ANNEX II

CREDIT INSTITUTIONS

1st **HALF-YEARLY FINANCIAL REPORT FOR FINANCIAL YEAR** 2017

REPORTING DATE **30/06/2017**

I. IDENTIFICATION DATA

Registered Company Name: BANKIA, S.A.

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

II. SUPPLEMENTARY 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

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

III. STATEMENT(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 required.

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.

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. 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. Alvaro Rengifo Abbad	Director
Mr. Antonio Greño Hidalgo	Director

Date this half-yearly financial report was signed by the corresponding governing body: 21/07/2017

IV. SELECTED FINANCIAL INFORMATION

1. INDIVIDUAL BALANCE SHEET (1/3)
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

ASSETS		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 31/12/2017
1. Cash on hand, cash balances at central banks and other demand deposits	**0040**	2,656,872	2,081,771
2. Financial assets held for trading	**0045**	6,896,079	8,278,722
Token entry: loans or provided as collateral with right of sale or pledge	**0046**	244	5,004
3. Financial assets designated at fair value through profit or loss	**0050**		
Token entry: loaned or provided as collateral with right of sale or pledge	**0051**		
4. Available-for-sale financial assets	**0055**	19,612,277	25,420,776
Token entry: loaned or provided as collateral with right of sale or pledge	**0056**	7,741,446	9,860,557
5. Loans and receivables	**0060**	107,362,781	108,984,992
Token entry: loaned or provided as collateral with right of sale or pledge	**0061**	71,806,539	74,855,038
6. Held-to-maturity investments	**0065**	27,898,787	27,695,063
Token entry: loaned or provided as collateral with right of sale or pledge	**0066**	10,571,693	9,999,995
7. Derivatives – hedge accounting	**0070**	2,914,029	3,620,293
8. Fair value changes of the hedged items in portfolio hedge of interest rate risk	**0075**		
9. Investments in subsidiaries, joint ventures and associates	**0080**	2,697,017	2,662,372
a) Group entities	**0090**	2,574,731	2,536,348
b) Jointly-controlled entities	**0091**		
c) Associates	**0092**	122,286	126,024
10. Tangible assets	**0100**	1,649,307	1,636,708
a) Property, plant and equipment	**0101**	1,378,207	1,381,542
i) For own use	**0102**	1,378,207	1,381,542
ii) Leased out under an operating lease	**0103**		
iii) Assigned to welfare projects (savings banks and credit cooperatives)	**0104**		
b) Investment property	**0105**	271,100	255,166
Of which: leased out under an operating lease	**0106**	271,100	255,166
Token entry: acquired under finance lease	**0107**		
11. Intangible assets	**0110**	136,119	121,813
a) Goodwill	**0111**		
b) Other intangible assets	**0112**	136,119	121,813
12. Tax assets	**0120**	7,454,885	7,692,782
a) Current tax assets	**0121**	223,865	338,400
b) Deferred tax assets	**0122**	7,231,020	7,354,382
13. Other assets	**0130**	774,987	760,501
a) Insurance contracts linked to pensions	**0131**	388,684	398,404
b) Inventories	**0132**		
c) Other assets	**0133**	386,303	362,097
14. Non-current assets and disposal groups classified as held for sale	**0140**	1,957,957	2,051,940
TOTAL ASSETS	**0150**	**182,011,097**	**191,007,733**

IV. SELECTED FINANCIAL INFORMATION

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

Units: Thousand euros

EQUITY AND LIABILITIES		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 31/12/2016
1. Financial liabilities held for trading	**0160**	7,211,441	9,008,035
2. Financial liabilities designated at fair value through profit or loss	**0170**		
Token entry: subordinate liabilities	**0175**		
3. Financial liabilities measured at amortised cost	**0180**	160,037,954	166,407,360
Token entry: subordinate liabilities	**0185**	1,518,010	1,045,492
4. Derivatives - hedge accounting	**0190**	356,746	723,034
5. Fair value changes of the hedged items in portfolio hedge of interest rate risk	**0200**		
6. Provisions	**0210**	1,024,289	1,287,208
a) Pensions and other post-employment defined benefit obligations	**0211**	392,530	401,664
b) Other long-term employee benefits	**0212**		
c) Pending legal issues and tax litigation	**0213**	182,357	395,161
d) Commitments and guarantees given	**0214**	382,612	398,469
e) Other provisions	**0215**	66,790	91,914
7. Tax liabilities	**0220**	579,801	642,631
a) Current tax liabilities	**0221**		163
b) Deferred tax liabilities	**0223**	579,801	642,468
8. Share capital repayable on demand	**0230**		
9. Other liabilities	**0240**	738,821	912,517
Of which: fund for welfare projects (savings banks and credit cooperatives)	**0241**		
10. Liabilities included in disposal groups classified as held for sale	**0250**		
TOTAL LIABILITIES	**0260**	**169,949,052**	**178,980,785**

IV. SELECTED FINANCIAL INFORMATION

1. INDIVIDUAL BALANCE SHEET (3/3)
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

EQUITY AND LIABILITIES		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 31/12/2016
CAPITAL AND RESERVES	**0270**	11,743,204	11,584,894
1. Capital	**0280**	2,879,332	9,213,863
a) Paid up capital	**0281**	2,879,332	9,213,863
b) Unpaid capital which has been called up	**0282**		
Token entry: uncalled capital	**0283**		
2. Share premium	**0290**		
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**	8,431,151	1,696,334
8. (-) Treasury stock	**0350**	(61,505)	(44,758)
9. Profit or loss for the period	**0360**	494,226	719,455
10. (-) Interim dividend	**0370**		
ACCUMULATED OTHER COMPREHENSIVE INCOME	**0380**	318,841	442,054
1. Items that will not be reclassified to profit or loss	**0390**	42,622	42,622
a) Actuarial gains or (-) losses on defined benefit pension plans	**0391**	42,622	42,622
b) Non-current assets and disposal groups classified as held for sale	**0392**		
c) Other valuation adjustments	**0393**		
2. Items that may be reclassified to profit or loss	**0400**	276,219	399,432
a) Hedge of net investments in foreign operations (effective portion)	**0401**		
b) Foreign currency translation	**0402**	(261)	511
c) Hedging derivatives. Cash flow hedges (effective portion)	**0403**	(88)	(950)
d) Available-for-sale financial assets	**0404**	281,514	399,874
(i) Debt instruments	**0405**	279,046	399,349
(ii) Equity instruments	**0406**	2,468	525
e) Non-current assets and disposal groups classified as held for sale	**0407**	(4,946)	(3)
TOTAL EQUITY	**0450**	**12,062,045**	**12,026,948**
TOTAL EQUITY AND LIABILITIES	**0460**	**182,011,097**	**191,007,733**

TOKEN ENTRY: OFF-BALANCE SHEET EXPOSURE

1. Guarantees given	**0470**	7,611,643	7,683,450
2. Contingent commitments given	**0480**	22,290,488	25,082,003

IV. SELECTED FINANCIAL INFORMATION

2. INDIVIDUAL PROFIT AND LOSS ACCOUNT (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

			PRESENT CURR. PERIOD (2nd HALF YEAR)	PREVIOUS CURR. PERIOD (2nd HALF YEAR)	CURRENT CUMULATIVE 30/06/2017	PREVIOUS CUMULATIVE 31/12/2016
(+)	Interest income	0501			1,143,271	1,350,465
(-)	Interest expense	0502			(195,887)	(325,627)
(-)	Remuneration of capital redeemable on demand	0503				
=	**A) NET INTEREST INCOME**	0505				
(+)	Dividend income	0506			37,978	28,737
(+)	Fee and commission income	0508			425,398	406,771
(-)	Fee and commission expenses	0509			(35,862)	(35,319)
(+/-)	Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	0510			217,488	143,496
(+/-)	Gains or losses on financial assets and liabilities held for trading, net	0511			71,015	15,010
(+/-)	Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	0512				
(+/-)	Gains or losses from hedge accounting, net	0513			(15,496)	(29,275)
(+/-)	Exchange differences, net	0514			4,258	16,112
(+)	Other operating income	0515			28,083	83,990
(-)	Other operating expenses	0516			(92,236)	(86,580)
=	**B) GROSS OPERATING INCOME**	0520			**1,588,010**	**1,567,780**
(-)	Administrative expenses:	0521			(671,252)	(698,721)
(-)	a) Staff expenses	0522			(453,259)	(457,599)
(-)	b) Other administrative expenses	0523			(217,993)	(241,122)
(-)	Depreciation	0524			(82,396)	(71,353)
(+/-)	Provisions or reversal of provisions	0525			(32,711)	(51,893)
(+/-)	Impairment or reversal of impairment on non-financial assets not measured at fair value through profit or loss	0526			(149,782)	(135,035)
(+/-)	a) Financial assets measured at cost	0527				
(+/-)	b) Available-for-sale financial assets	0528			2,112	(11,262)
(+/-)	c) Loans and receivables	0529			(153,448)	(138,974)
(+/-)	d) Held-to-maturity investments	0530			1,554	15,201
=	**C) NET OPERATING INCOME**	0540			**651,869**	**610,778**
(+/-)	Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	0541			31,644	1,337
(+/-)	Impairment or reversal of impairment on non-financial assets	0542			712	(2,134)
(+/-)	a) Property, plant and equipment	0543			712	(200)
(+/-)	b) Intangible assets	0544				
(+/-)	Other	0545				(1,934)
(+/-)	Gains or losses on derecognition of non-financial assets and shareholdings, net	0546			1,100	(659)
(+)	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			(41,451)	(34,482)
=	**D) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS**	0550			**643,874**	**574,840**
(+/-)	Tax expense or income related to profit or loss from continuing operations	0551			(149,648)	(117,520)
=	**E) PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS**	0560			**494,226**	**457,320**
(+/-)	Profit or loss after tax from discontinued operations	0561				
=	**PROFIT OR LOSS FOR THE PERIOD**	0570			**494,226**	**457,320**

