Moreover, with a view to offering families 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.

In the first half of 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 pension deposits. Along the same lines, in January 2017 the Group began marketing the “Hipoteca sin comisiones” (no-fee mortgage), offering the best rates for customers with payroll and pension deposits. The “We remove your fees” strategy has become a cornerstone for the Bank with retail customers. Following the merger with BMN, over 3.4 million customers no longer pay fees by benefiting from the advantages of this commercial strategy.

Another strategic product for Bankia, which saw further improvements during the first half of 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 Bankia Fácil in June 2018. 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, are the new “Oficina Internet” (Internet Office) and the new Bankia app, with improved innovative features in the first half of 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.

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 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.

Bankia also has an agency network, focusing mostly on bringing in new retail and business customers, and marketing the products and services in the Bank's catalogue. Within this agency network Mapfre offices, which distribute Bankia's products and sign up new customers are included.

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 private banking business is geared towards the high- wealth or high-income individual customers, investment companies or foundations. Bankia offers these customers a comprehensive range of products and services with highly personalised, professional and reliable treatment, providing them with solutions that are tailored to their financial or tax needs. The main private banking business lines are wealth management and advisory, the sale of third-party financial products, intermediation in the trading of securities and advisory regarding the securities market.

Bankia Fondos and Bankia Pensiones are responsible for ***asset management*** which provide financial products to the 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 for individuals (life, home, auto, health and saving) and businesses (comprehensive trade, credit insurance, general liability and comprehensive business).

As part of its comprehensive offering and customer advice, the Bancassurance Directorate is responsible for delivering a good service, both for individuals (savings, health, life, auto, home) and for businesses (trade, SMEs, third-party liability, credit, etc.), being also responsible for the supply of savings insurance.

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.

In addition to providing support and advice to the distribution networks and employee training, Bancassurance is continuing to improve support for sales and portfolio management in branch, as well as after-sales service. Progress has also been 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.

In the first half of 2018, the Bancassurance Directorate continued its efforts to enhance the product catalogue (streamlining it to make it easier and bring it closer to customers) and sales systems (to make them more efficient), accompanying Bankia on its digital transformation around insurance.

In the first half of 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.

The main short- and medium-term objectives and strategies for Bankia Group to continue driving activity include improving margins and profitability, increasing lending, especially to self-employed and SMEs, managing non-performing loans and boosting cross-selling.

The alignment with its needs, understood as something dynamic, is what inspires Bankia's planning and strategy for the development of the Personal Banking business.

Business Banking

Business Banking targets legal entities with annual income in excess of EUR 6 million (Corporate banking) as well as the Capital Markets activity. Other customers, legal entities or self-employed professionals with income below this figure fall into the Retail Banking category.

The customer basis is highly diversified between different productive and economic sectors, especially commerce, manufacturing and service sector followed by construction and supply. The Entity has traditionally had a large number of customers in the medium and large company segment in two of the three biggest business markets: Madrid and Valencia. Bankia also has good penetration 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 two centres, in Madrid and Barcelona, staffed by industry specialists, plus a branch in Palma de Mallorca 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, 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 will be able to raise 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 will increase the Bank's base of business companies with annual revenue of over EUR 6 million. Having service staff specialised in customers with higher turnover and working harder on relational quality on all business fronts should present opportunities with the Bank's new customers.

Corporate Centre

The Corporate Centre includes the rest of the businesses and activities other than Retail Banking and Business Banking, including, among others, Investees and assets or portfolios affected by the Restructuring Plan, most of which are classified as Non-current assets held for sale.

Customer service and multi-channel network

Amid an increasingly competitive environment, Bankia's over-riding objective is to maximise customer satisfaction and loyalty. The Bank's activity places priority on delivering an increasingly efficient and higher quality service, striving to always satisfy customers' needs and expectations.

Technological progress and the development of the information society have given rise to new ways of providing service to bank customers, with tools such as the web or mobile phone becoming increasingly important. As a result, providing appropriate multi-channel customer service is one of the 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.

Significant strides were made in the Bankia Group's multi-channel strategy in the first half of 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 June 2018, multi-channel customers accounted for 40,9% of all Bankia customers, up from 40.5% 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 the first half of 2018, improvements were made to the digital channels, with new features added to Bankia Online and the Bankia app. Bankia Online, which was implemented in 2017, now includes a second tier of categories for both incomings and outgoings, enabling users to better classify and sort their transactions. Customers can also download an income and expense report in Excel and/or PDF format and can now add authorised accounts to Bankia Online. Meanwhile, three new tools have been added to the Bankia app: a mortgage calculator, a fund comparison feature and a loan calculator.

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

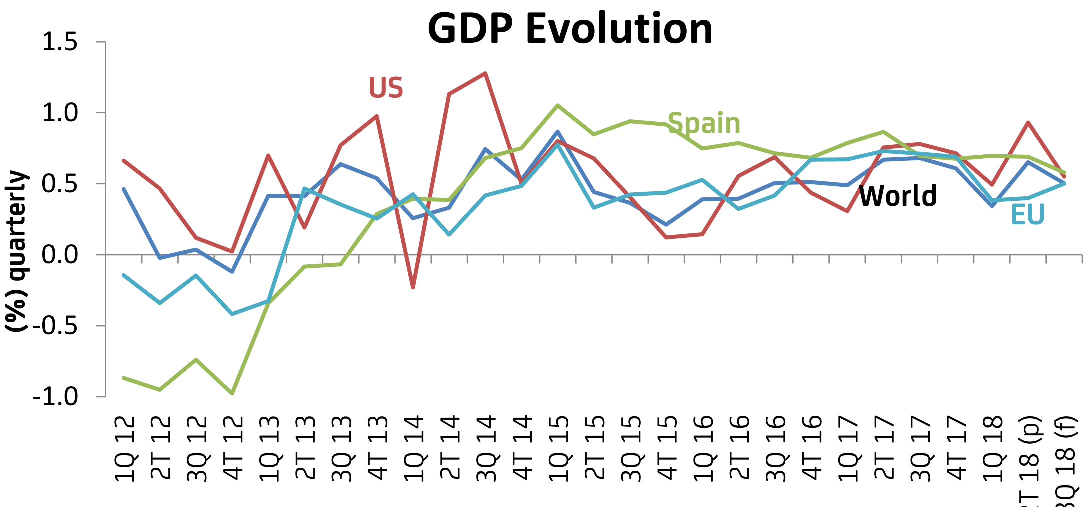
3.1.- Economic and financial backdrop

The global economy remained buoyant in the first six months of 2018 (on par with the average level of 3.3% growth reported in 2017), despite a sequence of negative shocks in the period, notably: (i) a sharp increase in oil prices; (ii) the protectionist spiral unfolding in the United States; (iii) the political crisis in Italy; and (iv) turbulence across emerging markets due an appreciating dollar and interest rate hikes by the Fed.

Economic growth in early 2018 proved to be somewhat of a disappointment in the EMU, with expectations high following a strong showing in 2017: growth slowed in the first quarter to 1.5%-2.0% and this trend is expected to continue throughout the rest of the year. The United States also witnessed a slowdown in the first quarter of 2018, before rallying strongly in the second quarter to move past 3.0%. Meanwhile, inflation remains in check, although future outbreaks cannot be ruled out due to the prevailing climate of extremely lax monetary policies (especially in the EMU), sustained growth outpacing potential growth, a strong labour market, spiralling oil prices and an increase in trade barriers. The risks are higher in the United States —where core inflation is on target and rising— than in the EMU, where inflation remains stable at around 1.0%.

Despite this increased uncertainty, the two main central banks have continued to normalise their monetary policy, albeit at different paces. The Fed has hiked its reference rate by 25 bps on two occasions, bringing it to 1.75%-2.00%, while continuing to reduce its balance sheet. Meanwhile, the ECB has decided to pare back its asset purchase programme from 30 billion to 15 billion euros a month from September, before ending the programme all together in December. However, in a show of caution, it announced that it does not intend to raise its reference interest rates until summer 2019 at the earliest. This, combined with lower-than-expected growth across the EMU, has sparked huge demand among investors for German sovereign debt, with the IRR on the 10-year bund falling 13 bps in the first six months of the year. This healthy performance is in stark contrast to the tensions facing Italian public debt, which is having to contend with a new government bent on increasing public spending. There has been some positive news, in that there has been virtually no contagion to Spanish debt.

In Spain, economic activity continued to grow in the first half of 2018, with GDP gaining 0.7% in the second quarter —having kept up this pace for a year now— driven by robust internal demand in a climate of favourable borrowing conditions and rising employment. In the last year alone, Social Security affiliation has increased by nearly 574,000, bringing the total volume to over 19 million individuals, its highest in the last 10 years. Despite the increase in investment, rising levels of inflation have curbed spending in recent months by limiting the public's purchasing power. The buoyant economy continues to support its high international funding capacity, which remains at 2% of GDP.



Source: Thomson Reuters and Bankia's Research Department. (f)

In the Spanish banking industry, lending to households fared especially well, finally managing to hold steady following seven years of decline on the back of consumer financing and other lending. The increase in new lending in this particular segment was key to its turnaround. Growth in new loans was also reported across the other segments, although they have yet to see the same positive result in their outstanding balance. On the subject of risk quality, the volume of unproductive assets has continued to fall in the year to date, and is even picking up pace in response to sales of large portfolios at certain banks. This trend is expected to continue over the coming months. Turning to customer funds, deposits continued to rise quietly while assets under investment funds posted more dynamic growth. Once again, ensuring a decent return on investment is the main challenge the sector is facing. On the subject of the Banking Union, the Eurogroup summit held in late June agreed to start work on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme. It was also agreed to toughen the European Stability Mechanism so as to provide a backstop for the Single Resolution Fund.

3.2. - Financial performance in 2018

- **Note about comparative information**

When comparing information, 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 30 June 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 for the first half 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 in the first half of 2017.

2. **Presentation of comparative information:** the Bankia Group's condensed interim financial statements at 30 June 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 sheet at 31 December 2017 and its income statement at 30 June 2017, which are presented as part of the interim financial statements at 30 June 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 both 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 1.3.1 to the interim financial statements at 30 June 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 in equity.

   All the impacts arising from the first-time application of IFRS 9 are described in detail in Note 1.31 to the Bankia Group's interim financial statements for the six months ended 30 June 2018.

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 the first half of 2018.

3.3.- Key figures

KEY FIGURES DATA - BANKIA GROUP

Balance (Millions of euros) (*)	Jun-18	dec-17	Variation
Total assets	208,208	213,932	(2.7%)
Loans and advances to customers (net)	121,534	123,025	(1.2%)
Loans and advances to customers (gross)	127,082	128,782	(1.3%)
Balance sheet customer funds	146,147	150,181	(2.7%)
Customer deposits	128,696	130,396	(1.3%)
Debt securities issued	17,451	19,785	(11.8%)
Total customer managed funds (1)	170,543	172,645	(1.2%)
Total turnover (2)	292,077	295,670	(1.2%)
Equity	13,209	13,613	(3.0%)

Solvency and leverage (%) (*)	Jun-18	dec-17	Variation
Common Equity Tier I (CET 1) - BIS III Phase In	14.01%	14.15%	(0.14) p.p.
Solvency ratio - Total BIS III Phase In capital	17.18%	16.84%	+0.34 p.p.
BIS III Risk Weighted Assets	83,634	86,046	(2.8%)
Phase In leverage ratio (Delegated regulation No. 62/2015)	5.93%	6.02%	(0.09) p.p.

Risk management (Millions of euros and %) (*)	Jun-18	dec-17	Variation
Total risk	133,962	136,353	(1.8%)
Doubtful loans	10,809	12,117	(10.8%)
Provisions for credit lose	5,945	6,151	(3.4%)
NPL ratio	8.1%	8.9%	(0.8) p.p.
Hedging ratio	55.0%	50.8%	+4.2 p.p.

Profit / Losses (Millions of euros) (*)	jun-18 (3)	jun-17 (3)	Variation
Net interest income	1,047	995	5.3%
Gross income	1,841	1,648	11.8%
Operating income /(expenses) before provisions	897	884	1.5%
Operating income /(expenses)	726	712	1.9%
Profit/ Loss before tax from continuing operations	681	693	(1.7%)
Profit/ Loss	515	514	0.1%
Profit/ Loss attributable to owners of the parent	515	514	0.1%

Key ratio (%)	jun-18 (3)	jun-17 (3)	Variation
Efficiency (4)	51.3%	46.4%	+4.9 p.p.
ROA (5)	0.5%	0.6%	(0.1) p.p.
RORWA (6)	1.2%	1.4%	(0.1) p.p.
ROE (7)	8.3%	8.6%	(0.2) p.p.
ROTE (8)	8.5%	8.7%	(0.2) p.p.