EARNINGS PER SHARE		Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)
Basic	0580				
Diluted	0590				

In the half-yearly financial report for the first 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 RECOGNISED INCOME AND EXPENSE
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A) PROFIT OR LOSS FOR THE PERIOD		**0600**	**494,226**	**457,320**
B) OTHER COMPREHENSIVE INCOME		**0610**	**(123,213)**	**(26,921)**
1.	**Items that will not be reclassified to profit or loss**	**0620**		
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**		
d)	Income tax relating to items that will not be reclassified	**0624**		
2.	**Items that may be reclassified to profit or loss**	**0630**	(123,213)	(26,921)
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**	(1,103)	
-	Translation gains or losses taken to equity	**0641**	(1,103)	
-	Transferred to profit or loss	**0642**		
-	Other reclassifications	**0643**		
c)	Cash flow hedges [effective portion]	**0645**	1,232	(1,430)
-	Valuation gains or losses taken to equity	**0646**	1,232	(1,430)
-	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**	(169,085)	(37,083)
-	Valuation gains or losses taken to equity	**0651**	(68,162)	65,998
-	Transferred to profit or loss	**0652**	(100,923)	(103,081)
-	Other reclassifications	**0653**		
e)	Non-current assets and disposal groups held for sale	**0655**	(7,061)	54
-	Valuation gains or losses taken to equity	**0656**	(7,061)	54
-	Transferred to profit or loss	**0657**		
-	Other reclassifications	**0658**		
f)	Income tax relating to items that may be reclassified to profit or loss	**0660**	52,804	11,538
C) TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**0670**	**371,013**	**430,399**

IV. SELECTED FINANCIAL INFORMATION

4. INDIVIDUAL STATEMENT OF TOTAL CHANGES IN EQUITY
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS) (1/2)

Units: Thousand 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 for the period	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance [before restatement]	**0700**	**9,213,863**						**1,696,334**	**(44,758)**	**719,455**		**442,054**	**12,026,948**
Effects of corrections of errors	**0701**												
Effects of changes in accounting policies	**0702**												
Opening balance [current period]	**0710**	**9,213,863**						**1,696,334**	**(44,758)**	**719,455**		**442,054**	**12,026,948**
Total comprehensive income for the period	**0720**									**494,226**		**(123,213)**	**371,013**
Other changes in equity	**0730**	(6,334,531)						6,734,817	(16,747)	(719,455)			(335,916)
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**	(6,334,531)						6,334,531					
Dividends (or remuneration to shareholders)	**0737**							(315,957)					(315,957)
Purchase of treasury shares	**0738**								(68,877)				(68,877)
Sale or cancellation of treasury shares	**0739**							6,964	52,130				59,094
Reclassification of financial instruments from equity to liability	**0740**												
Reclassification of financial instruments from liability to equity	**0741**												
Transfers among components of equity	**0742**							719,455		(719,455)			
Equity increase or (-) decrease resulting from business combinations	**0743**												
Share based payments	**0744**												
Other increase or (-) decrease in equity	**0745**							(10,176)					(10,176)
Of which: discretionary transfer to welfare projects and funds (savings banks and credit cooperatives)	**0746**												
Closing balance [current period]	**0750**	**2,879,332**						**8,431,151**	**(61,505)**	**494,226**		**318,841**	**12,062,045**

IV. SELECTED FINANCIAL INFORMATION

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

Units: Thousand 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 for the period	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance [before restatement] [comparative period]	**0751**	**9,213,863**						**1,218,016**	**(46,473)**	**940,064**		**634,310**	**11,959,780**
Effects of corrections of errors	**0752**												
Effects of changes in accounting policies	**0753**												
Opening balance [comparative period]	**0754**	**9,213,863**						**1,218,016**	**(46,473)**	**940,064**		**634,310**	**11,959,780**
Total comprehensive income for the comparative period	**0755**									**457,320**		**(26,921)**	**430,399**
Other changes in equity	**0756**							611,739	(15,476)	(940,064)			(343,801)
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**												
Dividends (or remuneration to shareholders)	**0763**							(300,717)					(300,717)
Purchase of treasury shares	**0764**								(56,365)				(56,365)
Sale or cancellation of treasury shares	**0765**							(7,825)	40,889				33,064
Reclassification of financial instruments from equity to liability	**0766**												
Reclassification of financial instruments from liability to equity	**0767**												
Transfers among components of equity	**0768**							940,064		(940,064)			
Equity increase or (-) decrease resulting from business combinations	**0769**												
Share based payments	**0770**												
Other increase or (-) decrease in equity	**0771**							(19,783)					(19,783)
Of which: discretionary transfer to welfare projects and funds (savings banks and credit cooperatives)	**0772**												
Closing balance [comparative period]	**0773**	**9,213,863**						**1,829,755**	**(61,949)**	**457,320**		**607,389**	**12,046,378**

IV. SELECTED FINANCIAL INFORMATION

5. INDIVIDUAL STATEMENT OF CASH FLOWS (INDIRECT METHOD) (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A)	**CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4 + 5)**	**0800**	**607,833**	**(2,446,422)**
1.	**Profit or loss for the period**	**0810**	494,226	457,320
2.	**Adjustments to obtain cash flows from operating activities**	**0820**	200,786	252,131
(+)	Depreciation and amortisation	**0821**	82,396	71,353
(+/-)	Other adjustments	**0822**	118,390	180,778
3.	**Net increase/(decrease) in operating assets:**	**0830**	6,972,475	2,001,044
(+/-)	Financial assets held for trading	**0831**	(27,042)	(48,969)
(+/-)	Financial assets designated at fair value through profit or loss	**0832**		
(+/-)	Available-for-sale financial assets	**0833**	5,742,449	1,270,472
(+/-)	Loans and receivables	**0834**	1,536,841	1,134,286
(+/-)	Other operating assets	**0835**	(279,773)	(354,745)
4.	**Net increase/(decrease) in operating liabilities:**	**0840**	(7,136,174)	(5,157,249)
(+/-)	Financial liabilities held for trading	**0841**	(386,909)	378,550
(+/-)	Financial liabilities designated at fair value through profit or loss	**0842**		
(+/-)	Financial liabilities at amortised cost	**0843**	(6,547,771)	(3,866,806)
(+/-)	Other operating liabilities	**0844**	(201,494)	(1,668,993)
5.	**Income tax recovered/(paid)**	**0850**	76,520	332
B)	**CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)**	**0860**	**62,466**	**(859,776)**
1.	**Payments**	**0870**	(738,096)	(3,672,868)
(-)	Tangible assets	**0871**	(46,877)	(20,887)
(-)	Intangible assets	**0872**	(54,111)	(42,064)
(-)	Investments in subsidiaries, joint ventures and associates	**0873**	(3,000)	(350,279)
(-)	Other business units	**0874**		
(-)	Non-current assets and liabilities classified as held for sale	**0875**	(100)	(167)
(-)	Held-to-maturity investments	**0876**	(634,008)	(3,259,471)
(-)	Other payments related to investing activities	**0877**		
2.	**Proceeds:**	**0880**	800,562	2,813,092
(+)	Tangible assets	**0881**	7,874	4,351
(+)	Intangible assets	**0882**		
(+)	Investments in subsidiaries, joint ventures and associates	**0883**	16,911	538,665
(+)	Other business units	**0884**		
(+)	Non-current assets and liabilities classified as held for sale	**0885**	243,429	220,221
(+)	Held-to-maturity investments	**0886**	532,348	2,049,855
(+)	Other proceeds related to investing activities	**0887**		
C)	**CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2)**	**0890**	**(95,198)**	**1,823,306**
1.	**Payments**	**0900**	(2,492,463)	(1,595,258)
(-)	Dividends	**0901**	(315,957)	(300,717)
(-)	Subordinated liabilities	**0902**		
(-)	Redemption of own equity instruments	**0903**		
(-)	Acquisition of own equity instruments	**0904**	(68,877)	(56,365)
(-)	Other payments related to financing activities	**0905**	(2,107,629)	(1,238,176)
2.	**Proceeds:**	**0910**	2,397,265	3,418,564
(+)	Subordinated liabilities	**0911**	497,270	
(+)	Issuance of own equity instruments	**0912**		
(+)	Disposal of own equity instruments	**0913**	59,094	33,064
(+)	Other proceeds related to financing activities	**0914**	1,840,901	3,385,500
D)	**EFFECT OF FOREIGN EXCHANGE RATE CHANGES**	**0920**		
E)	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)**	**0930**	**575,101**	**(1,482,892)**
F)	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD**	**0940**	**2,081,771**	**3,073,790**
G)	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)**	**0950**	**2,656,872**	**1,590,898**