Bankia's share	Jun-18	dec-17	Variation
Weighted average number of shares (millions) (7)	3,085	3,085	0.0%
Market price at close	3.21	3.99	(19.6%)

Additional information	Jun-18	dec-17	Variation
Numbers of employees	16,493	17,757	(7.1%)

(*) 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 Group 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
(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

(millions of euros) (*)	Jun-18	dec-17	change Dec-17 Amount	change Dec-17 %
Cash, cash balances at central banks and other demand deposits	2,518	4,504	(1,986)	(44.1%)
Financial assets held for trading	6,271	6,773	(502)	(7.4%)
Derivatives	6,151	6,698	(546)	(8.2%)
Debt securities	116	2	114	5689.1%
Equity instruments	4	74	(70)	(94.4%)
Non-trading financial assets mandatorily at fair value through profit or loss	9	0	9	-
Debt securities	0.3	0	0	-
Loans and advances to customers	8.5	0	8	-
Financial assets at fair value through other comprehensive income	17,873	22,745	(4,872)	(21.4%)
Equity instruments	74	71	3	4.0%
Debt securities	17,799	22,674	(4,874)	(21.5%)
Financial assets at amortised cost	161,105	158,711	2,394	1.5%
Debt instruments	34,803	32,658	2,145	6.6%
Loans and advances to credit institutions	4,776	3,028	1,748	57.7%
Loans and advances to customers	121,526	123,025	(1,499)	(1.2%)
Derivatives – Hedge accounting	2,558	3,067	(509)	(16.6%)
Investments in joint ventures and associates	342	321	22	6.8%
Tangible and intangible assets	2,626	2,661	(35)	(1.3%)
Non-current assets and disposal groups classified as held for sale	2,867	3,271	(404)	(12.4%)
Other assets	12,038	11,879	159	1.3%
TOTAL ASSETS	**208,208**	**213,932**	**(5,724)**	**(2.7%)**
Financial liabilities held for trading	6,669	7,421	(752)	(10.1%)
Derivatives	6,446	7,078	(631)	(8.9%)
Short positions	222	343	(121)	(35.3%)
Financial liabilities measured at amortised cost	184,830	188,898	(4,067)	(2.2%)
Deposit from central banks	13,856	15,356	(1,500)	(9.8%)
Deposit from credit institutions	23,867	22,294	1,574	7.1%
Customer deposits	128,696	130,396	(1,700)	(1.3%)
Debt securities issued	17,451	19,785	(2,334)	(11.8%)
Others financial liabilities	960	1,067	(107)	(10.0%)
Derivatives – Hedge accounting	252	378	(126)	(33.4%)
Provisions	1,756	2,035	(278)	(13.7%)
Other liabilities	1,493	1,587	(95)	(6.0%)
TOTAL LIABILITIES	**195,000**	**200,319**	**(5,319)**	**(2.7%)**
Minority interests (Non-controlling interests)	15	25	(10)	(38.7%)
Other comprehensive accumulated income	299	366	(67)	(18.3%)
Own funds	12,894	13,222	(328)	(2.5%)
TOTAL EQUITY	**13,209**	**13,613**	**(405)**	**(3.0%)**
TOTAL LIABILITIES AND EQUITY	**208,208**	**213,932**	**(5,724)**	**(2.7%)**

(*) Financial Statement amounts rounded to millions of euros

- **Summary of Group Activities**

The Bankia Group ended June 2018 with EUR 208,208 million of total assets, 2.7% less than in December 2017.

Customer loans fell 1.2% 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 the first half of 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) and off-balance sheet funds, which continued to attract funds withdrawn by customers from deposits with set maturity. Particularly noteworthy was the increase in investment funds (+12.7%), underscoring 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 the first half of 2018.

- **Loans and receivables**

Note 3 and Appendices VII and VIII of the notes to the Bankia Group's intermediate financial statements 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 the first half of 2018 and the main movements therein.

Under this item, **loans and advances to customers reported as financial assets at amortised cost** amounted to EUR 121,526 million, slightly down (-1.2%) 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 positive impact of commercial strategies geared towards being close to customers and the improvement in macroeconomic indicators.

Gross non-performing loans (NPLs) extended the downtrend seen in 2017, falling by EUR 1,019 million, net (-18.4%). The fall was mainly organic (lower gross NPL inflows and healthy pace of recovery), but there were also portfolio sales in the semester amounting to EUR 527million, gross.

Stripping out non-performing loans and reverse repurchase agreements, the Group's performing loan portfolio was stable (-0.2%) from December 2017, underscoring the good performance of the Group's new loans in the year.

LOANS AND ADVANCES TO CUSTOMERS BANKIA GROUP BY COUNTERPARTY

(Millions of euros) (*)	jun-18	dec-17	Change Dec-17 Amount	Change Dec-17 %
Government agencies	5,471	5,596	(125)	(2.2%)
Other financial companies	2,161	2,877	(716)	(24.9%)
Non-financial companies	35,743	35,803	(60)	(0.2%)
Households	83,699	84,506	(808)	(1.0%)
Impairment losses	(5,548)	(5,757)	209	(3.6%)
Loans and advances to customers	**121,526**	**123,025**	**(1,499)**	**(1.2%)**
Less: Doutful net of provisions	(4,528)	(5,547)	1,019	(18.4%)
Less: accountin balance with BFA	(39)	(256)	217	(84.7%)
Healthy loan portfolio	**116,958**	**117,222**	**(264)**	**(0.2%)**

(*) Financial Statement amounts rounded to millions of euros

- **Debt securities**

Debt securities at 30 June 2018, recognised under 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” and “financial assets at amortised cost” amounted to EUR 52,719 million compared to EUR 55,334 million at December 2017. Of the total at the end of June 2018, EUR 19,962 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 by Bankia Group by type of instrument, at 30 June 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	113	14,300	10,848	25,261
Foreign goverment debt securities		2,906	3,576	6,482
Financials institutions		76	30	106
Other straight fixed income securities (**)	3	518	20,355	20,877
Impairment losses and other fair value adjustments		(1)	(6)	(7)
Total portfolio at 30 June 2018	**116**	**17,799**	**34,803**	**52,719**
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 coste includes, interalia, securities issues by SAREB on December, 2013.

The biggest change reported in the first half of 2018 was seen in the portfolio of financial assets at fair value through other comprehensive income, which decreased EUR 4,872 million (-21.4%) on the figure reported at 31 December 2017 to reach EUR 17,873 million at 30 June 2018. This reduction can be explained by the sales made by the Group in the first half of the year ahead of an expected change in market interest rates. Meanwhile, the portfolio of assets at amortised cost gained EUR 2,145 million to reach EUR 34,803 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 has reviewed its business models and contractual terms and conditions on the portfolio of financial assets at year-end 2017. This process has 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 237 million and pushing up equity by EUR 172 million in the first half of 2018. Reclassifications of the fair value portfolio through profit or loss were not material.

- **Financial liabilities at amortised cost**

Financial liabilities at amortized cost at 30 June 2018 stood at EUR 184,830 million, decrease EUR 4,067 million (-2.2%) from December 2017. This performance was the result of the Group's lower overall funding needs thanks to the proceeds obtained from asset disposals, mainly fixed income, maturities of wholesale debt in the period and utilization of part of the funds deposited in the treasury account of the Bank of Spain at 31 December 2017.

FINANCIAL LIABILITIES AT AMORTISED COST - BANKIA GROUP

			Change Dec-17	
(millions of euros) (*)	jun-18	dec-17	Amount	%
Deposits from central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**
Deposits from credit institutions	**23,867**	**22,294**	**1,574**	**7.1%**
Customer deposits	**128,696**	**130,396**	**(1,700)**	**(1.3%)**
Government agencies	6,970	5,678	1,293	22.8%
Other financial companies	8,822	9,336	(514)	(5.5%)
Non-financial companies	15,517	16,186	(669)	(4.1%)
Households	90,273	89,029	1,245	1.4%
Reserve repurchase agreement	436	2,668	(2,231)	(83.6%)
Single mortgage bonds	6,676	7,499	(823)	(11.0%)
Debt securities issued	**17,451**	**19,785**	**(2,334)**	**(11.8%)**
Other financial liabilities	**960**	**1,067**	**(107)**	**(10.0%)**
Total financial liabilities at amortised cost	**184,830**	**188,898**	**(4,067)**	**(2.2%)**

(*) 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 the first half 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 had arranged during the period. At 30 June 2018, all ECB funding (EUR 13,856 million) comprised the amounts acquired at the TLTRO II auctions.

Deposits from credit institutions amounted to EUR 23,867 million at 30 June 2018, rise 7.1% from the end of 2017, caused by the higher volume of reverse repurchase agreements with other entities.

Customer deposits

Customer deposits at the Group totalled EUR 128,696 million at 30 June 2018, down EUR 1,700 million (-1.3%) versus 31 December 2017. This change came in response to a reduction in repo transactions in the first half of the year (EUR -2,231 million) and in one-off non-marketable mortgage-backed securities (EUR -823 million), while strict customer funds performed well to gain EUR 1,354 million.

Within customer deposits, strict customer deposits (i.e. excluding repurchase agreements, and one-off non-marketable mortgage-backed securities) totalled EUR 121,583 million, up 1.1% on December 2017. Highlights in the first six months included 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.

CUSTOMER DEPOSITS - BANKIA GROUP

			Change Dec-17	
(millions of euros) (*)	jun-18	dec-17	Importe	%
Strict customer deposit	**121,583**	**120,229**	**1,354**	**1.1%**
Public sector	6,970	5,678	1,293	22.8%
Other financial companies	8,822	9,336	(514)	(5.5%)
Current accounts	5,681	5,743	(62)	(1.1%)
Term deposits (1)	3,141	3,593	(452)	(12.6%)
Non-financial companies	15,517	16,186	(669)	(4.1%)
Current accounts	12,920	12,408	512	4.1%
Term deposits	2,597	3,778	(1,182)	(31.3%)
Households	90,273	89,029	1,245	1.4%
Current accounts	57,570	53,677	3,893	7.3%
Term deposits	32,703	35,351	(2,648)	(7.5%)
Single mortgage bonds	**6,676**	**7,499**	**(823)**	**(11.0%)**
Reserve repurchase agreement	**436**	**2,668**	**(2,231)**	**(83.6%)**
Total customer deposits	**128,696**	**130,396**	**(1,700)**	**(1.3%)**
Investment funds (2)	17,724	15,726	1,998	12.7%
Pension funds (2)	6,673	6,738	(65)	(1.0%)
Total off balance funds resources	**24,396**	**22,464**	**1,932**	**8.6%**

(*) 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.

With interest rates remaining persistently low, 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 8.6% from December 2017. Investment funds continued to deliver the best performance of any product thanks to healthy subscription.

The combined balance of strict customer deposits and off-balance sheet funds was broadly steady in the first half of 2018, increasing by EUR 3,286 million (+2.3%) from December 2017.

Debt securities issued

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. At 30 June 2018, the balance of debt securities issued by the Group stood at EUR 17,451 million, down EUR 2,334 million on the figure reported at 31 December 2017. This reduction was a product of maturities and wholesale redemptions during the first half of the year, mainly in relation to mortgage covered bonds (cédulas hipotecarias).

- **Provisions**

Provisions recognised on the Group's balance sheet at 30 June 2018 amounted to EUR 1,756 million, down EUR 278 million (-13.7%) from the amount recognised at the end of December 2017. This decrease was due mainly to provisions associated with the repayment of amounts under floor clauses and restructuring costs following the merger with BMN.

- **Total equity**

At 30 June 2018 amounted to EUR 13,209 million, EUR 405 million less than at year-end 2017. This reduction was mostly concentrated in own funds as a result of the loss charged to reserves in January following the posting of additional credit loss provisions under the new IFRS 9 (EUR 487 million) and payment of the dividend out of 2017 profit (EUR 340 million, gross, or EUR 338 million, net).

3.5.- Highlights of the income statement

INCOME STATEMENT - BANKIA GROUP

(Millions of euros) (*)	jun-18 (1)	jun-17 (1)	Change Jun-17 Amount	Change Jun-17 %
Net interest income	**1,047**	**995**	**52**	**5.3%**
Dividend income	8	7	1	9.3%
Share of profit/(loss) of companies accounted for using the equity method	29	18	11	59.5%
Total net fees and commissions	534	425	109	25.6%
Gain and losses on financial assets and liabilities	291	262	29	11.0%
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	270	217	53	24.3%
Gains or losses on financial assets and liabilities held for trading, (net)	34	60	(26)	(43.7%)
Gains or losses from hedge accounting, (net)	(13)	(15)	2	(14.4%)
Exchange differences	6	4	1	34.3%
Other operating income and other operating expenses (net)	(74)	(65)	(9)	14.0%
Gross income	**1,841**	**1,648**	**194**	**11.8%**
Operating expenses	(944)	(764)	(180)	23.6%
Administrative expenses	(856)	(681)	(176)	25.8%
Staff expenses	(596)	(461)	(135)	29.3%
Other administrative expenses	(260)	(220)	(40)	18.3%
Depreciation	(88)	(83)	(5)	5.7%
Pre impairment income	**897**	**884**	**14**	**1.5%**
Provisions or reversal of provisions	36	3	34	-
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses, (net)	(208)	(174)	(33)	19.2%
Total operating income	**726**	**712**	**14**	**1.9%**
Impairment or reversal of impairment of investment in joint-ventures or associates	41	(3)	44	-
Impairment or reversal of impairment on non-financial assets	(9)	(6)	(2)	38.5%
Other gains and losses	(76)	(10)	(67)	687.7%
Profit or Loss before tax from continuing operations	**681**	**693**	**(12)**	**(1.7%)**
Tax expense or income related to Profit or Loss from continuing operations	(166)	(179)	12	(6.9%)
Profit or Loss	**515**	**514**	**0**	**0.1%**
Profit or Loss attributable to minority interest	0	1	(0)	(66.2%)
Profit or Loss attributable to owners of the parent	**515**	**514**	**1**	**0.1%**

Main ratios				
Efficiency ratio (2)	51.3%	46.4%	+4.9 p.p.	10.6%
ROA (3)	0.5%	0.6%	(0.1) p.p.	(11.8%)
ROE (4)	8.3%	8.6%	(0.3) p.p.	(2.8%)

(*) Financial Statement amounts rounded to millions of euros.
(1) Figures at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.
(2) (Administration expenses + Depreciation and Amortizations) / Gross margin.
(3) Profit/ Loss / Average total net assets.
(4) Profit or Loss attributable to owners of the parent / Average own funds .