	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
(+)	Cash	**0955**	651,685	666,016
(+)	Cash equivalent balances at central banks	**0960**	1,913,098	816,486
(+)	Other financial assets	**0965**	92,089	108,396
(-)	Less: Bank overdrafts repayable on demand	**0970**		
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**0980**	**2,656,872**	**1,590,898**

IV. SELECTED FINANCIAL INFORMATION

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

Units: Thousand euros

ASSETS		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 31/12/2016
1. Cash on hand, cash balances at central banks and other demand deposits	**1040**	3,433,757	2,853,756
2. Financial assets held for trading	**1045**	6,937,016	8,331,274
Token entry: loaned or provided as collateral with right of sale or pledge	**1046**	244	5,004
3. Financial assets designated at fair value through profit or loss	**1050**		
Token entry: loaned or provided as collateral with right of sale or pledge	**1051**		
4. Available-for-sale financial assets	**1055**	19,438,474	25,248,955
Token entry: loaned or provided as collateral with right of sale or pledge	**1056**	7,741,446	9,860,557
5. Loans and receivables	**1060**	107,147,145	108,817,347
Token entry: loaned or provided as collateral with right of sale or pledge	**1061**	71,806,539	74,855,038
6. Held-to-maturity investments	**1065**	27,895,398	27,691,243
Token entry: loaned or provided as collateral with right of sale or pledge	**1066**	10,571,693	9,999,995
7. Derivatives – hedge accounting	**1070**	2,924,787	3,631,322
8. Fair value changes of the hedged items in portfolio hedge of interest rate risk	**1075**		
9. Investments in joint ventures and associates	**1080**	286,106	281,613
b) Jointly-controlled entities	**1091**		
c) Associates	**1092**	286,106	281,613
10. Insurance and reinsurance assets	**1095**		
11. Tangible assets	**1100**	1,670,685	1,658,108
a) Property, plant and equipment	**1101**	1,390,385	1,393,653
i) For own use	**1102**	1,390,385	1,393,653
ii) Leased out under an operating lease	**1103**		
iii) Assigned to welfare projects (savings banks and credit cooperatives)	**1104**		
b) Investment property	**1105**	280,300	264,455
Of which: leased out under an operating lease	**1106**	280,300	264,455
Token entry: acquired under finance lease	**1107**		
12. Intangible assets	**1110**	232,486	219,815
a) Goodwill	**1111**	94,462	95,662
b) Other intangible assets	**1112**	138,024	124,153
13. Tax assets	**1120**	8,095,954	8,320,196
a) Current tax assets	**1121**	258,330	357,296
b) Deferred tax assets	**1122**	7,837,624	7,962,900
14. Other assets	**1130**	703,356	853,778
a) Insurance contracts linked to pensions	**1131**	388,684	398,404
b) Inventories	**1132**	455	20,187
c) Other assets	**1133**	314,217	435,187
15. Non-current assets and disposal groups classified as held for sale	**1140**	2,118,791	2,260,052
TOTAL ASSETS	**1150**	**180,883,955**	**190,167,459**

IV. SELECTED FINANCIAL INFORMATION

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

Units: Thousand euros

LIABILITIES		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 31/12/2016
1. Financial liabilities held for trading	**1160**	7,182,716	8,983,112
2. Financial liabilities designated at fair value through profit or loss	**1170**		
Token entry: subordinated liabilities	**1175**		
3. Financial liabilities at amortised cost	**1180**	157,982,129	164,635,609
Token entry: subordinated liabilities	**1185**	1,518,010	1,045,492
4. Derivatives - hedge accounting	**1190**	357,866	724,045
5. Fair value changes of the hedged items in portfolio hedge of interest rate risk	**1200**		
6. Insurance and reinsurance liabilities	**1205**		
7. Provisions	**1210**	1,123,939	1,405,104
a) Pensions and other post-employment defined benefit obligations	**1211**	392,530	401,664
b) Other long-term employee benefits	**1212**		
c) Pending legal issues and tax litigation	**1213**	207,262	421,071
d) Commitments and guarantees given	**1214**	378,766	389,690
e) Other provisions	**1215**	145,381	192,679
8. Tax liabilities	**1220**	602,615	664,809
a) Current tax liabilities	**1221**	757	166
b) Deferred tax liabilities	**1223**	601,858	664,643
9. Share capital repayable on demand	**1230**		
10. Other liabilities	**1240**	732,026	916,312
Of which: fund for welfare projects (savings banks and credit cooperatives)	**1241**		
11. Liabilities included in disposal groups classified as held for sale	**1250**	826	1,276
TOTAL LIABILITIES	**1260**	**167,982,117**	**177,330,267**

IV. SELECTED FINANCIAL INFORMATION

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

Units: Thousand euros

LIABILITIES		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 31/12/2016
CAPITAL AND RESERVES	**1270**	12,480,531	12,302,826
1. Capital	**1280**	2,879,332	9,213,863
a) Paid up capital	**1281**	2,879,332	9,213,863
b) Unpaid capital which has been called up	**1282**		
Token entry: uncalled capital	**1283**		
2. Share premium	**1290**		
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**	9,148,867	2,329,558
8. (-) Treasury shares	**1350**	(61,505)	(44,758)
9. Profit or loss attributable to owners of the parent	**1360**	513,837	804,163
10. (-) Interim dividends	**1370**		
ACCUMULATED OTHER COMPREHENSIVE INCOME	**1380**	376,184	489,035
1. Items that will not be reclassified to profit or loss	**1390**	42,622	42,622
a) Actuarial gains or (-) losses on defined benefit pension plans	**1391**	42,622	42,622
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**		
d) Other valuation adjustments	**1394**		
2. Items that may be reclassified to profit or loss	**1400**	333,562	446,413
a) Hedge of net investments in foreign operations (effective portion)	**1401**		
b) Foreign currency translation	**1402**	(253)	527
c) Hedging derivatives. Cash flow hedges (effective portion)	**1403**	(88)	(950)
d) Available-for-sale financial assets	**1404**	280,228	397,959
i) Debt instruments	**1405**	277,760	397,434
ii) Equity instruments	**1406**	2,468	525
e) Non-current assets and disposal groups classified as held for sale	**1407**	(2,130)	4,262
f) Share of other recognised income and expense of investments in joint ventures and associates	**1408**	55,805	44,615
MINORITY INTEREST [Non-controlling interests]	**1410**	45,123	45,331
1. Accumulated other comprehensive income	**1420**	1,440	2,401
2. Other items	**1430**	43,683	42,930
TOTAL EQUITY	**1450**	**12,901,838**	**12,837,192**
TOTAL EQUITY AND LIABILITIES	**1460**	**180,883,955**	**190,167,459**

TOKEN ENTRY: OFF-BALANCE-SHEET EXPOSURE

1. Guarantees given	**1470**	7,240,315	7,304,402
2. Contingent commitments given	**1480**	22,067,307	22,772,264

IV. SELECTED FINANCIAL INFORMATION

7. CONSOLIDATED PROFIT AND LOSS ACCOUNT (ADOPTED IFRS)

Units: Thousand euros

			PRESENT CURR. PERIOD (2nd HALF YEAR)	PREVIOUS CURR. PERIOD (2nd HALF YEAR)	CURRENT CUMULATIVE 30/06/2017	PREVIOUS CUMULATIVE 30/06/2016
(+)	Interest income	1501			1,165,865	1,407,118
(-)	Interest expense	1502			(170,902)	(283,571)
(-)	Expenses on share capital repayable on demand	1503				
=	**A) NET INTEREST INCOME**	1505			**994,963**	**1,123,547**
(+)	Dividend income	1506			7,313	3,940
(+/-)	Profit (loss) of equity-accounted investees	1507			18,379	20,577
(+)	Fee and commission income	1508			463,655	445,181
(-)	Fee and commission expense	1509			(38,546)	(39,014)
(+/-)	Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	1510			217,331	143,383
(+/-)	Gains or losses on financial assets and liabilities held for trading, net	1511			60,336	4,745
(+/-)	Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	1512				
(+/-)	Gains or losses from hedge accounting, net	1513			(15,496)	(29,275)
(+/-)	Exchange differences, net	1514			4,298	15,440
(+)	Other operating income	1515			27,921	93,384
(-)	Other operating expenses	1516			(92,545)	(96,224)
(+)	Income from insurance and reinsurance assets	1517				
(-)	Expenses of insurance and reinsurance liabilities	1518				
=	**B) GROSS OPERATING INCOME**	1520			**1,647,609**	**1,685,684**
(-)	Administrative expenses:	1521			(680,635)	(710,618)
(-)	a) Staff expenses	1522			(460,813)	(465,237)
(-)	b) Other administrative expenses	1523			(219,822)	(245,381)
(-)	Depreciation	1524			(83,324)	(75,558)
(+/-)	Provisions or reversal of provisions	1525			2,742	(51,965)
(+/-)	Impairment or reversal of impairment of non-financial assets not measured at fair value through profit or loss	1526			(174,161)	(151,181)
(+/-)	a) Financial assets measured at cost	1527				
(+/-)	b) Available-for-sale financial assets	1528			2,118	(11,262)
(+/-)	c) Loans and receivables	1529			(177,833)	(155,120)
(+/-)	d) Held-to-maturity investments	1530			1,554	15,201
=	**C) NET OPERATING INCOME**	1540			**712,231**	**696,362**
(+/-)	Impairment or reversal of impairment of investments in joint ventures and associates	1541			(3,000)	
(+/-)	Impairment or reversal of impairment on non-financial assets	1542			(6,470)	(8,323)
(+/-)	a) Property, plant and equipment	1543			733	(506)
(+/-)	b) Intangible assets	1544			(3,000)	(2,999)
(+/-)	Other	1545			(4,203)	(4,818)
(+/-)	Gains or losses on derecognition of non-financial assets and shareholdings, net	1546			1,100	(1,609)
(+)	Negative goodwill recognised in profit or loss	1547				
(+/-)	Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	1548			(10,809)	(47,204)
=	**D) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS**	1550			**693,052**	**639,226**
(+/-)	Tax expense or income related to profit or loss from continuing operations	1551			(178,591)	(157,737)
=	**E) PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS**	1560			**514,461**	**481,489**
(+/-)	Profit or loss after tax from discontinued operations	1561				
=	**PROFIT OR LOSS FOR THE PERIOD**	1570			**514,461**	**481,489**
	Attributable to minority interest [non-controlling interests]	1571			624	138
	Attributable to owners of the parent	1572			513,837	481,351

EARNINGS PER SHARE		Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)
Basic	1580			0,18	0,17
Diluted	1590			0,18	0,17

In the half-yearly financial report for the first 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

8. CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (ADOPTED IFRS)

Units: Thousand euros

		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A) PROFIT OR LOSS FOR THE PERIOD	**1600**	514,461	481,489
B) OTHER COMPREHENSIVE INCOME	**1610**	(113,812)	(36,741)
1. Items that will not be reclassified to profit or loss	**1620**		
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**		
d) Income tax relating to items that will not be reclassified	**1624**		
2. Items that may be reclassified to profit or loss	**1630**	(113,812)	(36,741)
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**	(780)	(1)
- Translation gains or losses taken to equity	**1641**	(780)	(1)
- Transferred to profit or loss	**1642**		
- Other reclassifications	**1643**		
c) Cash flow hedges [effective portion]	**1645**	1,231	(6,914)
- Valuation gains or losses taken to equity	**1646**	1,231	(6,914)
- 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**	(168,187)	(35,167)
- Valuation gains or losses taken to equity	**1651**	(67,339)	67,800
- Transferred to profit or loss	**1652**	(100,848)	(102,967)
- Other reclassifications	**1653**		
e) Non-current assets and disposal groups held for sale	**1655**	(9,474)	(570)
- Valuation gains or losses taken to equity	**1656**	(9,474)	(570)
- 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**	11,190	(6,693)
g) Income tax relating to items that may be reclassified to profit or loss	**1660**	52,208	12,604
C) TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1670**	**400,649**	**444,748**
Attributable to minority interest [non-controlling interests]	**1680**	(337)	(117)
Attributable to owners of the parent	**1690**	400,986	444,865

IV. SELECTED FINANCIAL INFORMATION

9. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (ADOPTED IFRS) (1/2)

Units: Thousand 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 attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests: Accumulated other comprehensive income	Non-controlling interests: Other items	Total
Opening balance [before restatement]	**1700**	**9,213,863**						**2,329,558**	**(44,758)**	**804,163**		**489,035**	**2,401**	**42,930**	**12,837,192**
Effects of corrections of errors	**1701**														
Effects of changes in accounting policies	**1702**														
Opening balance [current period]	**1710**	**9,213,863**						**2,329,558**	**(44,758)**	**804,163**		**489,035**	**2,401**	**42,930**	**12,837,192**
Total comprehensive income for the period	**1720**									**513,837**		**(112,851)**	**(961)**	**624**	**400,649**
Other changes in equity	**1730**	(6,334,531)						6,819,309	(16,747)	(804,163)				129	(336,003)
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**	(6,334,531)						6,334,531							
Dividends (or remuneration to shareholders)	**1737**							(315,957)							(315,957)
Purchase of treasury shares	**1738**								(68,877)						(68,877)
Sale or cancellation of treasury shares	**1739**							6,964	52,130						59,094
Reclassification of financial instruments from equity to liability	**1740**														
Reclassification of financial instruments from liability to equity	**1741**														
Transfers among components of equity	**1742**							804,163		(804,163)					
Equity increase or (-) decrease resulting from business combinations	**1743**														
Share based payments	**1744**														
Other increase or (-) decrease in equity	**1745**							(10,392)						129	(10,263)
Of which: discretionary transfer to welfare projects and funds (savings banks and credit cooperatives)	**1746**														
Closing balance [current period]	**1750**	**2,879,332**						**9,148,867**	**(61,505)**	**513,837**		**376,184**	**1,440**	**43,683**	**12,901,838**

IV. SELECTED FINANCIAL INFORMATION

9. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (ADOPTED IFRS) (2/2)

Units: Thousand 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 attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Non-controlling interests		Total
													Accumulated other comprehensive income	Other items	
Opening balance [before restatement] [comparative period]	**1751**	9,213,863						1,726,334	(46,473)	1,039,963		695,875	1,978	64,467	12,696,007
Effects of corrections of errors	**1752**														
Effects of changes in accounting policies	**1753**														
Opening balance [comparative period]	**1754**	9,213,863						1,726,334	(46,473)	1,039,963		695,875	1,978	64,467	12,696,007
Total comprehensive income for the comparative period	**1755**									481,351		(36,486)	(255)	138	444,748
Other changes in equity	**1756**							729,339	(15,476)	(1,039,963)				(19,576)	(345,676)
Issuance of ordinary shares	**1757**														
Issuance of preference shares	**1758**														
Issuance of other equity instruments	**1759**														
Exercise or expiration of other equity instruments issued	**1760**														
Conversion of debt to equity	**1761**														
Capital reduction	**1762**														
Dividends (or remuneration to shareholders)	**1763**							(300,717)							(300,717)
Purchase of treasury shares	**1764**								(56,365)						(56,365)
Sale or cancellation of treasury shares	**1765**							(7,825)	40,889						33,064
Reclassification of financial instruments from equity to liability	**1766**														
Reclassification of financial instruments from liability to equity	**1767**														
Transfers among components of equity	**1768**							1,039,963		(1,039,963)					
Equity increase or (-) decrease resulting from business combinations	**1769**														
Share based payments	**1770**														
Other increase or (-) decrease in equity	**1771**							(2,082)						(19,576)	(21,658)
Of which: discretionary transfer to welfare projects and funds (savings banks and credit cooperatives)	**1772**														
Closing balance [comparative period]	**1773**	9,213,863						2,455,673	(61,949)	481,351		659,389	1,723	45,029	12,795,079