INCOME STATEMENT BANKIA, GROUP- QUARTERLY TREND

(millions of euros) (*)	2T 18 [1]	1T 18 [1]	4T 17 [1]	3T 17 [1]	2T 17 [1]	1T 17 [1]
Net interest income	**521**	**526**	**501**	**472**	**491**	**504**
Dividend income	7	1	2	0	2	6
Share of profit/(loss) of companies accounted for using the equity method	18	12	9	12	10	9
Total net fees and commissions	270	264	229	210	218	207
Gain and losses on financial assets and liabilities	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)	141	130	47	45	71	146
Gains or losses on financial assets and liabilities held for trading, (net)	18	16	15	12	36	24
Gains or losses on financial assets not held for trading designated at fair value through profit or loss, (net)	0	0	0	0	0	0
Gains or losses from hedge accounting, (net)	(7)	(7)	(9)	(5)	(6)	(9)
Exchange differences	5	1	3	3	2	2
Other operating income and other operating expenses (net)	(70)	(3)	(132)	2	(61)	(3)
Gross income	**903**	**939**	**666**	**751**	**762**	**886**
Operating expenses	(459)	(485)	(875)	(387)	(378)	(386)
Administrative expenses	(419)	(437)	(828)	(344)	(336)	(345)
Staff	(291)	(305)	(700)	(229)	(226)	(235)
Other administrative expenses	(128)	(132)	(128)	(114)	(110)	(110)
Depreciation	(40)	(48)	(47)	(44)	(42)	(41)
Pre impairment income	**444**	**453**	**(209)**	**364**	**384**	**500**
Provisions or reversal of provisions	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)	(91)	(116)	(88)	(66)	(67)	(107)
Total operating income	**376**	**350**	**(259)**	**291**	**312**	**401**
Impairment or reversal of impairment of investment in joint-ventures or associates	41	0	0	0	0	(3)
Impairment or reversal of impairment on non-financial assets	(5)	(4)	(2)	(2)	(1)	(6)
Other gains and losses	(28)	(49)	(67)	(29)	(22)	12
Profit or Loss before tax from continuing operations	**384**	**297**	**(328)**	**260**	**289**	**404**
Tax expense or income related to Profit or Loss from continuing operations	(99)	(67)	82	(34)	(78)	(100)
Profit or Loss	**285**	**230**	**(246)**	**226**	**210**	**304**
Profit or Loss attributable to minority interest	(0)	0	(12)	1	0	0
Profit or Loss attributable to owners of the parent	**285**	**229**	**(235)**	**225**	**210**	**304**

(*) Financial Statement amounts rounded to millions of euros.

(1) Data for 2Q 18 and 1Q 18 are for the resulting entity of the merger between Bankia and BMN. Data for 4Q 17 include one month of BMN data, as the merger was effective for accounting purposes from 1 December 2017. Data for 3Q 17, 2Q 17 and 1Q 17 are reported by the Bankia Group before the merger with BMN.

INCOME STATEMENT BANKIA GROUP - HIGHLIGHTS

(millions of euros) (*)	June 2018 (1) Amount	% of gross income	% os average total net assets	June 2017 (1) Amount	% of gross income	% os average total net assets
Net income interest	**1,047**	**56.9%**	**1.0%**	**995**	**60.4%**	**1.1%**
Gross income	**1,841**	**-**	**1.8%**	**1,648**	**-**	**1.8%**
Operating expenses	(944)	(51.3%)	(0.9%)	(764)	(46.4%)	(0.8%)
Administrative expenses	(856)	(46.5%)	(0.8%)	(681)	(41.3%)	(0.7%)
Depreciation and amortization charge	(88)	(4.8%)	(0.1%)	(83)	(5.1%)	(0.1%)
Provisiones o reversión de provisiones	36	2.0%	0.0%	3	0.2%	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)	(208)	(11.3%)	(0.2%)	(174)	(10.6%)	(0.2%)
Total operating income	**726**	**39.4%**	**0.7%**	**712**	**43.2%**	**0.8%**
Impairment or reversal of impairment on non-financial assets Investments in joint ventures and associates	41	2.2%	0.0%	(3)	(0.2%)	(0.0%)
Impairment or reversal of impairment on non-financial assets	(9)	(0.5%)	(0.0%)	(6)	(0.4%)	(0.0%)
Other gains and losses	(76)	(4.2%)	(0.1%)	(10)	(0.6%)	(0.0%)
Profit or Loss before tax from continuing operations	**681**	**37.0%**	**0.7%**	**693**	**42.1%**	**0.8%**
Tax expense or income related to profit or Loss from continuing operations	(166)	(9.0%)	(0.2%)	(179)	(10.8%)	(0.2%)
Profit or Loss	**515**	**28.0%**	**0.5%**	**514**	**31.2%**	**0.6%**
Profit or Loss attributable to minority interest (non-controlling interests)	0	0.0%	0.0%	1	0.0%	0.0%
Profit or Loss attributable to owners of the parent	**515**	**27.9%**	**0.5%**	**514**	**31.2%**	**0.6%**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

- **Overview of Group earnings**

The Bankia Group ended June 2018 with net attributable profit of EUR 515 million, matching the figure reported in the same period of 2017. The integration of BMN, coupled with growth in business with customers, active cost management and careful monitoring of the cost of risk, were the main profit drivers in the period, successfully countering the impact on interest income of lower earnings on fixed-income securities, maturities and repricings of the mortgage portfolio.

Main movements in the Group's income statement items of ended June 2018 are discussed below.

- **Net interest income**

Net interest income for the Bank totalled EUR 1,047 million, up EUR 52 million (+5.3%) year on year following the integration of BMN. If we include earnings at BMN in the first half of 2017 so as to provide a like-for-like comparison, the Group's net interest income would have fallen by 9.8% year on year due to the impact of the lower yield on fixed income securities following the sales and portfolio rotation carried out in 2017 and the first half of 2018, and also because of the natural maturities and repricings of the mortgage portfolio, which has continued to show the drop in market interest rates in the last year.

The following table shows trends in net interest income in the first half of 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 the first half of 2018.

STRUCTURE OF INCOME AND EXPENSES - BANKIA GROUP

	June 2018			June 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)	7,038	45	1.30%	6,053	43	1.43%	985	3	(4)	6
Loans and advances to customers (a)	120,749	1,018	1.70%	103,725	871	1.69%	17,023	146	3	143
Debt securities	53,582	190	0.72%	49,725	250	1.01%	3,858	(60)	(74)	14
Other interest bearing assets	428	4	1.87%	394	2	0.80%	34	2	2	0
Other non interest bearing assets	26,812	-	-	23,900	-	-	2,912	-	-	-
Total assets (b)	**208,609**	**1,257**	**1.22%**	**183,796**	**1,166**	**1.28%**	**24,813**	**91**	**(58)**	**150**
Financial expenses										
Credit institutions (2)	37,563	25	0.13%	36,926	24	0.13%	637	1	1	0
Customer deposits (c)	126,628	82	0.13%	103,149	54	0.11%	23,478	29	13	15
Strict customer deposits	118,499	35	0.06%	97,522	47	0.10%	20,977	(12)	(18)	6
Repos	929	1.1	0.24%	562	0.0	0.00%	366	1.1	1	0
Singular bonds	7,200	46	1.30%	5,065	7	0.27%	2,135	40	26	14
Debt securities issued	19,072	97	1.02%	18,978	90	0.96%	94	7	6	0
Other interest bearing liabilities	1,192	6	0.94%	833	3	0.71%	360	3	1	2
Other non interest bearing liabilitites	10,841	-	-	11,152	-	-	(311)	-	-	-
Equity	13,313	-	-	12,759	-	-	555	-	-	-
Total Liabilities and Equity (d)	**208,609**	**210**	**0.20%**	**183,796**	**171**	**0.19%**	**24,813**	**39**	**14**	**25**
Customers margin (a-c)		**935**	**1.57%**		**817**	**1.59%**		**118**	**(11)**	**128**
Balance sheet differential (b-d)		**1,047**	**1.01%**		**995**	**1.09%**		**52**	**(72)**	**125**

(*) 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 the first half of 2018 include the finance income, finance costs, interest-bearing assets and liabilities of the merged entities. Meanwhile, data for the first half of 2017 correspond to the Bankia Group pre-merger.

(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. Only the net balance between income and expense in both items has economic meaning.

Finance income was up 7.8% (EUR 91 million) versus the first six months of 2017 due to the positive impact of the 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 first half of 2017, finance income would have been down by an estimated 12% because of both prevailing rates (rotation of fixed income portfolios and mortgage repricings) and a reduction in volume (sales of fixed income portfolios in 2017 and the first half of 2018 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 39 million (+22.7%) versus the first half of 2017. Were we to include earnings at BMN in the first half of 2017, total finance costs on a like-for-like basis would have fallen by an estimated 21.5%, 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 1.57% at 30 June 2018 after the integration of BMN, compared 1.59% at 30 June 2017.

The Group's net interest margin at 31 December 2017 stood at 1.01% at the end of June 2018, down 8 basis points on the level seen in June 2017.

- **Gross income**

Gross income for Bankia Group amounted to EUR 1,841 million, up 11.8% year on year. Were we to include earnings at BMN in the first half of 2017, we would see a negative adjustment in like-for-like terms of 7.5%. Net interest income and fee and commission income accounted for 85.9% of the Group’s gross income at 30 June 2018.

Net fees and commissions totalled EUR 534 million, 25.6% more than the first half of 2017 following an increase in business and customer engagement at the Group and the full integration of BMN. This healthy showing was largely down to collections and payments (cards and administration of demand accounts) and asset management activity (mainly sales of investment funds and insurance), which offset the reduction in fees generated from transaction structuring and design services, securities services and other less recurring transactions. Were we to include earnings at BMN in the first half of 2017, fee and commission income would have grown some 1.4% year on year.

NET FEES AND COMISSIONS - BANKIA GROUP

(millions of euros) (*)	jun-18 (1)	jun-17 (1)	Change June-17 Amount	Change June-17 %
Traditional banking	259	184	75	40.5%
Contingent liabilities and commitmentss	50	43	7	16.3%
Collection and payment services	209	142	68	47.9%
Banking financial product sales	172	143	29	19.9%
Investment funds	65	53	12	22.3%
Pensions funds	30	30	1	2.9%
Insurance and others	76	61	16	26.2%
Total fees and commissions and banking sales	**431**	**328**	**103**	**31.5%**
Other commissions income	**145**	**136**	**9**	**6.8%**
Security services	29	30	(1)	(2.1%)
Operations design and framing	15	25	(11)	(42.3%)
Recovered written off assets	4	5	(1)	(20.3%)
Claim of debtor positions	62	51	12	22.7%
Others	35	25	10	39.8%
Fees and commission income	**576**	**464**	**113**	**24.3%**
Fees and commission expenses	**42**	**39**	**4**	**9.8%**
Total net commissions	**534**	**425**	**109**	**25.6%**

(*) Financial Statement amounts rounded to millions of euros

(1) Commisions at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

Gains and losses on financial assets and liabilities contributed positively to the income consolidated statement in the first half of 2018, rising by 11% year-on-year to EUR 291 million. This increase was underpinned by the gains obtained on fixed-income sales, mostly in the first two quarters of the year based on the outlook for trends in market interest rates. In like-for-like terms, gains and losses on financial assets and liabilities would be down 6.4% on June 2017 if we include BMN's earnings for the first half of 2017.

Other operating income and expenses showed a net expense of EUR 74 million at 30 June 2018, an increase of EUR 9 million from the last year, driven by lower income contributed by non-financial Group companies, a larger contribution paid to 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 43 million at 30 June 2018, EUR 13 million more than the same period in 2017.

- **Operating expenses**

Operating expenses (administrative expenses and depreciation) amounted to EUR 944 million at 30 June 2018 up 23.6% year on year and showing the full integration of earnings of BMN in the first half of 2018. However, operating expenses in like-for-like terms (if we include expenses at BMN in the first half of 2017) would in fact be down 1.7% on June 2017, which is consistent with the objective of controlling costs and managing efficiency as a core element of the Group’s strategy. Significantly, the synergies from the merger with BMN are already beginning to feed through to the Group’s income statement, since at 30 June 2018 a large portion of the Group’s planned structural changes had already materialised as part of a process that started in April.

The efficiency ratio (operating expenses/gross income) at 30 June 2018 stood at 51.3%.

ADMINISTRATIVE EXPENSES - BANKIA GROUP

(millions of euros) (*)	jun-18 (1)	jun-17 (1)	Change Jun-17 Amount	Change Jun-17 %
Staff costs	**596**	**461**	**135**	**29.3%**
Wages and salaries	457	335	122	36.4%
Social security costs	114	89	25	27.8%
Pension plans	10	24	(13)	(55.9%)
Others	15	13	2	14.8%
Other administrative expenses	**260**	**220**	**40**	**18.3%**
Real state, facilities and material	60	50	10	20.9%
IT and communications	95	79	15	19.4%
Advertising and publicity	25	24	2	7.7%
Technical reports	12	10	1	14.6%
Surveillance and security courier services	9	7	2	30.4%
Levies and taxes	14	11	2	19.6%
Insurance and self insurance premiums	2	3	(1)	(30.1%)
Other expensives	43	36	8	21.3%
Total administrative expensives	**856**	**681**	**176**	**25.8%**
Efficiency ratio	**51.3%**	**46.4%**	**+4.9 p.p.**	**10.6%**

(*) Financial Statement amounts rounded to millions of euros

(1) Administrative expenses at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, 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 897 million at 30 June 2018, up EUR 14 million (+1.5%) on the amount reported in the first half of 2017. Had the results of BMN been integrated back in June 2017, pre-provision profit would be down an estimated 13% in like-for-like terms.

- **Provisions and write-downs**

Provisions, which include provisions for legal issues, tax litigation, guarantees and commitments extended, registered a positive figure of EUR 36 million due to reversals of provisions for issuer risk and other contingent liabilities in the first half of 2018.

Impairment and losses on cash flow changes of financial assets not measured at fair value through profit or loss, which includes mainly provisions for credit losses, increased by EUR 33 million at 30 June 2018 (+19.2%) to EUR 208 million. This was the result of integrating the charges to provisions for BMN, which has added to the Group's balance sheet more than EUR 20,000 million in loans and advances to customers following the merger.

Impairment of non-financial assets, mainly goodwill, tangible assets, investment properties and inventories, was a negative EUR 9 million, in line with the balance at 30 June 2017. Impairment of investments in joint ventures and showing a positive EUR 41 million versus the negative EUR 3 million reported at 30 June 2017. This change is down to the release of provisions in the six-month period in relation to the stake in Caser after having an independent expert value the shares portfolio.

The trends in the various items of provisions and impairments resulted in total charges in the first half of 2018 of EUR 140 million, 22.8% lower than in the same period 2017. In the same period of 2017 despite the integration of BMN's balance sheet, revealing the progress made by Bankia in managing risks and improving the quality of its assets.

- **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 30 June 2018, it shows a negative figure of the EUR 76 million, up on the negative EUR 10 million reported in the first half of 2017 after integrating and recognising impairment on BMN's real estate assets.