IV. SELECTED FINANCIAL INFORMATION

10. A. CONSOLIDATED STATEMENT OF CASH FLOWS (INDIRECT METHOD) (ADOPTED IFRS)

Units: Thousand euros

			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A)	**CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4 + 5)**	**1800**	**1,396,737**	**(840,438)**
1.	**Profit or loss for the period**	**1810**	514,461	481,489
2.	**Adjustments to obtain cash flows from operating activities**	**1820**	209,505	314,177
(+)	Depreciation	**1821**	83,324	75,558
(+/-)	Other adjustments	**1822**	126,181	238,619
3.	**Net increase/(decrease) in operating assets:**	**1830**	7,094,077	1,938,826
(+/-)	Financial assets held for trading	**1831**	(19,229)	(41,590)
(+/-)	Financial assets designated at fair value through profit or loss	**1832**		
(+/-)	Available-for-sale financial assets	**1833**	5,745,260	1,236,740
(+/-)	Loans and receivables	**1834**	1,560,487	919,027
(+/-)	Other operating assets	**1835**	(192,441)	(175,351)
4.	**Net increase/(decrease) in operating liabilities:**	**1840**	(6,497,826)	(3,575,262)
(+/-)	Financial liabilities held for trading	**1841**	(386,909)	383,828
(+/-)	Financial liabilities designated at fair value through profit or loss	**1842**		
(+/-)	Financial liabilities at amortised cost	**1843**	(5,914,725)	(2,236,973)
(+/-)	Other operating liabilities	**1844**	(196,192)	(1,722,117)
5.	**Income tax recovered/(paid)**	**1850**	**76,520**	**332**
B)	**CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)**	**1860**	**195,664**	**(903,156)**
1.	**Payments**	**1870**	(738,485)	(3,324,321)
(-)	Tangible assets	**1871**	(47,089)	(21,181)
(-)	Intangible assets	**1872**	(54,283)	(42,335)
(-)	Investments in joint ventures and associates	**1873**	(3,000)	(341)
(-)	Subsidiaries and other business units	**1874**		
(-)	Non-current assets and liabilities classified as held for sale	**1875**	(105)	(993)
(-)	Held-to-maturity investments	**1876**	(634,008)	(3,259,471)
(-)	Other payments related to investing activities	**1877**		
2.	**Proceeds:**	**1880**	934,149	2,421,165
(+)	Tangible assets	**1881**	7,874	4,351
(+)	Intangible assets	**1882**		
(+)	Investments in joint ventures and associates	**1883**	25,464	12,552
(+)	Subsidiaries and other business units	**1884**		
(+)	Non-current assets and liabilities classified as held for sale	**1885**	368,463	354,407
(+)	Held-to-maturity investments	**1886**	532,348	2,049,855
(+)	Other proceeds related to investing activities	**1887**		
C)	**CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2)**	**1890**	**(1,012,400)**	**163,517**
1.	**Payments**	**1900**	(2,068,764)	(2,155,047)
(-)	Dividends	**1901**	(315,957)	(300,717)
(-)	Subordinated liabilities	**1902**		
(-)	Redemption of own equity instruments	**1903**		
(-)	Acquisition of own equity instruments	**1904**	(68,877)	(56,365)
(-)	Other payments related to financing activities	**1905**	(1,683,930)	(1,797,965)
2.	**Proceeds:**	**1910**	1,056,364	2,318,564
(+)	Subordinated liabilities	**1911**	497,270	
(+)	Issuance of own equity instruments	**1912**		
(+)	Disposal of own equity instruments	**1913**	59,094	33,064
(+)	Other proceeds related to financing activities	**1914**	500,000	2,285,500
D)	**EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS HELD**	**1920**		
E)	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)**	**1930**	**580,001**	**(1,580,077)**
F)	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD**	**1940**	**2,853,756**	**4,041,584**
G)	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)**	**1950**	**3,433,757**	**2,461,507**

	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
(+)	Cash	**1955**	651,692	666,068
(+)	Cash equivalent balances at central banks	**1960**	1,913,098	816,486
(+)	Other financial assets	**1965**	868,967	978,953
(-)	Less: Bank overdrafts repayable on demand	**1970**		
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1980**	**3,433,757**	**2,461,507**
	Of which: in power of group entities but not available for the group	**1990**		

IV. SELECTED FINANCIAL INFORMATION

10. B. CONSOLIDATED STATEMENT OF CASH FLOWS (DIRECT METHOD) (ADOPTED IFRS)

Units: Thousand euros

			CURRENT PERIOD XX/XX/XXXX	PREVIOUS PERIOD XX/XX/XXXX
A)	**CASH FLOWS FROM OPERATING ACTIVITIES**	**2000**		
(+/-)	Proceeds/(Payments) on operating assets	**2001**		
(+/-)	Proceeds/(Payments) on operating liabilities	**2002**		
(+/-)	Income tax recovered/(paid)	**2003**		
(+/-)	Other proceeds/(payments) from operating activities	**2004**		
B)	**CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)**	**2010**		
1.	**Payments**	**2020**		
(-)	Tangible assets	**2021**		
(-)	Intangible assets	**2022**		
(-)	Investments in joint ventures and associates	**2023**		
(-)	Subsidiaries and other business units	**2024**		
(-)	Non-current assets and liabilities classified as held for sale	**2025**		
(-)	Held-to-maturity investments	**2026**		
(-)	Other payments related to investing activities	**2027**		
2.	**Proceeds:**	**2030**		
(+)	Tangible assets	**2031**		
(+)	Intangible assets	**2032**		
(+)	Investments in joint ventures and associates	**2033**		
(+)	Subsidiaries and other business units	**2034**		
(+)	Non-current assets and liabilities classified as held for sale	**2035**		
(+)	Held-to-maturity investments	**2036**		
(+)	Other proceeds related to investing activities	**2037**		
C)	**CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2)**	**2040**		
1.	**Payments**	**2050**		
(-)	Dividends	**2051**		
(-)	Subordinated liabilities	**2052**		
(-)	Redemption of own equity instruments	**2053**		
(-)	Acquisition of own equity instruments	**2054**		
(-)	Other payments related to financing activities	**2055**		
2.	**Proceeds:**	**2060**		
(+)	Subordinated liabilities	**2061**		
(+)	Issuance of own equity instruments	**2062**		
(+)	Disposal of own equity instruments	**2063**		
(+)	Other proceeds related to financing activities	**2064**		
D)	**EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS HELD**	**2070**		
E)	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)**	**2080**		
F)	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD**	**2090**		
G)	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)**	**2100**		

	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		CURRENT PERIOD XX/XX/XXXX	PREVIOUS PERIOD XX/XX/XXXX
(+)	Cash	**2110**		
(+)	Cash equivalent balances at central banks	**2115**		
(+)	Other financial assets	**2120**		
(-)	Less: Bank overdrafts repayable on demand	**2125**		
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**2130**		
	Of which: in power of group entities but not available for the group	**2140**		

IV. SELECTED FINANCIAL INFORMATION

11. CHANGES IN THE COMPOSITION OF THE GROUP

Table 1:

BUSINESS COMBINATIONS AND OTHER ACQUISITIONS OR INCREASES IN HOLDINGS IN SUBSIDIARIES, JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES (PRESENT PERIOD).						
Name of company (or business line) acquired or merged	Category	Effective date of transactio n (dd/mm/y yyy)	(Net) cost of the combination (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 attributable to the combination (a)	Fair value of equity instruments issued for the acquisition of the company (b)		

Table 2:

REDUCTION IN HOLDINGS IN SUBSIDIARIES, JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES OR OTHER TRANSACTIONS OF A SIMILAR NATURE (PRESENT PERIOD)					
Name of company (or business line) sold, spun off or retired	Category	Effective date of transactio n (dd/mm/y yyy)	% of voting rights sold or retired	% of total voting rights in the company after disposal	Profit/(Loss) generated (thousand euros)

IV. SELECTED FINANCIAL INFORMATION

12. DIVIDENDS 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	3.44	0.03	315,957	3.28	0.03	300,717
Other shares (non-voting shares, redeemable shares, etc.)	2159						
Total dividends paid	**2160**	**3.44**	**0.03**	**315,957**	**3.28**	**0.03**	**300,717**
a) Dividends charged to profit and loss	2155	3.44	0.03	315,957	3.28	0.03	300,717
b) Dividends charged to reserves or share premium	2156						
c) Dividends in kind	2157						