- **Attributable profit**

After the integration of BMN, the Bankia Group has generated a profit attributed to the dominant entity of EUR 515 million at 30 June 2018, which equals the one reached in the first half of 2017(+0.1%).

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 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 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

PERFORMANCE MEASURE	DEFINITION	CALCULATION METHOD AND ACCOUNTING DATA USED	SECTION OF MANAGEMENT REPORT
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 recognised in 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 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 year. 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 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 %)	Jun-18 [1]	Dec-17
Resources managed by customers	**170,543**	**172,645**
– Customer deposits	128,696	130,396
– Marketable debt securities	17,451	19,785
– Investment companies and funds	17,724	15,726
– Pension funds	6,673	6,738
Total turnover	**292,077**	**295,670**
– Loans and advances - customers	121,534	123,025
– Customer deposits	128,696	130,396
– Debt securities issued	17,451	19,785
– Investment companies and funds	17,724	15,726
– Pension funds	6,673	6,738
NPL ratio (%)	**8.1%**	**8.9%**
- Doubtful risks of loans and advances to customers and contingent risks	10,809	12,117
- Total risks of loans and advances to customers and contingent risks	133,962	136,353
NPL coverage ratio (%)	**55.0%**	**50.8%**
- Loan impairment and customer advances and contingent risks	5,945	6,151
- Doubtful risks of loans and advances to customers and contingent risks.	10,809	12,117
LTD ratio (%)	**92.2%**	**93.9%**
- Loans and advances to customers	121,534	123,025
- Temporary Acquisitions of Assets	39	256
- Deposits of the customers	128,696	130,396
- Temporary Assignment of Assets	436	2,668
- Funds for mediation appropriations received from the EIB and ICO	3,527	3,007
Gains or losses on financial assets and liabilities (net)	**291**	**262**
– Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	270	217
– Gains or losses on financial assets and liabilities held for trading, net.	34	60
– Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
– Gains or losses from hedge accounting, net	(13)	(15)
Operating income before provisions	**897**	**884**
– Gross income	1,841	1,648
– Administrative expenses	(856)	(681)
– Depreciation	(88)	(83)

Customer Margin (%)	**1.57%**	**1.59%**
Average interest rate on loans and advances to customers (%):	1.70%	1.69%
– Interest income on loans and advances to customers in period	1,018	871
– Interest income on loans and advances to customers annualized	2,052	1,757
– Average month-end balances of loans and advances to customers	120,749	103,725
Average interest rate paid on customer deposits (%):	0.13%	0.11%
– Interest expenses on customer deposits in the period	82	54
– Interest expenses on customer deposits annualized	166	109
– Average month-end balances of customer deposits	126,628	103,149
Balance sheet diferential (%)	**1.01%**	**1.09%**
Average return on assets:	1.22%	1.28%
– Interest income in the period	1,257	1,166
– Interest income in the period annualised	2,535	2,351
– Average month-end balances of recognised assets in the period	208,609	183,796
Average cost of liabilities and equity (%):	0.20%	0.19%
– Interest expenses in the period	210	171
– Interest expenses in the period annualised	423	345
– Average month-end balances of total equity and liabilities in the period	208,609	183,796
ROA (%)	**0.5%**	**0.6%**
– Profit/(loss) for the period	515	514
– Profit/(loss) for the period annualised	1,038	1,037
– Average value of recognised assets at the end of the first half of the year	208,609	183,796
RORWA (%)	**1.2%**	**1.4%**
– Profit/(loss) for the period	515	514
– Profit/(loss) for the period annualised	1,038	1,037
– Regulatory risk-weighted assets at the period end	83,631	74,628
ROE (%)	**8.3%**	**8.6%**
– Profit/(loss) attributable to owners of the Parent for the period	515	514
– Profit/(loss) attributable to owners of the Parent for the period annualised	1,038	1,036
– Average value of equity of the 12 months preceding the period end adjusted for expected dividends	12,478	12,113
ROTE (%)	**8.5%**	**8.7%**
– Profit/(loss) attributable to owners of the Parent for the period	515	514
– Profit/(loss) attributable to owners of the Parent for the period annualised	1,038	1,036
– Average value of tangible equity of the 12 months preceding the period end adjusted for expected dividends	12,230	11,888
Efficiency ratio (%)	**51.3%**	**46.4%**
– Administrative expenses	856	681
– Depreciation for the period	88	83
– Gross income	1,841	1,648

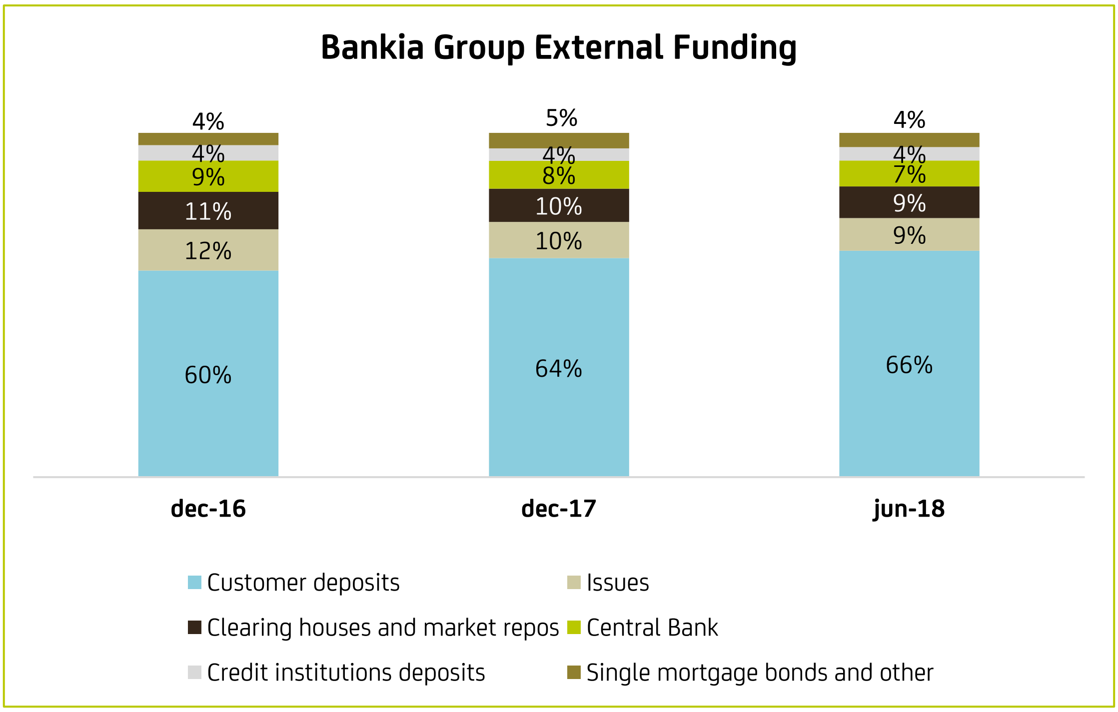
(1) Figures at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

5.- FUNDING STRUCTURE AND LIQUIDITY

Note 3.2 to the financial statements for the period ended 30 June 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 the first half 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 the first half of 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 customers deposits arise mainly from business with retail customers (79.8% 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 the first half of 2018, the Bankia Group's external funding needs were down EUR 4,068 million compared to 31 December 2017 thanks to the liquidity released from disposals of fixed-income securities and utilization of part of the funds held in the treasury account at the Bank of Spain.

FUNDING SOURCES- BANKIA GROUP

(Millions of euros) (*)	Jun-18	dec-17	Change Dec-17 Amount	Change Dec-17 %	% of the total Jun-18	% of the total dec-17
Strict customer deposit	**121,583**	**120,229**	**1,354**	**1.1%**	**65.8%**	**63.6%**
Public sector	6,970	5,678	1,293	22.8%	3.8%	3.0%
Other financial companies	8,822	9,336	(514)	(5.5%)	4.8%	4.9%
Current accounts	5,681	5,743	(62)	(1.1%)	3.1%	3.0%
Term deposits	3,141	3,593	(452)	(12.6%)	1.7%	1.9%
Non-financial companies	15,517	16,186	(669)	(4.1%)	8.4%	8.6%
Current accounts	12,920	12,408	512	4.1%	7.0%	6.6%
Term deposits	2,597	3,778	(1,182)	(31.3%)	1.4%	2.0%
Households	90,273	89,029	1,245	1.4%	48.8%	47.1%
Current accounts	57,570	53,677	3,893	7.3%	31.1%	28.4%
Term deposits	32,703	35,351	(2,648)	(7.5%)	17.7%	18.7%
Financiación mayorista	**24,669**	**26,521**	**(1,852)**	**(7.0%)**	**13.3%**	**14.0%**
Deposits and credit institutions (1)	7,217	6,736	482	7.1%	3.9%	3.6%
Debt securities issued	17,451	19,785	(2,334)	(11.8%)	9.4%	10.5%
Single mortgage bonds	**6,676**	**7,499**	**(823)**	**(11.0%)**	**3.6%**	**4.0%**
Repos	**17,086**	**18,225**	**(1,139)**	**(6.3%)**	**9.2%**	**9.6%**
Central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**	**7.5%**	**8.1%**
Others	**960**	**1,067**	**(107)**	**(10.0%)**	**0.5%**	**0.6%**
Total external funding sources	**184,830**	**188,898**	**(4,067)**	**(2.2%)**	**100.0%**	**100.0%**

(*) Financial Statement amounts rounded to millions of euros

(1) Includes banc deposits, collateral deposits and other deposits in credit institutions

Customer funds reached EUR 121,583 million, 65.8% of the Group's external funding mix, compared to 63.6% in December 2017, with the following breakdown: (i) 48.8% households, (ii) 8.4% non-financial corporations, (iii) 4.8% other financial institutions and (iv) 3.8% public sector deposits. Customers continued to transfer savings to current accounts and short-term deposits in the first half of 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 24,669 million at 30 June 2018, representing 13.3% of external funding, down from 14% at 31 December 2017, and comprising mainly mortgage-backed securities and deposits from credit institutions. The decrease of EUR 1,852 million is explained by maturities during the half year mainly mortgage-backed securities.

Repos arranged through clearing houses and in the market stood at EUR 17,086 million, representing 9.2% of the Bankia Group's external funding at June 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 was down EUR 1,500 million on the close of 2017 to reach EUR 13,856 million at 30 June 2018. As a result, the weight of central banks on the Bankia Group'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 the Bankia Group at 30 June 2018 was related to funds obtained in the ECB TLTRO II programme.

Lastly, non-marketable mortgage-backed securities included in loans and advances to customers and other funding sources have reached EUR 7,637 million in the first half of 2018. They are a residual component of the Group's funding structure, representing 3.6% and 0.5% of the Bankia Group's external funding.

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 3,615 million at the end of June 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 30 June 2018 in 92.2%, 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 280 million of debt issues falling due in 2018 and EUR 4,764 million in 2019, of which EUR 2,764 million are mortgage-backed securities. To cover these maturities and scheduled redemptions in the coming years, the Group had EUR 30,089 million of available liquid assets at June 2018, equivalent to a 14.4% 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

			Change dec-17	
(Millions of euros) (*)	**jun-18**	**dec-17**	**Amount**	**%**
Highly liquid available assets [1]	15,215	19,703	(4,488)	(22.8%)
Undrawn amount on the facility	14,460	10,918	3,542	32.4%
Cash [2]	414	2,206	(1,792)	(81.2%)
TOTAL	**30,089**	**32,827**	**(2,738)**	**(8.3%)**

(*) 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 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.

Since 2015, in response to the recommendations issued by the various consultative bodies in the industry and the regulatory changes made with respect to the European Banking Union, the Bankia Group strengthened its capital planning and management framework, formally documenting or updating existing documentation on these processes in a series of reports approved by the Entity's Board of Directors. These documents are:

- **The Corporate Risk Appetite and Tolerance Framework,** which defines the level of risk appetite (internal capital target) based on the risks the Group is willing to assume in carrying out its business. Together with the capital target, the tolerance or maximum levels of deviation from the established target which the Bank considers acceptable are determined.
- **The Corporate Capital Planning Framework,** which sets out a clear governance framework to ensure the involvement and coordinated orientation of the Group's various divisions related to the capital planning process to achieve a common objective and that this objective fits in the Group's Risk Appetite and Tolerance Framework.
- **Capital Planning Policies,** which include Senior Management's guidelines regarding capital preservation and correct risk measurement, as well as the corrective measures for potential deviations included in the Capital Contingency Plan.
- **Recovery Plan**, which sets out the solvency and leverage indicator levels below the Entity's tolerance level which, prior to potential non-compliance with regulations, would trigger the corrective measures in crises situations, as well as the range of measures and execution of each.

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.

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.

With a monthly base, real capital adequacy ratios are measured against these metrics and indicators and their various thresholds periodically. Potential deviations are analysed to determine whether the causes relate to one-off or structural events. The measures required to adapt the level of capital so it complies with the established targets is analysed and decided. In the case of default, this could ultimately trigger the Capital Contingency Plan or even the Recovery Plan. Actual performances of these metrics and indicators are presented to the Group's governing bodies at least quarterly.

The Capital Committee is mainly in change of projecting and controlling the evolution of the Entity's solvency ratios on a monthly basis, allowing the 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

In 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 its risk-weighted assets, 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 its risk-weighted assets, comprising 8% of Pillar 1,plus a 2% Pillar 2 requirement plus a combined buffer requirement of 2.063%. The minimum CET 1 Phase-in ratio at 31 December 2017 was 7.875% and the minimum Total Capital ratio was 11.375%, both of which taking into account transitional arrangements, i.e., on a Phase-in basis.

Regarding the combined buffer requirements, in addition to the capital conservation buffer common to all banks, Bankia Group was identified by the Bank of Spain as another systemically important institution (O-SII). Therefore, a common equity Tier I capital buffer was established at 0.25% of its total risk exposure on a consolidated basis. However, considering the phase-in period provided for in Law 10/2014, it will only be required to maintain 75% of this buffer in 2018 (50% in December 2017); i.e. 0.1875% (0.125% in December 2017). 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% for the first half of 2018

In June 2018, the Bankia Group achieved a Common Equity Tier 1 BIS III Phase In ratio of 14.01% (14.15% at 31 December 2017) and a Total Capital BIS III Phase In ratio of 17.18% (16.84% at 31 December 2017). These capital levels imply surpluses above the 8.563% minimum Common Equity Tier 1 capital ratio requirement for 2018 of EUR 5,559 million, and above the 12.063% minimum Total Capital ratio requirement of EUR 4,284 million.