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

Units: Thousand euros

FINANCIAL ASSETS: NATURE/CATEGORY		CURRENT PERIOD			
		Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables
Derivatives	2470	6,888,055			
Equity instruments	2480	6,020		27,776	
Debt securities	2490	2,004		19,584,501	557,648
Loans and advances	2500				106,805,133
Central banks	2501				
Credit institutions	2502				2,598,116
Customers	2503				104,207,017
(INDIVIDUAL) TOTAL	**2510**	**6,896,079**		**19,612,277**	**107,362,781**
Derivatives	2520	6,867,482			
Equity instruments	2530	67,524		27,776	
Debt securities	2540	2,010		19,410,698	406,412
Loans and advances	2550				106,740,733
Central banks	2551				
Credit institutions	2552				2,596,834
Customers	2553				104,143,899
(CONSOLIDATED) TOTAL	**2560**	**6,937,016**		**19,438,474**	**107,147,145**

FINANCIAL LIABILITIES: NATURE/CATEGORY		CURRENT PERIOD		
		Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Derivatives	2570	7,139,513		
Short positions	2580	71,928		
Deposits	2590			140,822,435
Central banks	2591			12,815,970
Credit institutions	2592			22,178,780
Customers	2593			105,827,685
Debt securities issued	2600			17,928,951
Other financial liabilities	2610			1,286,568
(INDIVIDUAL) TOTAL	**2620**	**7,211,441**		**160,037,954**
Derivatives	2630	7,110,788		
Short positions	2640	71,928		
Deposits	2650			138,122,029
Central banks	2651			12,815,970
Credit institutions	2652			22,268,431
Customers	2653			103,037,628
Debt securities issued	2660			18,662,233
Other financial liabilities	2670			1,197,867
(CONSOLIDATED) TOTAL	**2680**	**7,182,716**		**157,982,129**

IV. SELECTED FINANCIAL INFORMATION

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

Units: Thousand euros

FINANCIAL ASSETS: NATURE/CATEGORY		PREVIOUS PERIOD			
		Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables
Derivatives	5470	8,266,655			
Equity instruments	5480	7,062		26,107	
Debt securities	5490	5,005		25,394,669	726,600
Loans and advances	5500				108,258,392
Central banks	5501				
Credit institutions	5502				3,578,821
Customers	5503				104,679,571
(INDIVIDUAL) TOTAL	**5510**	**8,278,722**		**25,420,776**	**108,984,992**

Derivatives	5520	8,255,624			
Equity instruments	5530	70,639		26,107	
Debt securities	5540	5,011		25,222,848	563,151
Loans and advances	5550				108,254,196
Central banks	5551				
Credit institutions	5552				3,577,553
Customers	5553				104,676,643
(CONSOLIDATED) TOTAL	**5560**	**8,331,274**		**25,248,955**	**108,817,347**

FINANCIAL LIABILITIES: NATURE/CATEGORY		PREVIOUS PERIOD		
		Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Derivatives	5570	8,549,198		
Short positions	5580	458,837		
Deposits	5590			147,470,875
Central banks	5591			14,968,759
Credit institutions	5592			23,881,424
Customers	5593			108,620,692
Debt securities issued	5600			18,195,679
Other financial liabilities	5610			740,806
(INDIVIDUAL) TOTAL	**5620**	**9,008,035**		**166,407,360**

Derivatives	5630	8,524,275		
Short positions	5640	458,837		
Deposits	5650			144,116,714
Central banks	5651			14,968,759
Credit institutions	5652			23,993,139
Customers	5653			105,154,816
Debt securities issued	5660			19,846,163
Other financial liabilities	5670			672,732
(CONSOLIDATED) TOTAL	**5680**	**8,983,112**		**164,635,609**

IV. SELECTED FINANCIAL INFORMATION

14. Segment information

Units: Thousand euros

Table 1:

GEOGRAPHIC AREA		DISTRIBUTION OF INTEREST INCOME BY GEOGRAPHIC AREA			
		INDIVIDUAL		CONSOLIDATED	
		CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD
Domestic market	2210	1,143,271	1,350,465	1,164,453	1,404,903
Exports:	2215			1,412	2,215
a) European Union	2216				
b) OECD countries	2217				
c) Other countries	2218			1,412	2,215
TOTAL	2220	**1,143,271**	**1,350,465**	**1,165,865**	**1,407,118**

Table 2:

SEGMENTS		Ordinary revenue					
		CONSOLIDATED					
		Ordinary revenue from foreign customers		Ordinary revenue between segments		Total ordinary revenue	
		CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD
Retail Banking	2221	912,568	934,855	(59,523)	36,615	853,045	971,470
Business Banking	2222	357,232	391,611	(69,275)	(92,107)	287,957	299,504
Corporate Centre	2223	657,125	742,010	128,798	55,492	785,923	797,502
	2224						
	2225						
	2226						
	2227						
	2228						
	2229						
	2230						
(-) Adjustments and elimination of ordinary revenue between segments	2231						
TOTAL	2235	**1,926,925**	**2,068,476**			**1,926,925**	**2,068,476**

Table 3:

SEGMENTS		CONSOLIDATED	
		Profit (loss)	
		CURRENT PERIOD	PREVIOUS PERIOD
Retail Banking	2250	199,692	409,572
Business Banking	2251	255,007	265,562
Corporate Centre	2252	238,353	(35,908)
	2253		
	2254		
	2255		
	2256		
	2257		
	2258		
	2259		
Total profit (loss) of segments reported	2260	**693,052**	**639,226**
(+/-) 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	**693,052**	**639,226**

IV. SELECTED FINANCIAL INFORMATION
15. AVERAGE WORKFORCE AND NUMBER OF OFFICES

		INDIVIDUAL		CONSOLIDATED	
		CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD
AVERAGE WORKFORCE	**2295**	**13,075**	**13,145**	**13,415**	**13,410**
Men	**2296**	5,955	6,009	6,109	6,131
Women	**2297**	7,120	7,136	7,306	7,279

		CURRENT PERIOD	PREVIOUS PERIOD
NUMBER OF OFFICES	**2298**	**1.777**	**1.906**
Spain	**2299**	1.777	1.906
Abroad	**2300**		

IV. SELECTED FINANCIAL INFORMATION
16. REMUNERATION RECEIVED BY DIRECTORS AND MANAGING DIRECTORS

Credit Institutions except Savings Banks

DIRECTORS:

Type of remuneration:

		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Fixed remuneration	**2310**	1,150	1,132
Variable remuneration	**2311**		
Attendance fees	**2312**		
Directors' fees	**2313**		
Options on shares and/or other financial instruments	**2314**		
Other	**2315**		
Total	**2320**	**1,150**	**1,132**

Other benefits:

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

MANAGING DIRECTORS:

		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Total remuneration paid to managing directors	**2325**	876	867

Savings Banks

DIRECTORS:

		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Attendance fees and other remuneration	**2332**		

CONTROL COMMITTEE:

Attendance fees and other remuneration	**2333**		

KEY MANAGING DIRECTORS AND MEMBERS OF THE BOARD OF DIRECTORS IN THEIR CAPACITY AS MANAGING DIRECTORS

		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Salaries and other remuneration	**2334**		
Obligations relating to pensions or payment of life insurance premiums	**2335**		

IV. SELECTED FINANCIAL INFORMATION

17. RELATED-PARTY TRANSACTIONS (1/2)

Units: Thousand euros

RELATED-PARTY TRANSACTIONS

EXPENSES AND REVENUE		Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
		CURRENT PERIOD				
1) Finance costs	2340	140	1	819	22	982
2) Management and cooperation contracts	2341					
3) R&D transfers 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			(707)		(707)
8) Losses on retirement or disposal of assets	2347					
9) Other expenses	2348					
EXPENSES (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)	**2350**	**140**	**1**	**112**	**22**	**275**
10) Finance income	2351		1	1,264	1	1,266
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	4,694	39	161	15	4,909
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**	**4,694**	**40**	**1,425**	**16**	**6,175**

OTHER TRANSACTIONS:		Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
		CURRENT PERIOD				
Purchase of property, plant and equipment, intangible assets and other assets	2371					
Financing agreements: loans and capital contributions (lender)	2372	387,123	1,176	141,311	297	529,907
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	81,946	1,453	67,979	58,779	210,157
Finance lease arrangements (lessee)	2376					
Repayment or cancellation of loans and lease arrangements (lessee)	2378					
Collateral and guarantees given	2381	2,401	9	11,976	3	14,389
Collateral and guarantees received	2382					
Commitments assumed	2383		119	767	69	955
Commitment/Guarantees cancelled	2384					
Dividends and other earnings distributed	2386					
Other transactions	2385	3,840				3,840

IV. SELECTED FINANCIAL INFORMATION

17. RELATED-PARTY TRANSACTIONS (2/2)

Units: Thousand euros

RELATED-PARTY TRANSACTIONS EXPENSES AND REVENUE		PREVIOUS PERIOD Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
1) Finance costs	6340	20,093	7	930	116	21,146
2) Management and cooperation contracts	6341					
3) R&D transfers 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			(8,267)	(1)	(8,268)
8) Losses on retirement or disposal of assets	6347					
9) Other expenses	6348					
EXPENSES (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)	**6350**	**20,093**	**7**	**(7,337)**	**115**	**12,878**
10) Finance income	6351	66,169	7	1,392	2	67,570
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	7,721	32	138	65	7,956
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**	**73,890**	**39**	**1,530**	**67**	**75,526**