The following table provides a detail of capital levels, as well as risk-weighted assets calculated in accordance with the CRR and CRD IV at 30 June 2018 and 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	June 2018 (*) (**)		December 2017 (*)	
Common Equity Tier I	11,720	14.01%	12,173	14.15%
Equity tier I	12,470	14.91%	12,856	14.94%
Equity tier II	1,902	2.27%	1,632	1.90%
Total Equity BIS III	**14,372**	**17.18%**	**14,487**	**16.84%**

Risk weighted assets BIS III	Jun. 2018 (**)	Dec. 2017 (**)
Credit risk (include CVA)	75,732	77,958
Operational risk	6,476	6,476
Market risk	1,426	1,608
Total risk weighed assets BIS III	**83,634**	**86,042**

Excess/(Minimal regulatory defects)	June 2018 (*) (**)		December 2017 (*) (**)	
		minimun		*minimum*
Excess Common equity Tier I BIS III	**4,559**	**8.563%**	**5,398**	**7.875%**
Total Equitt Bis III	**4,284**	**12.063%**	**4,700**	**11.375%**

(*) Including the amount of net profit for 2017 earmarked for reserves

(**) Estimated at 30/06/2018

In the first half of 2018, Common Equity Tier I capital dropped by 14 bps, with organic generation of 37 bps, which largely absorbed the impact of full implementation of IFRS 9 and the effect of early application. In the first half, the Bankia Group once again employed an organic CET1 generation model that 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 the first half of 2018 are the following:

- The **calendar effect** has had an impact of **-25 bps on CET1**.

- **Full implementation in solvency** of the equity impact of the entry into force of **IFRS 9** on 1 January 2018, which implies an impact of **-26 bps** in phase-in CET1. 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.

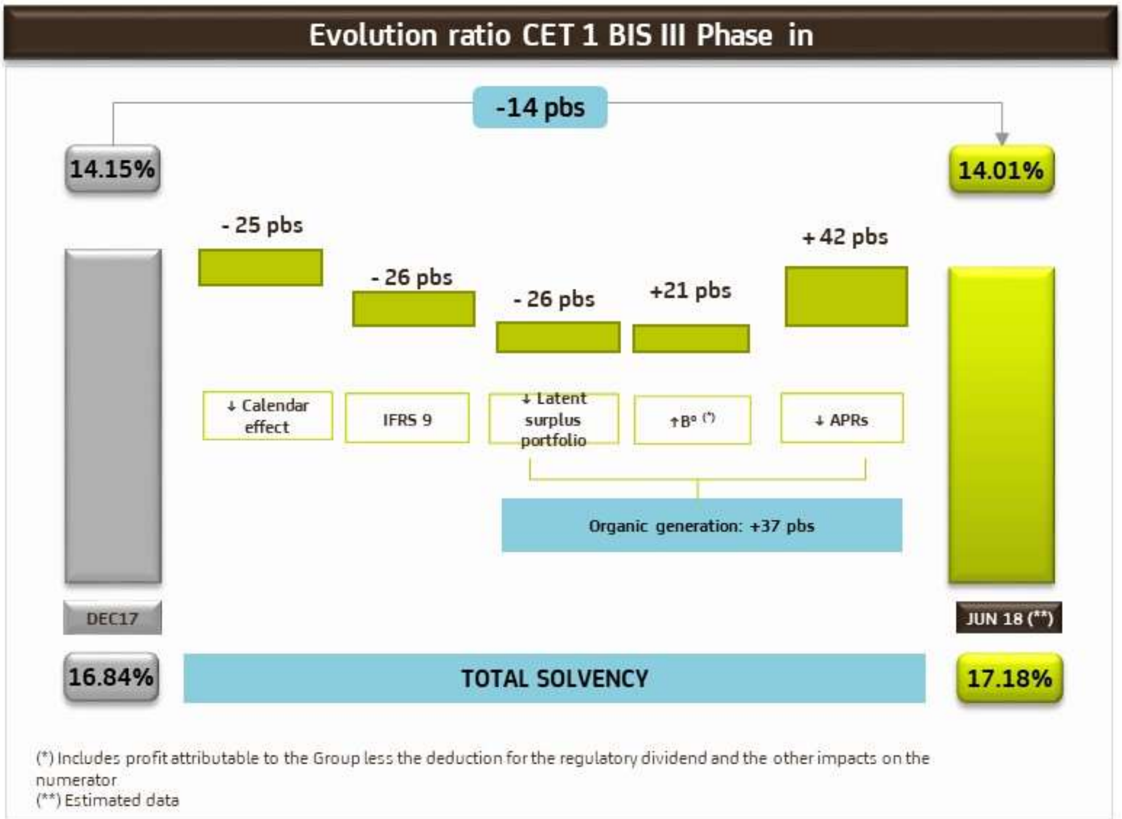
- **Decrease in unrealised gains** on financial assets at fair value, with a negative impact of **-26 bps.**

- **Profit attributable to the Group (EUR +515 million)** net of the deduction for the **regulatory dividend (EUR -215 million)** and other impacts on the numerator (e.g. prudent valuation adjustment, tax credits, accrual of AT1 coupon, etc.) have generated **+21bps in CET 1**.

- **Reduction in risk-weighted assets ex-IFRS 9 effect** of EUR -2,596 million over the course of the first half of the year, generating **+42bps of CET1**. The decline in RWAs was centered on credit risk (EUR -2,415 million) associated with balance-sheet deleveraging and the active management of the composition and improved quality of the Group's loan portfolio. Additionally, due to the review of the models, RWAs for market risk decreased by EUR -181 million thanks to the gradual recovery on the add-on set by the Supervisor.

In the first half of 2018, the Bankia Group increased its Phase-in Total Capital ratio by +34 bps, factoring in the calendar effect (-15 bps). The implementation of IFRS 9 had a neutral impact on total solvency as the negative effect on CET1 was offset by the rise in eligible provisions in Tier 2 capital.

The following chart shows the trend in capital ratios:



It also presents reconciliation of equity in the balance sheet to regulatory capital, including profit for the year earmarked for reserves.

BANKIA GROUP reconciliation between Equity and Eligible Capital BIS III

(millions of € y %)

Eligible elements	Jun. 2018 (**)	Dec. 2017	Variation	% Variation
Own funds	12,894	13,222	(328)	(2%)
Other comprehensive accumulated income	299	366	(67)	(18%)
Non controlling interests	15	25	(10)	(39%)
Total Equity (Public Balance)	**13,209**	**13,613**	**(405)**	**(3%)**
Adjustment between public and regulatory balance	0.4	0.4	0	1%
Total Equity (Regulatory balance)	**13,209**	**13,614**	**(405)**	**(3%)**
Elementos patrimonio contable no computables	**(74)**	**(137)**	**63**	**(46%)**
Ineligible valuation adjustments as CE T-1	(20)	(104)	83	(80%)
Non controlling interests	(16)	(20)	5	(23%)
Regulatory autoportfolio adjustmets	(38)	(12)	(25)	207%
Regulatory capital deductions	**(1,415)**	**(1,304)**	**(112)**	**9%**
Intangible assets and other deductions (regulatory balance)	(360)	(342)	(18)	5%
Deferred tax assets	(803)	(587)	(217)	37%
Valuation adjustments due to prudent requirements (AVA)	(38)	(35)	(2)	7%
Dividends	(215)	(340)	126	(37%)
Common Equity Tier I	**11,720**	**12,173**	**(454)**	**(4%)**
Additional Equity Tier I	**750**	**682**	**68**	**10%**
Equity Tier II	**1,902**	**1,632**	**270**	**17%**
TOTAL REGULATORY EQUITY (*)	**14,372**	**14,487**	**(115)**	**(1%)**

(*) Including the amount of net profit earmarketed for reserves.
(**) Estimated at 30/06/2018.

The minimum capital requirements cover credit, foreign currency, market and operational risks.

At 30 June 2018, the capital requirements for credit risk, including equity and CVA, amounted to EUR 6,059 million (EUR 6,237 million December 2017). At present, the requirements for credit risk are calculated using both the standardised and internal rating-based approaches. 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 average risk weightings they apply to their exposures that are not attributable to their risk profiles but rather stem from their calculation models, all framed by a standardised supervisory model. This review takes in around 70 European financial institutions, including the Bankia Group, and the work will span the period elapsing between 2016 and 2018.

Currency and market risk exposures were calculated using internal models. However, these calculation models were being reviewed by the supervisor, during which the market risk requirements are higher that would correspond strictly by its market activity. At 30 June 2018 capital requirements for this concept amounted to EUR 114 million (EUR 129 million at December 2017).

Finally, the Bankia Group used the standardised approach to calculate the capital requirements for operational risk, totalling EUR 518 million at June 2018 (same amount as in December 2017).

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. CRR proposed amendments set also a minimum required leverage ratio of 3% of CET1.

The Bankia Group's (phase-in) leverage ratio at 30 June 2018 stood at 5.93% (6.02% at 31 December 2017), above the 3% minimum reference level set by the Basel Committee.

In the first half of 2018, the leverage ratio fell by -9 bps due to the decrease in Tier I capital, leading to a drop of -17 bps in the ratio, which was partly offset by the reduction in exposures (mainly on-balance-sheet), which had a positive impact of +8 bps. In terms of Tier I capital, it should be highlighted that the impact on the leverage ratio of early application associated with Tier I was -6 bps and the effect of the full implementation of the entry into force of IFRS 9 added up to -9 bps.

The following table provides a breakdown of the leverage ratio at 30 June 2018 and 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 %)	Jun. 2018 (*) (**)	Dec. 2017 (*)
Tier 1 Capital	12,470	12,856
Exposure	210,399	213,505
Leverage ratio	**5.93%**	**6.02%**
Reconciliation between Public Balance sheet and exposure for leverage ratio		
Total Assets Public Balance	**208,208**	**213,932**
(+/-) Adjustments difference between Public and Regulatory Balance	15	9
(-) Items already deducted from Tier 1 capital	(1,167)	(1,003)
(-) On-balance sheet derivatives assets	(8,710)	(9,765)
(+) Derivative exposure	724	210
(+) Add-ons for counterparty risk in securities financing transactions (SFTs)	3,860	3,255
(+) Off-balance sheet items (including use of CCFs)	7,469	6,867
Total exposure leverage ratio	**210,399**	**213,505**

(*) The data has been estimated based on Delegated Regulation 2015/62.
Including the amount of net profit earmarketed for reserves.

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 financial statements for the period ended 30 June 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 the first half of 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.

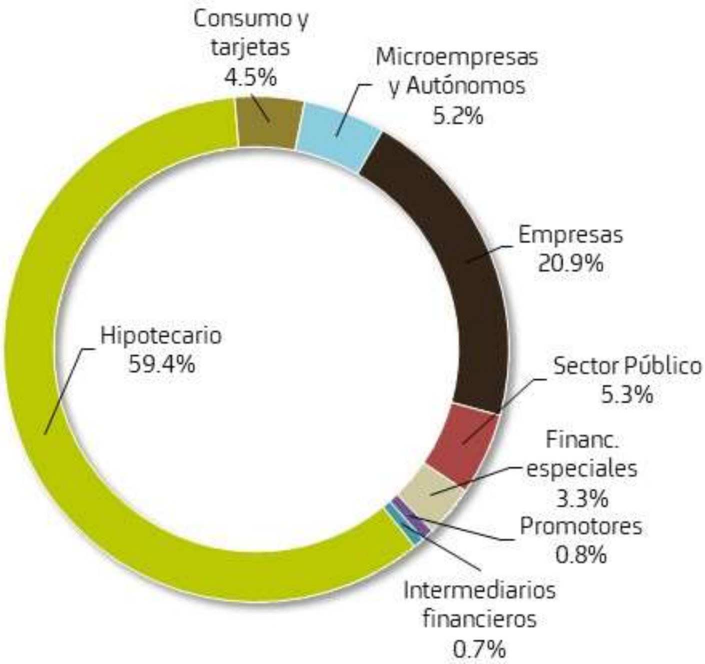
The main characteristics of the Group’s credit risk profile and its performance in the first half of 2018 according to data from the audited portfolio (does not include positions in financial investees) are as follows:

- In the breakdown of loans and advances to customers, the weight of the retail segment increased from 67% December in 2017 to 69% at June 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 the first half of 2018.

- The weight of the real estate portfolio over total loans is below 0.8%.

- The mortgage portfolio accounts for 59,4% of total loans and receivables. The second largest portfolio corresponds to companies representing 20,9% of the total, followed by loans to public institutions and bodies and loans to micro-enterprises and self-employed professionals accounting for 5,3% of the total portfolio.

- As of June 2018 39% 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 30 June 2018:

MM€	Jun-18	
Segment name	Regulatory Capital	Expected Loss
Entities	47.1	121.1
Banks and financial intermediaries	214.1	32.9
Companies	1,678.7	2,121.5
Promoters	88.4	574.8
Retailer:	2,672.3	3,247.9
Mortgage	2,081.9	2,477.8
Consumption	*233.7*	*151.5*
Cards	*88.1*	*46.3*
Micro-enterprises and self-employed professionals	*268.6*	*572.2*
Equity	25.2	0.8
TOTAL	**4,725.7**	**6,098.9**

The maturity profile of credit exposure is detailed in Note 3.3 to the condensed consolidated interim financial statements for the first half of 2018 (table on residual maturities). A significant portion of loans and advances to customers (60.3%) 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 the first half of 2018.

At 30 June 2018, the Group's doubtful exposures fell further, by 10.8% (EUR 1,309 million) from the end of 2017 to EUR 10,809 million at June 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. As a result, the NPL ratio improved further, to 8.1% at 30 June 2018, 0.8 percentage points lower on a same-scope basis than at 31 December 2017.

At 30 June 2018, Bankia Group had counted a portfolio of refinanced operation of EUR 11,005 million in gross terms. The 57.9% of the refinanced credits had been classified as doubtful with a NPL ratio of 43.8%.

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

			Change Dec - 17	
(Millions of euros and %) (*)	**jun-18**	**dec-17**	**Amount**	**%**
NPLs	10,809	12,117	(1,309)	(10.8%)
Total risk	133,962	136,353	(2,391)	(1.8%)
Total NPL Ratio (1)	**8.1%**	**8.9%**	**(0.8) p.p.**	**(9.2%)**
Total provisions	**5,945**	**6,151**	**(207)**	**(3.4%)**
Watchlist	824	475	349	73.6%
Standard	268	316	(48)	(15.3%)
Specific	4,839	5,340	(501)	(9.4%)
Country risk	4	6	(2)	(37.5%)
Fixed income	9	14	(5)	(32.9%)
Hedging ratio	**55.0%**	**50.8%**	**+4.2 p.p.**	**8.3%**

(*) Financial Statement amounts rounded to millions of euros

(1) 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 30 June 2018, there were 2,001 netting and 245 guarantee agreements (132 derivatives, 78 repos and 35 securities loans). The main figures regarding quantification of the derivatives activity at that date are as follows:

- Original or maximum exposure: EUR 17,167 million.
- Exposure applying mitigation techniques through netting: EUR 5,529 million.
- Net exposure after applying all mitigation techniques: EUR 1,652 million.

As shown, counterparty risk in derivatives trading is reduced by 90.37% 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. 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.

Note 3.2 and 3.3 Bankia Group's 2018 consolidated interim financial statements provide information on remaining term to maturity of the Bank's issues by funding instrument, along with a breakdown of financial assets and liabilities by contractual residual maturity at 30 June 2018 and 31 December 2017.

Alongside the monitoring of liquidity risk in normal market conditions, action guidelines have been designed to prevent and manage situations of liquidity stress. This pivots around the Liquidity Contingency Plan (LCP), which sets out the committees in charge of monitoring and activating the LCP and the protocol for determining responsibilities, internal and external communication flows, and potential action plans to redirect the risk profile within the 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 30 June 2018, the regulatory LCR (155% 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 required from 1 January 2018 with a requirement of at least 100%. This ratio is still being assessed and has yet to be fully defined, even though its tentative implementation date was January 2018. However, as with the LCR, it is expected to be applied gradually.

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**

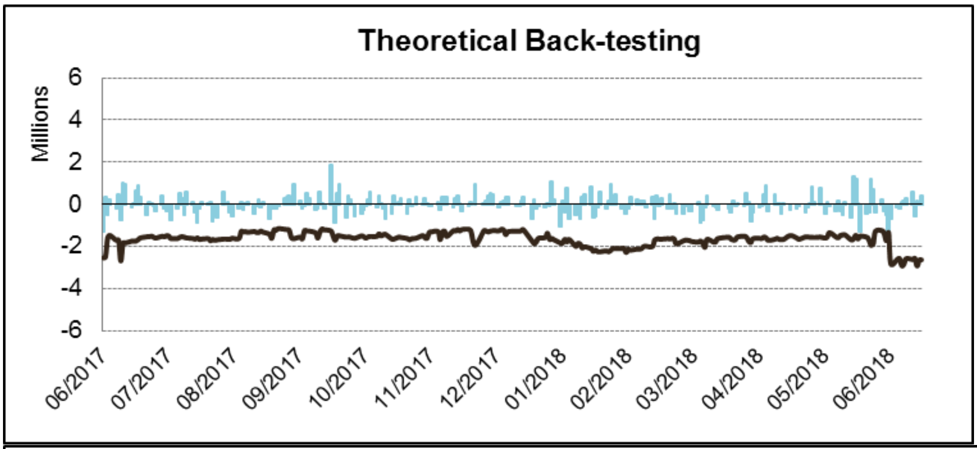
For market risk measurement used two metrics: VaR (value at risk), which provides a prediction of the maximum loss that can suffer in a time interval with a certain level of confidence and sensitivity, which expresses the impact on the valuation of financial instruments to the changes in various risk 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.

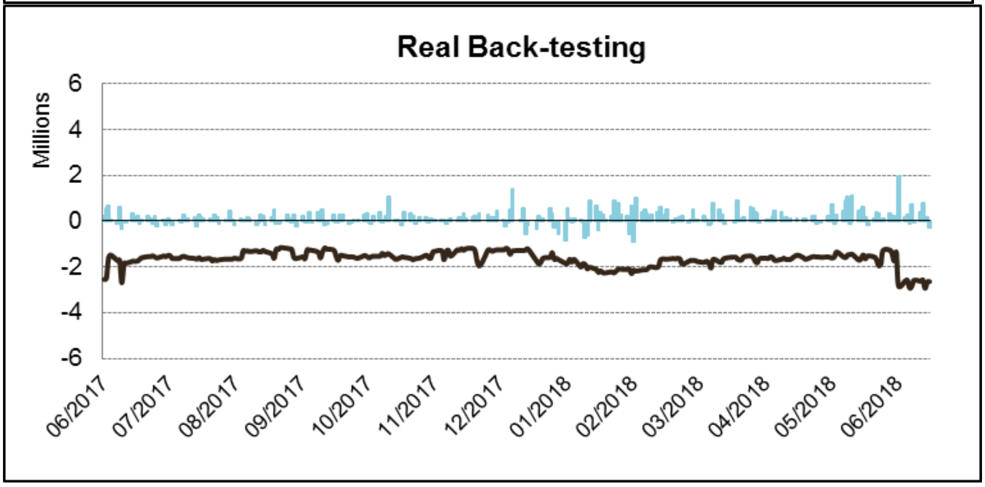
Control of market risk is based on a system of fixed limits in terms of maximum exposure to market risk, which are approved annually by senior management and distributed across the various business areas and centres.

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. It takes at least one year of observations of market data.

The accuracy of the model is verified daily through subsequent controls (backtesting), which compare actual losses with the estimated loss measured using VaR. As required by regulations, two tests are conducted, one applying hypothetical changes in the value of the portfolio by comparing the daily VaR with the results obtained, without considering changes in the positions of the portfolio, and one applying actual changes comparing daily VaR with net daily results excluding commissions.





The checks carried out in the first half of 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.

The scope of authorisation by the Bank of Spain of internal models lies in the measurement of market risk of the trading portfolio and exchange risk. The regulatory capital figure is calculated by the internal model as the linear sum of the value at risk (VaR), stressed value at risk (SVaR) and incremental risk (IRC) regulatory capitals.

- Value at Risk. The calculation method used to measure VaR is historical simulation with 99% confidence level and a time horizon of 1 day. A time window of 250 daily observations is used. On a daily basis two calculations of VaR are performed. One applies an exponential decay factor that lends greater weight to observations nearer the date of the calculation. The other applies the same weight to all observations. The total value at risk figure is calculated conservatively as the sum of the VaRs by risk factor (interest rate, exchange rate, equity investments, credit margins, commodity prices and volatility of the foregoing).
- Stressed Value at Risk. Stressed value at risk (sVaR) uses the same calculation methodology as the VaR, with two differences. The observation period must include a period of market stress and no exponential weights are applied to observations. The stress period is determined for the entire portfolio as the period that provides the highest VaR figure, calculated as the sum of the values at risk by factor.
- Incremental risk. The methodology for calculating incremental risk (IRC) considers the risk of default and the risk of migration of the interest rate products contemplated for the calculation of the specific risk within the VaR. It is based on measurements of the distribution of losses. The distribution is generated by Monte

Carlo simulation based on the risk parameters deriving from the internal credit risk model (IRB). The IRC is calculated using a confidence level of 99.9%, with a constant level of risk over a time horizon of one year and a liquidity horizon of one year.

The integration of BMN will not have a significant effect on the VaR metric.

b) Sensitivity

Sensitivity quantifies changes in the economic value of a portfolio due to given movements and determinants of the variables affecting this value.

In the case of non-linear movements, such as derivatives activities, sensitivity analysis is supported by an evaluation of other risk parameters, such as sensitivity to movements in the price of the underlying (delta and gamma), volatility (vega), time (theta) and interest rate (rho). For share or index options, elasticity to changes in dividend yield is calculated. Sensitivity analysis by tranche is also used to measure the impact of non-parallel movements in the term structures of interest rates or volatilities, and to obtain the distribution of risk in each tranche.

c) Stress-testing

Periodically, stress-testing is performed to quantify the economic impact of extreme movements in market factors on the portfolio. Sensitivity, VaR and IRC measures are supported by stress-testing applying different types of scenarios:

- Historical scenario: scenarios built based on movements observed in previous crises (e.g. Asian crisis of 1998, the tech bubble of 2000/2001, the financial crisis of 2007/2008). These scenarios are reviewed annually to reflect the key events occurring in the year.
- Crisis scenario: applies extreme movements in risk factors that may not necessarily have been observed.
- Last-year scenario: maximum expected daily loss over a 1-year observation period with a 100% confidence level.
- Sensitivity analysis: designed to measure the impact on the metric of slight changes in the parameters used to calculate the IRC, the estimate of the metric excluding transitions to default and the impact on the metric of parallel movements in loss rates in the event of default.
- Credit crisis scenario: devised by two separate analysis; 1) based on a matrix of credit margins built using variations observed, and 2) based on a transition matrix related to credit risk stress scenarios.
- Worst case: default by all issuers in the portfolio.

- **Trends and distribution of market risk in the first half of 2018**

Bankia Group maintained an average VaR in the first half of 2018 of EUR 1.43 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	1.43
Maximum	2.28
Minimum	0.36

Distribution of VaR by risk category *(Millions of euros)*				
Risk category	**Punctual**	**Average**	**Maximum**	**Minimum**
Interest rate	0.34	0.80	1.31	0.28
Equity instrument	0.02	0.02	0.11	0.01
Exchange rate	0.22	0.60	0.84	0.05

- **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 the first half of 2018 are as follows:

VaR of derivatives activity *(Millions of euros)*	Fixed income	Equity	Exchange rate	Total
Average	0.76	0.03	0.65	1.43
Maximum	1.13	0.18	0.91	1.99
Minimum	0.11	0.01	0.04	0.24

- **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 30 June 2018 was marginal due to the largely domestic bias of its operations, recognising a provision in this connection of EUR 4 million.

7.4. - Operational risks

- **Customer concentration risk**

Bankia is subject to Bank of Spain concentration limits, such that the exposure to any single non-consolidated economic group or borrower must not exceed 25% of eligible capital. In this respect, the 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 30 June 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 Risk Committee, whose responsibilities include approving policies and methods, is the natural channel for senior management participation in operational risk management. This use of own resources trends in real and expected loss data, all the operational risk management actions carried out, meanwhile, on 30 March 2017 the Board of Directors approved the IT and Cybersecurity Risk Policies and Procedures Manual. According to this manual, these risks are managed by the Operational Risk Department, which has changed its name to Operational and IT Risk Department. The new committee expanded its oversight competencies in this area and changed its nature, becoming an executive committee meeting monthly, rather than quarterly. It held meetings, at which the use of own resources, trends in real and expected loss data, and all operational risk management actions carried out were presented.

The capital requirement to cover operational risk is rooted in Basel II. European Regulation No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 (CRR) regulates the treatment of this type of risk in the area of credit institutions.

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 2017, 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 2017 after the merge of BMN amounted to EUR 518.10 million.

The Bankia Group's capital requirement for operational risk at 30 June 2018 amounted to 518.10 million euros (same amount as 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, ability to generate future profit, business model, dividend policy, and capital and liability structure.

Regulatory developments have been much more profound since the entry into force in January 2014 to the new 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 December 2017, the Basel Committed published a series of measures aimed at amending the regulatory framework established by BIS III. This ushers in a new era of regulatory reform focused on enhancing comparability in banks' calculations of risk-weighted assets, expected to become effective in 2022. 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). In November 2106, the European Commission proposed legislative amendments whereby it aims to review the prudential framework of BIS III and the framework for resolution of the BRRD. Nevertheless, the amendments would not become effective before 2019.

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

The Regulatory Monitoring Committee, composed of senior executives, identifies the potential impact and influence of regulatory changes on the Entity, anticipating any adverse effect. The Committee pays particular attention to certain areas, such as business, accounting, risk management, solvency, liquidity, compliance and internal audit. Meanwhile, it establishes appropriate criteria for adapting the business model to the new regulatory paradigm, subsequently performing periodic and exhaustive monitoring of each adaptation project.

- **Reputational risk**

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 30 June 2018 at EUR 2,973 million (EUR 4,760 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 (68.7% gross terms), mainly existing and newly built homes, which makes the disposal easier.

FORECLOSED AND ACQUIRED ASSETS OF BANKIA GROUP- SPAIN BUSINESS

(Millions of euros) (*)	June 2018			
	Carrying amount	Valuation adjustments	Gross amount	Coverage (%)
Real estate assets from construction and development	772	309	463	40.0%
Of which: finished buildings	370	113	257	30.5%
Of which: buildings under constructions	48	22	26	45.2%
Of which: land	354	174	179	49.3%
Property assets from loan for house purchase	2,902	1,237	1,666	42.6%
Other real estate assets	1,086	241	845	22.2%
Total foreclosed assets	**4,760**	**1,786**	**2,973**	**37.5%**

(*) Financial Statement amounts rounded to millions of euros.

(1) Data for the resulting entity of the merger between Bankia and BMN.

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 under the supervision of the property Management Division. 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 June 2018 for foreclosed assets from Bankia Group's business in Spain amounted to EUR 1,786 million, implying financial coverage of 37.5% since the adjudication.

The Bankia Group continued to pursue its strategy of reducing problem assets by selling a total of EUR 298 million in foreclosed real estate assets in the first half of 2018, up 40.5% on total proceeds from sales completed in the first half of 2017. This increase was down to a more buoyant real estate market, in which both demand and prices have continued to rise.