OTHER TRANSACTIONS:		PREVIOUS PERIOD 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	1,966,692	1,404	246,598	503	2,215,197
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	1,381,499	2,007	126,476	141,898	1,651,880
Finance lease arrangements (lessee)	6376					
Repayment or cancellation of loans and lease arrangements (lessee)	6378					
Collateral and guarantees given	6381	5,879	9	11,976	4	17,868
Collateral and guarantees received	6382					
Commitments assumed	6383		152	766	92	1,010
Commitment/Guarantees cancelled	6384					
Dividends and other earnings distributed	6386					
Other transactions	6385	1,095,996				1,095,996

IV. SELECTED FINANCIAL INFORMATION

18. SOLVENCY INFORMATION

Units: Percentage

CAPITAL RATIOS		CURRENT PERIOD	PREVIOUS PERIOD
Eligible Common Equity Tier 1 capital (thousand euros) (a)	7010	11,703,053	11,605,956
Eligible Additional Tier 1 capital (thousand euros) (b)	7020		
Eligible Tier 2 capital (thousand euros) (c)	7040	1,512,335	1,030,059
Risks (thousand euros) (d)	7030	74,627,984	76,959,536
Common Equity Tier 1 capital ratio (CET 1) (A)=(a)/(d)	7110	15.68	15.08
Additional Tier 1 capital ratio (AT 1) (B)=(b)/(d)	7120		
Tier 1 capital ratio (Tier 1) (A)+(B)	7140	15.68	15.08
Tier 2 capital ratio (Tier 2) (C)=(c)/(d)	7130	2.03	1.34
Total capital ratio (A)+(B)+(C)	7140	**17.71**	**16.42**

LEVERAGE		CURRENT PERIOD	PREVIOUS PERIOD
Tier 1 capital (thousand euros) (a)	7050	11,703,053	11,605,956
Exposure (thousand euros) (b)	7060	179,608,499	189,491,589
Leverage ratio (a)/(b)	7070	**6.52**	**6.12**

IV. SELECTED FINANCIAL INFORMATION

19. CREDIT QUALITY OF THE PORTFOLIO OF LOANS AND RECEIVABLES

Units: Thousand euros

GROSS AMOUNT		**CURRENT PERIOD**	**PREVIOUS PERIOD**
Normal risk	**7500**	102,609,667	104,018,441
Of which: under special monitoring	**7501**		
Substandard risk	**7502**		
Non-performing risk	**7503**	9,831,456	10,717,523
Total gross amount	**7505**	**112,441,123**	**114,735,964**

IMPAIRMENT LOSSES		**CURRENT PERIOD**	**PREVIOUS PERIOD**
Normal risk	**7510**	(664,380)	(584,937)
Of which: under special monitoring	**7511**		
Substandard risk	**7512**		
Non-performing risk	**7513**	(4,629,598)	(5,333,680)
Total asset impairment losses	**7515**	**(5,293,978)**	**(5,918,617)**
Impairment loss calculated collectively	**7520**	**(2,925,401)**	**(3,179,987)**
Impairment loss calculated individually	**7530**	**(2,368,577)**	**(2,738,630)**

CARRYING AMOUNT		**CURRENT PERIOD**	**PREVIOUS PERIOD**
Normal risk	**7540**	101,945,287	103,433,504
Of which: under special monitoring	**7541**		
Substandard risk	**7542**		
Non-performing risk	**7543**	5,201,858	5,383,843
Total carrying amount	**7545**	**107,147,145**	**108,817,347**

GUARANTEES RECEIVED		**CURRENT PERIOD**	**PREVIOUS PERIOD**
Value of collateral	**7550**	68,401,995	70,754,417
Of which: guarantees risks under special monitoring	**7551**		
Of which: guarantees substandard risks	**7552**		
Of which: guarantees non-performing risks	**7553**	4,728,047	5,188,575
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**	**68,401,995**	**70,754,417**

FINANCIAL GUARANTEES GIVEN		**CURRENT PERIOD**	**PREVIOUS PERIOD**
Loan commitments given	**7560**	17,600,072	16,859,876
Of which: classified as non-performing	**7561**	411,001	406,208
Amount recognised under liabilities in Balance Sheet	**7561**	26,099	22,489
Financial guarantees given	**7560**	469,073	459,863
Of which: classified as non-performing	**7561**	97,519	108,529
Amount recognised under liabilities in Balance Sheet	**7561**	23,616	25,526
Other commitments given	**7560**	11,238,477	12,756,927
Of which: classified as non-performing	**7561**	618,393	642,589
Amount recognised under liabilities in Balance Sheet	**7561**	329,051	341,675

20. Refinancing or restructuring operations (1/2)

Units: Thousand euros

Refinancing and restructuring balances

GROSS AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	8000	4,104,943	3,286,811
Of which: under special monitoring	8001		
Substandard risk	8002		
Non-performing risk	8003	6,660,687	7,268,053
Total gross amount	8005	**10,765,630**	**10,554,864**

IMPAIRMENT LOSSES		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	8010	(120,144)	(112,668)
Of which: under special monitoring	8011		
Substandard risk	8012		
Non-performing risk	8013	(3,094,181)	(3,485,474)
Total asset impairment losses	8015	**(3,214,325)**	**(3,598,142)**
Collective impairment losses	8020	**(1,456,555)**	**(1,467,296)**
Specific impairment losses	8030	**(1,757,770)**	**(2,130,846)**

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Normal risk	8040	3,984,799	3,174,143
Of which: under special monitoring	8041		
Substandard risk	8042		
Non-performing risk	8043	3,566,506	3,782,579
Total carrying amount	8045	**7,551,305**	**6,956,722**
Total carrying amount of financing granted to customers	8046	**104,143,899**	**104,676,643**

GUARANTEES RECEIVED		CURRENT PERIOD	PREVIOUS PERIOD
Value of collateral	8050	5,594,504	4,333,705
Of which: guarantees risks under special monitoring	8051		
Of which: guarantees substandard risks	8052		
Of which: guarantees non-performing risks	8053	3,015,377	2,939,673
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 value of guarantees received	8058	**5,594,504**	**4,333,705**

Distribution by segment

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Credit institutions	8060		
General Governments	8061	148,112	147,697
Other financial corporations and individual entrepreneurs (financial business)	8062	345,626	111,426
Other non-financial corporations and individual entrepreneurs (non-financial business)	8063	3,050,043	3,632,175
Of which: Financing for real estate construction and development (including land)	8064	199,829	180,271
Other households	8065	4,007,524	3,065,424
Total carrying amount	8066	**7,551,305**	**6,956,722**
Financing classified as non-current assets and disposal groups classified as held for sale	8067		

20. Refinancing or restructuring operations (2/2)

Units: Thousand euros

Reconciliation

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Opening balance	**8070**	6,956,722	18,750,325
(+) Refinancings and restructurings in the period	**8071**	1,641,350	1,368,672
Token entry: impact recognised in the profit and loss account for the period	**8072**		
(-) Debt repayments	**8073**	(881,876)	(1,549,990)
(-) Foreclosures	**8074**	(66,154)	(89,140)
(-) Derecognition (reclassification to written-off assets)	**8075**	(20,681)	(38,412)
(+)/(-) Other changes	**8076**	(78,056)	(73,655)
Closing balance	**8080**	**7,551,305**	**18,367,800**

21. REAL ESTATE EXPOSURE

Units: Thousand euros

Real estate credit risk exposure - Spain

GROSS AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Financing for real estate construction and development (including land)	9000	771,097	837,126
Of which: under special monitoring	9001		
Of which: substandard	9002		
Of which: non-performing	9003	458,628	497,659
Total gross amount	9005	**771,097**	**837,126**

IMPAIRMENT LOSSES		CURRENT PERIOD	PREVIOUS PERIOD
Financing for real estate construction and development (including land)	9010	(266,135)	(312,904)
Of which: under special monitoring	9011		
Of which: substandard	9012		
Of which: non-performing	9013	(254,785)	(300,108)
Total asset impairment losses	9015	**(266,135)**	**(312,904)**

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Financing for real estate construction and development (including land)	9020	504,962	524,222
Of which: under special monitoring	9021		
Of which: substandard	9022		
Of which: non-performing	9023	203,843	197,551
Total carrying amount	9025	**504,962**	**524,222**
Total carrying amount of financing granted to customers	9030	**98,254,891**	**98,813,058**