9. - INFORMATION ON CREDIT RATINGS

At 30 June 2018 the ratings granted to Bankia Group by different rating agencies include the following:

Ratings Emisor BANKIA				
	STANDARD & POOR'S	FitchRatings	DBRS	SCOPE
Long Term	BBB-	BBB-	BBB (high)	BBB+
Short Term	A-2	F3	R-1 (low)	S-2
Perspective	Stable	Positive	Stable	Stable
Date	06/04/2018	06/02/2018	04/07/2018	30/11/2017

Ratings Cédulas Hipotecarias BANKIA				
	STANDARD & POOR'S	FitchRatings	DBRS	SCOPE
Rating	AA-	A	AAA	AAA
Perspective	Positive	Positive	---	Stable
Date	27/03/2018	23/03/2018	22/09/2017	12/07/2018

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.

Key issues regarding credit ratings during the first half of 2018 include the following:

- The process of integrating BMN's technology platform was completed in just two and a half months from obtaining all the necessary regulatory authorisations. Following the technological integration, BMN customers are now able to enjoy Bankia products and associated terms and conditions.

- On the subject of Spain's sovereign rating, S&P Global Ratings ("S&P"), Fitch Ratings ("Fitch") and DBRS Ratings Limited ("DBRS") upgraded their ratings for Spain by one notch to "A-", "A-" and "A", respectively. The outlooks assigned by S&P and DBRS remain at Positive and Stable following their respective reviews on 23 March and 6 April, while Fitch raised its outlook from Stable to Positive on 19 January. All three agencies cited the strong economic recovery and progress made in recent years in reducing the fiscal deficit and believe that the structural improvements in the Spanish economy have increased the prospect of sustainable growth. Meanwhile, Scope Ratings ("Scope") upheld its rating for Spain at "A-/Stable" on 16 May.

S&P took the following rating actions on Bankia during the first half of 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 Spain'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 9 February 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-". According to the agency, Bankia's ratings reflect an improved domestic franchise following the merger with BMN, solid capital post-merger, adequate liquidity and funding sources and an experienced management team adept at mergers.

– On the same date, Fitch affirmed Bankia's short-term rating at "F3" and its subordinated debt rating at "BB+".

– Regarding the rating of Bankia's mortgage covered bonds (*cédulas hipotecarias*), on 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.

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)" on 4 July 2018, following the close of the first half of 2018 and after completing its annual review of Bankia's credit profile.

Regarding Bankia's mortgage covered bonds, on 22 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.

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.

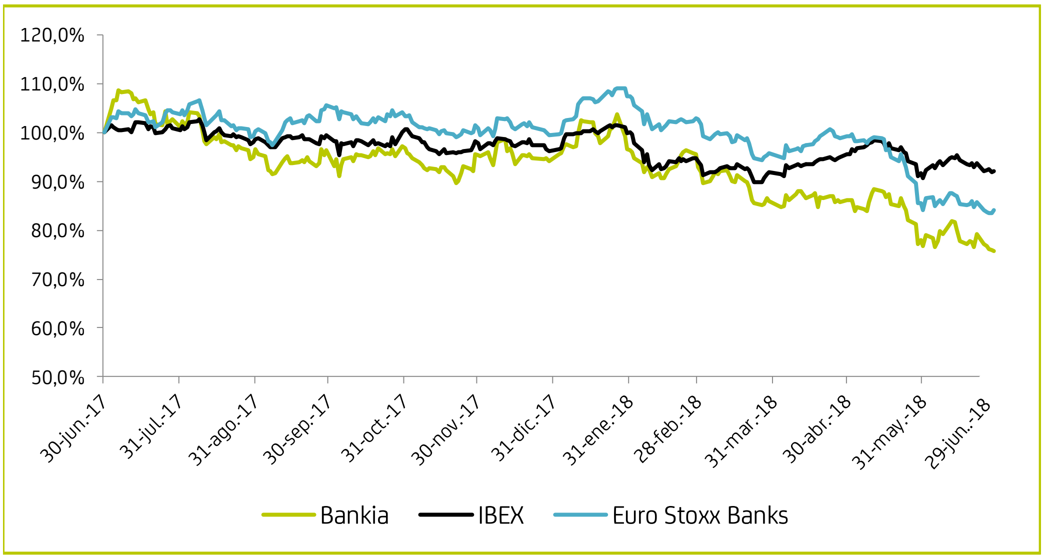
Finally, and again after the reporting period, Scope completed its annual review of Bankia's mortgage-covered bonds (cédulas hipotecarias) and on 12 July 2018 affirmed its rating of "AAA" with Stable outlook.

10. - SHARE PRICE PERFORMANCE AND SHAREHOLDER STRUCTURE

The equity markets turned in a negative performance in the first half of 2018, riled by the trade war following the new tariffs imposed by the United States and political tensions in certain EU countries, notably Spain and Italy. Meanwhile, the monetary policy being pursued by the European Central Bank, which has taken a different approach to the Fed, means we will not see any interest rate hike until summer 2019 at the earliest. As a result, analysts have continued to lower their estimates of share earnings at banks, which has impacted their quoted prices.

Against this backdrop, the Euro Stoxx Banks index shed -15.35% while the Spanish IBEX reported a -4.19% dip. Bankia's share price ended the period at EUR 3.207, down 19.56% from last year's closing price. Average daily trading volume was 9.20 million shares, equivalent to an average cash amount of EUR 34.58 million per trading session.

SHARE PRICE



The consensus target price among the 33 analysts who cover Bankia's share was EUR 3.97/share at 30 June 2018, illustrating the share's impressive resilience in the face of obvious market turbulence.

The main highlights regarding Bankia's share price in the first half of the year were as follows:

- On 27 February 2018, the Group unveiled its strategic plan for the 2018-2020 horizon, revealing Bankia's intention to distribute over EUR 2,500 million among shareholders.
- 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 the first half of 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 June 2018, Bankia had a total of 189,897 shareholders. BFA remained the Group's main shareholder with a stake of 61.25%.

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. During the first half of 2018, a total of 16,162,011 shares were acquired while 16,296,096 shares were sold, bringing the total number of treasury shares held at 30 June 2018 to 19,889,073, with a par value of EUR 1 each and a combined carrying amount of EUR 74.8 million.

Treasury shares held at the end of June 2018 represented 0.64% of Bankia's share capital at that date. The following table summarises the treasury share transactions carried out by the Bankia Group in the first half of 2018:

TREASURY STOCK OPERATIONS - BANKIA GROUP

SHARES ACQUIRED IN THE FIRST SEMESTER

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%
TOTAL	**16,162,011**		**16.2**	**0.52%**

(*) 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 June.

TREASURY STOCK OPERATIONS - BANKIA GROUP

SHARES SOLD IN THE FIRST SEMESTER

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%
TOTAL	**16,296,096**		**16.3**	**0.53%**

(*) 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 June.

12. - DIVIDEND POLICY

The distribution of dividends is voted on by the General Meeting of Shareholders based on proposals made by the Board of Directors.

Pursuant to the decision by the European Commission of 20 July 2012, Bankia suspended dividend payments to shareholders until 31 December 2014. Therefore, the Entity did not pay any dividends in 2011, 2012 or 2013. The restriction on dividend payments ended on 31 December 2014. Accordingly, at the General Meeting of Shareholders of Bankia held on 22 April 2015, approval was given to distribute a gross dividend of EUR 201.6 million out of 2014 profit. This dividend was paid on 7 July 2015. This was the first dividend paid by Bankia since it was incorporated.

Subsequently, pursuant to the resolutions adopted by the General Meeting of Shareholders on 15 March 2016, on 31 March 2016, Bankia distributed a EUR 300.72 million dividend out of 2015 profit to shares carrying dividend rights at the payment date, marking a nearly 50% increase on the dividend paid out of 2014 profit.

Finally, pursuant to the resolutions adopted at the General Meeting of Shareholders of 24 March 2017, on 31 March 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.

Lastly, and further to the resolutions adopted at the General Meeting of Shareholders held on 10 April 2018, on 20 April 2018 Bankia paid a total gross dividend of EUR 340.1 million out of profit for 2017, up 7.2% on the amount of the dividends paid out of 2016 profit.

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

In the first half of 2018, following the merger agreement signed last year between Bankia and BMN, the technological integration of the two entities was completed, marking a sector milestone for the short time taken. This project is structured on several lines of work, the most significant of which are: identifying existing gaps and developing measures to address these; preparing interfaces for integration; and adapting the entities' applications and infrastructures.

The implementation of the Projects Plan for 2018 was started at the same time. This plan is based on the different technology strategic lines, regulatory projects and those aimed at covering the needs of the Bank's different units. The projects have been designed within the framework of Bankia's existing innovation and transformation policy, which aims to foster digital transformation and improve its commercial, business and risk management activities.

A summary of the most significant projects in the first half of 2018 is provided below:

- **Process redesign plan**: Started in 2014 and running until 2018, the main focus of this plan has been to improve "efficiency" and "operational streamlining" to make the branches more flexible and decrease administrative red tape, "document management" to enable compliance with regulatory requirements on documentation, and leveraging the possibilities of the multi-channel customer relationship. In the first half of 2018, the most notable improvements implemented were as follows:
    - Support for the developer business. At year-end 2017 the restrictions on financing for real estate projects imposed by the European Commission in its 2012 Restructuring and Recapitalisation Plan were lifted.
    - Processes for asset products (loans, credit accounts, guarantee lines and COMEX)
    - Operating workshops identified for the branch network.
- **New business processes document model:** This project involves the restructuring at functional, operational and technological level of the entire document chain: document map and control over the status of documents during process implementation, digitalization and data collection, management and

storage. The work carried out in 2018 has focused on improving performance and transactional processes and developing the role of document manager.

- **Multichannel Transformation Plan:** In July 2015, the Bank's Management Committee approved the Multichannel Transformation Plan, which establishes the road map, guidelines and the set of initiatives behind Bankia's digital transformation in the 2016-2018 period. In the first half of 2018, new functions were added to Bankia online for retail customers (generation of ownership certificates, review of pension plan receipts, improvements in the process for contracting pre-arranged loans and the transfer process, and the creation of a section named "Tu crédito disponible" (Your available credit). Work was also carried out on setting up a datamart and dashboard for commercial activity.

- **Open Banking:** In 2018, work is being done on three lines of action to develop products, applications and services focused on business development through third-party channels:

  - Data aggregation (AISP), involving the development of a financial aggregation app with an early-warning system for customers.

  - Payment initiation (PISP), integration of payment aggregators and functional development of Bankia's online payment systems to develop its payment solutions in stores (including contracting processes).

  - Distribution with partners: Development of new combined products and upgrade of systems to provide technological cover for the contracting process.

- **Upgrade of digital channels**: In line with the Entity's transformation strategy, to cover the needs of the various business divisions, work is being carried out to upgrade digital channels (public portal, Apps, BOL-E and BOL) and the contracts management tool, in addition to the sale management engine and business intelligence unit. In the first half of 2018, many new products were added in the different sales channels in addition to the associated post-sales services (immediate transfers, pre-arranged loans, search engines, etc.). Work is being performed to include PayPal services in Bankia's distribution channels to increase the share of Bankia payment methods used. Further, the channel software for the financial terminal and framework window is being overhauled.

- **Roboadvisor - Bankia Expert Management:** in 2018 work is being done to install a financial advisory service on Bankia online that will offer customers a variety of different transactions (sales, mobilization of funds, movement enquiries, overall position, etc.).

- **Cybersecurity Plan:** in order to continually improve Bankia's security and achieve a higher level of maturity in the CSF (CyberSecurity Framework) mode, security measures are being further strengthened in remote channels, developing prevention, detection and response mechanisms. In the first half of 2018, the implementation of the initiatives started in 2017 to develop the fraud prevention model and relating to Big Data for security analytics was completed. Additionally, many developments are being worked on, which will be gradually rolled out over the second half of the year, and which are linked to compliance with regulation PCI-DSS, the ATM Security Plan (PC-ATM encryption and BIOS protection), through the installation of apps in the password management tool for privileged users, CyberArk, etc.

- **Redesign of information systems:** The objective of the project to redesign information systems is to organize the Entity's information repositories, align information management with best practices, implement corporate information governance, optimize procurement and standardize operations. To meet these targets, in the first half of 2018, the extension of the new corporate information repository was defined, including adaptations to the EBA and Bank of Spain regulations governing financial reporting and management control (FinRep, UEMs, FIs, PIs, Is, Anacredit and COREP). Work is also ongoing in relation to the reporting of management information (analytical accounting) and a self-service datamart has been distributed.

- **Search engines:** A group-wide project to develop a technological solution to provide Bankia with a business search engine to meet the browsing requirements of each of the Entity's front lines (financial terminal, Intranet, corporate websites, etc.). In 2018, the customer search engine has been implemented in the financial terminal and the flexibility of the searches improved.

- **Big Data:** The initial objective of this project was to establish a benchmark architecture containing an applied system with the capacity to integrate innovative "Big Data" type technologies required for other projects such as the redesign of information systems or the multichannel transformation plan. In the first half of 2018, work continued on initiatives started in previous years (management of security information and Big Data monitoring), new functions have been included and improvements made to Big Data engines. Integration has been made for the use of Power Users, enabling independent access to the environment. A Big Data catalogue portal has also been set up for the different business areas. At the same time, a corporate cognitive platform has been installed, with a global focus, to accommodate all cases where artificial intelligence is used within the Bank, successfully implementing the first case in which this technology was used to validate asset documents. New applications were also created for the platform.

- **Payment and collection system:** Bankia has been working for several years to design, develop and evolve an information system that encompasses all its payment and collection facilities (debits, transfers, cheques, promissory notes, deposits, etc.). The new system involves the development of a global operating system to handle all payment and collection processes: source and application of transactions, contracting, delivery and receipt, settlement and execution, and monitoring and control. It also aims to provide both customers and the Bank's groupings with the information required. Lastly, the project seeks to develop advanced information protection mechanisms for payment cards.

  In 2018, the new Mandate Renewal system was implemented, and work has been started on upgrades to change the routing of payments, so that all transfers are executed in the most efficient manner by default, according to timetables and restrictions on amounts, without the customer having to indicate specific execution formats, regardless of the channel used. Work is also being carried out to enable mass payment files to be processed immediately from the second half of the year.

  A project is underway to extend the interoperability of the ASI6 basic service with the ECB's TIPS service to provide greater access for SNCE entities in the SEPA area to the SCT Inst scheme (immediate transfers).

- **Transaction optimisation:** In 2017, a project was initiated to develop monitoring, optimisation and control systems for certain Operations processes: four of which are linked to payments and collections (debits, transfers, pensions and unemployment benefits), and another two are connected with payment methods (registration of POSs and cards).

In 2018, the phase was embarked on to define automation of processes and transactions that currently incur operational risk and increase control over BPOs (monitoring systems and process control; various automation initiatives in the transfer process and automation and control of the COMEX invoicing process; continuation of automation through RPAs, etc.). The CAU is also being developed along these lines, with the implementation of Chatbot with numerous operating services.

- **Insurance platform:** Design and development of an insurance platform to provide support for Bankia's Insurance Banking operator through the management and control of the Insurance Business, centralising relations with different insurance companies and providing support for Bankia's different marketing channels.

  In the first half of 2018, work continued to perform the necessary upgrades relating to the application of the new Roosear/Lossear insurance law and corresponding regulation.

  Also in the area of insurance, endeavours are being made to unify and standardize marketing and customer services processes in Bankia's various channels, while improvements are being made to the life insurance portfolio and non-life portfolios are being maintained. Further improvements are being made to the operating model and insurance marketing systems.

- **Regulatory projects:** Over the past few years, investment in regulatory projects has increased substantially. This trend has continued in 2018, with a significant number of projects of this type. A total of 37 development projects have been started, including:

  - Compliance with RDA (Risk Data Aggregation) regulations following the integration of the different systems in RSI, based on the individual analysis of each of the calculation engines.

  - A module has been implemented to provide a solution for BCBS (Basel Committee on Banking Supervision) standards on minimum capital requirements for market risk.

  - Mifid II: This project mainly has an impact in three areas: investor protection (advisory service, suitability, appropriateness, etc.), corporate activities (registration of transactions, improvements in the execution of derivatives, derivatives approval procedure, etc.) and markets (transparency and reporting systems).

  - Developments have been carried to comply with the GDPR.

  - Further amendments are being made as a result of the application of IFRS (International Financial Reporting Standard) 9 on credit risk analysis, coverage and provisions under Circular 4/2017. Investment in this area has been focused on management, reporting and analysis activities associated with this regulation.

  - Systems are also being adapted to comply with regulations governing various other activities such as insurance (Insurance Distribution Directive (IDD)); public and confidential financial reporting rules and formats (Bank of Spain Circular 4/2017); Basel IV, under both advanced internal-rating based (IRB) and the standardised approach; amendments to the Swift message standard coming into force in November 2018; adaptation of the new mortgage law; or, in relation to cash management, identification of the denominations of bills in customer transactions; etc.

- **Other technological innovation:** various projects are being developed as part of the Digital Transformation Plan to provide Bankia customers with the latest generation tools. In the first half of 2018, work was completed on projects initiated in 2017 for BIZUM (alignment of the processing of payments originating in value-added services of the Bizum platform (C2C and C2eR) with the definitive format (through the Basic Service), established in the European Payments Council rule book, which in November will require these to be made via the SEPA instant transfer scheme (SCT Inst). Two developments being rolled out this year are linked to e-commerce payments (for both the customer and store). The integration of Bankia cards in Apple Pay is underway. This process will use the Hub Digital and Price infrastructure supplied by Redsys. Apple, Visa and Mastercard certifications have been obtained. Further, to foster the use of hybrid cloud technology, midrange system applications are gradually being migrated (computing and storage) and/or new applications for transformational projects and new technologies are being implemented. Lastly, applications are being developed for the MADTRCON ecosystem, the business services bus in AAD architecture.

14.- FORECASTS AND BUSINESS OUTLOOK

- **Economic overview**

The outlook remains largely positive for the global economic landscape as we move through the latter half of 2018 (with growth likely to progress at current levels), although the threat of protectionism (generating considerable microeconomic uncertainty) and widespread caution across the financial markets (increasing risk aversion) are causing more pessimistic sentiment and downside risks are now rife, especially in emerging economies and Europe. We expect to see growth of around 2.5% in the United States and more muted growth in the EMU of between 1.5% and 2.0% (Italy and the threat of protectionism are undermining expected growth levels). Meanwhile, we expect inflation to peak in July/August at close to current levels (roughly 3.0% in the United States and 2.0% in the EMU), before dropping from September onward as the effect of rising oil prices over the last year steadily dissipates.

The Fed and the ECB will continue to distance themselves on the subject of monetary policy. The Fed is expected to carry out two further hikes to bring interest rates to 2.25%-2.50%, while the ECB is expected to pursue a more cautious approach. Yields on public debt should continue to normalize, while rising slowly (IRR on the 10-year US Treasury Bond at just above 3% and the German bund to climb past 0.55% on the path to levels of around 1%).

In Spain, the short-term outlook is one of stable growth, although we still expect to see a moderate slowdown in GDP over the coming quarters due to the prevailing balance of risks and other factors. The expansionary inertia is losing steam and tailwinds are petering out, such as the boost from tourism, demand curtailed during the crisis and the positive knock-on effect from other European economies. Rising oil prices are also a concern, although fiscal policy, which is expected to be less restrictive than initially expected, will help matters by pulling in the opposite direction. On balance, we expect GDP growth to reach 2.9% for the year as a whole, slightly below the figure reported in 2017 (3.1%).

In this business environment, considerable challenges lie ahead for the financial sector, as institutions' business margins in 2018 will remain under pressure due to the low level of interest rates and a still tenuous rebound in economic activity. However, the growth path for the Spanish economy should continue to spur new lending, which in 2017 already registered significant growth, especially in loans to households and SMEs.

- **Business outlook for the Bankia Group**

As regards, in 2018, 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. Specifically, the reduction in recurring costs (before tax) is estimated to reach EUR 190 million by 2020. 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, as discussed previously (EUR 190 million, 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 may roll 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 (12.5% in 2017) 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, with a healthy efficiency ratio and a considerable level of profitability. 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 FOR THE SIX-MONTH PERIOD ENDED JUNE 30 2018

After obtaining clearance from the competition authorities and notice of no-objection from the Directorate General for Insurance and Pension Funds (Dirección General de Seguros y Fondos de Pensiones), on 10 July 2018 Bankia, S.A. completed its acquisition of a 50% stake in insurance firms Caja Granada Vida Compañía de Seguros y Reaseguros, S.A. (from Ahorro Andaluz, S.A.) and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. (from Aviva Europe, SE). The purchase price was set at EUR 226 million.

With the deal now complete, Bankia, S.A. owns all the share capital of the two companies, thus ending its bancassurance alliance with Aviva Europe, SE.

These agreements are part of the wider process of restructuring the bancassurance business initiated by Bankia following its merger with BMN.

In the period between 30 June and the Bankia Group intermediate financial statements formulation date, no different subsequent event of the above has been occurred.

Independent Auditor's Report on the
Condensed Consolidated Interim Financial Statements

BANKIA, S.A. AND SUBSIDIARIES
Condensed Consolidated Interim Financial Statements and
Consolidated Interim Management Report
for the six-month period ended
June 30, 2018
(Free translation from the original in Spanish)

Building a better
working world

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Translation of the report and the condensed consolidated interim financial statements originally issued in Spanish. In the event of discrepancy, the Spanish version prevails. (See note 20)

INDEPENDENT AUDITOR'S REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholders of Bankia, S.A., at the request of the Board of Directors:

Report on the condensed consolidated interim financial statements

Opinion

We have audited the condensed consolidated interim financial statements of Bankia, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at June 30, 2018, the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the explanatory notes thereto for the six-month period then ended.

In our opinion, the accompanying condensed consolidated interim financial statements for the six-month period ended June 30, 2018 have been prepared, in all material respects, in accordance with the requirements of the International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, in accordance to article 12 of Royal Decree 1362/2007, for the preparation of condensed interim financial statements.

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 condensed consolidated interim 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 condensed consolidated interim 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.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the condensed consolidated interim financial statements of the six-month period ended June 30, 2018. These matters were addressed in the context of our audit of the condensed consolidated interim 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 Group's financial reporting process. Moreover, the adoption of IFRS 9 *Financial Instruments*, on 1 January 2018, has resulted in a substantial change, replacing the incurred loss approach with an expected loss approach. Accordingly, the Group has devised a new approach for estimating impairment losses applicable to all debt instruments measured at amortised cost or fair value through other comprehensive income, as well as other off-balance sheet exposures, based on the Group's past experience, adjusted to current circumstances, and taking into consideration scenarios and forecasts of future economic conditions. The accompanying explanatory notes 1.3.1 and 7.4 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 and exposures 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 probability of cure), and the use of scenarios and forecasts of future economic conditions. Regarding the adoption of IFRS 9, in explanatory note 1.3.1 the Group discloses the impact of the first-time application of the standard, without restating comparative information for prior periods. 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.
- Assessing the reliability and coherence of the information sources used in the calculations, considering the findings set out in the reports by the Group's Internal Validation Unit.
- 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 policies and procedures in place for the refinancing or forbearance of credit risk transactions and the monitoring controls in place.
- 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.

We also performed substantive procedures, consisting mainly of:

- Evaluating i) the reasonableness of the approach for calculating and segmenting 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 integrity 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.
- Assessing the suitability of the discounted cash flow models and the valuation of collaterals for the individual assessment methodology.

- Reviewing a sample of loan files for which impairment was assessed individually to verify that, where applicable, the related impairment losses have been classified and recognised correctly.

- Regarding the adoption of IFRS 9, we have reviewed their impacts as of January 1 and the proper accounting recognition in equity.

Finally, we assessed that the condensed consolidated interim financial statements contain the disclosures required in the financial regulatory framework applied by the Group and, specifically, the impact of the first-time application of IFRS 9 on the Group's equity.

Estimate of impairment losses on real estate assets held for sale arising from foreclosures

Description

In Note 2.20 to the consolidated financial statements for the year ended 31 December 2017, the Group describes the process for estimating impairment losses on real estate assets held for sale arising from foreclosures based on third-party appraisals adjusted to reflect the Group's experience in sales of these assets.

The accompanying explanatory note 9.3 describes the Group's exposure to these assets and the impairment losses recognised. It also explains that in the first half of 2018, the Group implemented a new approach, subject to the necessary internal validation process. This approach estimates the discounts to appraisal value and costs to sell of these assets, based on the Group's experience in sales and, in the lack thereof, on information on the Spanish banking sector. This process involves a significant degree of judgement by management, so we have considered it to be a key audit matter.

Our response

Our audit procedures included, among others, assessing and verifying internal control and performing substantive tests, which consisted primarily of:

- Assessing the ability, capacity and objectivity of the experts 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 experts engaged by the Group's management, with the involvement of our experts.

- Analysing the reasonableness of the key assumptions used in the internal valuation methodology.

- Assessing the reliability and coherence of the information sources used.

- Re-executing calculations to obtain the discounts of the internal methodology.

- Recalculating impairment losses on real estate assets arising from foreclosures.

Lastly, we assessed that the condensed consolidated interim financial statements contain the disclosures required in the financial regulatory framework applied by the Group.

Provisions for legal contingencies

Description

In the accompanying explanatory notes 1.9 and 14, 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 interim 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. Accompanying explanatory note 14 includes disclosures of the amounts and relevant information related to these proceedings.

Our response

Our work consisted 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 significant contingencies disclosed. We reviewed, among others, the supporting legal or regulatory documents for the purposes of evaluating the events and circumstances of each case analysed that could have a material impact on the consolidated interim financial statements.
- 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 explanatory notes 1.9 and 14 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 for the year ended 31 December 2017, 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 the accompanying explanatory note 17, at 30 June 2018, the Group had deferred tax assets amounting to EUR 10,653 million, of which the recovery of EUR 7,492 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 explanatory notes.

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) following the merger by absorption carried out in December 2017, as described in the accompanying explanatory note 2. 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.

Emphasis of matter paragraph

We draw attention to note 1.3 of the attached explanatory notes, which explains that the condensed consolidated interim financial statements do not include all the information that would be required for complete consolidated interim financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. As a result, these condensed consolidated interim financial statements shall be read together with the Group financial statements for the year ended December 31, 2017. Our opinion is not modified in respect of this matter.

Other information: consolidated interim management report

Other information refers exclusively to the 2018 consolidated interim management report for the six-month period ended June 30, 2018, the preparation of which is the responsibility of the Parent Company's directors and is not an integral part of the condensed consolidated interim financial statements.

Our audit opinion on condensed consolidated interim the financial statements does not cover the consolidated interim management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the consolidated interim management report is to assess and report on the consistency of the consolidated interim management report with the condensed consolidated interim financial statements based on the knowledge of the entity we obtained while auditing the condensed consolidated interim financial statements, and does not include any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of the consolidated interim management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the consolidated interim management report is consistent with that provided in the 2018 condensed consolidated interim financial statements and their content and presentation are in conformity with applicable regulation.

Responsibilities of the directors of the Parent Company and the audit committee for the condensed consolidated interim financial statements

The directors of the Parent Company are responsible for the preparation of the accompanying condensed consolidated interim financial statements in accordance with the requirements of the International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, in accordance to article 12 of the Royal Decree 1362/2007 for the preparation of the condensed interim financial statements, and for such internal control as they determine is necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed consolidated interim 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 of the Parent Company is responsible for overseeing the financial reporting process and the preparation of the condensed consolidated interim financial statements.

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

Our objectives are to obtain reasonable assurance about whether the condensed consolidated interim 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 condensed consolidated interim financial statements.

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

- Identify and assess the risks of material misstatement of the condensed consolidated interim 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 director's 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 condensed consolidated interim 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 condensed consolidated interim financial statements, including the disclosures, and whether the condensed consolidated interim 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.

Report on other legal and regulatory requirements

Term of engagement

On April 10, 2018 the Ordinary General Shareholders' Meeting appointed us as the Group auditors for the year that began January 1, 2018.

Previously, we were appointed as auditors by the 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)

July 27, 2018