GUARANTEES RECEIVED		CURRENT PERIOD	PREVIOUS PERIOD
Value of collateral	9050	562,228	538,938
Of which: guarantees risks under special monitoring	9051		
Of which: guarantees substandard risks	9052		
Of which: guarantees non-performing risks	9053	260,593	235,228
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	**562,228**	**538,938**

FINANCIAL GUARANTEES		CURRENT PERIOD	PREVIOUS PERIOD
Financial guarantees given relating to real estate construction and development	9060	26,985	28,574
Amount recognised under liabilities	9061	490	460

Foreclosed assets and assets received as payment for debts - Spain

GROSS AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Foreclosed property and property received as payment for debts	9070	3,259,094	3,448,878
Of which: land	9071	81,963	71,606
Investments in real estate entities	9072		
Total gross amount	9075	**3,259,094**	**3,448,878**

IMPAIRMENT LOSSES		CURRENT PERIOD	PREVIOUS PERIOD
Foreclosed property and property received as payment for debts	9080	(1,112,652)	(1,197,647)
Of which: land	9081	(39,224)	(35,589)
Investments, real estate entities	9082		
Total asset impairment losses	9085	**(1,112,652)**	**(1,197,647)**

CARRYING AMOUNT		CURRENT PERIOD	PREVIOUS PERIOD
Foreclosed property and property received as payment for debts	9090	2,146,442	2,251,231
Of which: land	9091	42,739	36,017
Investments, real estate entities	9092		
Total carrying amount	9095	**2,146,442**	**2,251,231**

V. EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS/CONDENSED ANNUAL FINANCIAL STATEMENTS FOR THE INTERIM PERIOD

Annex

Explanatory notes to the financial statements [(1)]

(Text field)

(1) Explanatory notes to the financial statements: *Explanatory notes to the interim financial statements* and other Selected financial information required in Chapter IV of this template should be attached here, and shall contain at least the minimum disclosures required in the instructions for the preparation of the half-yearly financial report.

(2) Condensed annual financial statements:

(2.1) Issuers that prepare consolidated condensed annual financial statements: If the consolidated financial statement templates of Sections 6, 7, 8, 9 and 10.A or 10.B of Chapter IV of the Selected financial information do not meet the requirements established in the adopted international accounting standard applicable to interim financial information, or if the issuer voluntarily chooses to prepare condensed consolidated annual financial statements for the interim period including its own condensed financial statement templates, it shall attach in this section the condensed consolidated annual financial statements for the interim period, which shall contain, at least, all the minimum disclosures required under the adopted international accounting standard applicable to interim financial information, without prejudice to the obligation to additionally complete the financial information contained in Chapter IV on Selected financial information.

(2.2) Issuers that do not prepare condensed consolidated annual financial statements: In the exceptional case that the individual financial statement templates of Sections 1, 2, 3, 4 and 5.A or 5.B of Chapter IV on Selected financial information do not comply with the requirements established by Article 13 of Royal Decree 1362/2007; or if the issuer voluntarily draws up condensed individual annual financial statements for the interim period including its own condensed financial statement templates, it shall attach in this section the *condensed individual annual financial statements for the interim period*, which shall contain, at least, all the minimum disclosures required under the adopted international accounting standard applicable to interim financial information, without prejudice to the obligation to additionally complete the financial information contained in Chapter IV on Selected financial information.

Annex

Interim management report

(Text field)

Annex

Audit report

(Text field)

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

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Condensed Consolidated Interim Financial Statements (Half-Year) and Consolidated Interim Management Report for the six-month period ended June 30, 2017

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.

Contents

PAGE

APPENDICES

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

Consolidated balance sheets at 30 June 2017 and 31 December 2016

(Thousands of euros)

ASSETS	NOTE	30/06/2017	31/12/2016 (*)
Cash, cash balances at central banks and other demand deposits		**3,433,757**	**2,853,756**
Financial assets held for trading		**6,937,016**	**8,331,274**
Derivatives	7.2	6,867,482	8,255,624
Equity instruments		67,524	70,639
Debt securities		2,010	5,011
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		**244**	**5,004**
Financial assets designated at fair value through profit or loss		-	-
Equity instruments		-	-
Debt securities		-	-
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Available-for-sale financial assets	7.3	**19,438,474**	**25,248,955**
Equity instruments		27,776	26,107
Debt securities		19,410,698	25,222,848
Memorandum item: loaned or advanced as collateral with right to sell or pledge		7,741,446	9,860,557
Loans and receivables	7.4	**107,147,145**	**108,817,347**
Debt instruments	7.5	406,412	563,151
Loans and advances		106,740,733	108,254,196
Central Banks		-	-
Credit institutions		2,596,834	3,577,553
Customers		104,143,899	104,676,643
Memorandum item: loaned or advanced as collateral with right to sell or pledge		71,806,539	74,855,038
Held-to-maturity investments	7.6	**27,895,398**	**27,691,243**
Memorandum item: loaned or advanced as collateral with right to sell or pledge		10,571,693	9,999,995
Derivatives – Hedge accounting		**2,924,787**	**3,631,322**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		-	-
Investments in joint ventures and associates		**286,106**	**281,613**
Jointly-controlled entities		-	-
Associates		286,106	281,613
Assets under insurance contracts		-	-
Tangible assets	10	**1,670,685**	**1,658,108**
Property, Plant and Equipment		1,390,385	1,393,653
For own use		1,390,385	1,393,653
Leased out under an operating lease		-	-
Assigned to welfare projects (saving banks and credit cooperatives)		-	-
Investment property		280,300	264,455
Of which: assigned under operating leases		280,300	264,455
Memorandum item: acquired in financial leasing		-	-
Intangible assets	11	**232,486**	**219,815**
Goodwill		94,462	95,662
Other intangible assets		138,024	124,153
Tax assets		**8,095,954**	**8,320,196**
Current tax assets		258,330	357,296
Deferred tax assets	17	7,837,624	7,962,900
Other assets		**703,356**	**853,778**
Insurance contracts linked to pensions		388,684	398,404
Inventories	12	455	20,187
Other	12	314,217	435,187
Non-current assets and disposal groups classified as held for sale	9	**2,118,791**	**2,260,052**
TOTAL ASSETS		**180,883,955**	**190,167,459**

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the consolidated balance sheet at 30 June 2017.
(*)Presented solely and exclusively for comparison purposes.

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

Consolidated balance sheets at 30 June 2017 and 31 December 2016

(Thousands of euros)

LIABILITIES AND EQUITY	NOTE	30/06/2017	31/12/2016
Financial liabilities held for trading		**7,182,716**	**8,983,112**
Derivatives	13.2	7,110,788	8,524,275
Short positions		71,928	458,837
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	-
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities measured at amortised cost		**157,982,129**	**164,635,609**
Deposits	13.3	138,122,029	144,116,714
Central Banks	13.4	12,815,970	14,968,759
Credit institutions	13.5	22,268,431	23,993,139
Customers		103,037,628	105,154,816
Debt securities issued	13.7	18,662,233	19,846,163
Other financial liabilities		1,197,867	672,732
Memorandum item: subordinated liabilities		1,518,010	1,045,492
Derivatives – Hedge accounting		**357,866**	724,045
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	-
Liabilities under insurance contracts	14	**-**	-
Provisions		**1,123,939**	**1,405,104**
Pensions and other post employment defined benefit obligations		392,530	401,664
Other long term employee benefits		-	-
Pending legal issues and tax litigation		207,262	421,071
Commitments and guarantees given		378,766	389,690
Other provisions		145,381	192,679
Tax liabilities		**602,615**	664,809
Current tax liabilities		757	166
Deferred tax liabilities	17	601,858	664,643
Share capital repayable on demand		**-**	-
Other liabilities		**732,026**	**916,312**
Of which: Welfare Fund (only saving banks and credit cooperatives)		-	-
Liabilities included in disposal groups classified as held for sale	9	**826**	**1,276**
TOTAL LIABILITIES		**167,982,117**	**177,330,267**
Equity		**12,480,531**	**12,302,826**
Capital	15.1	2,879,332	9,213,863
Paid up capital		2,879,332	9,213,863
Unpaid capital which has been called up		-	-
Memorandum item: Uncalled capital		-	-
Share Premium		**-**	-
Equity instruments issued other than capital		**-**	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		**-**	-
Retained earnings		**-**	-
Revaluation reserves		-	-
Other reserves		9,148,867	2,329,558
Reserves or accumulated losses of investments in joint ventures and associates		(1,437)	(28,381)
Other		9,150,304	2,357,939
(-) Treasury shares	15.2	(61,505)	(44,758)
Profit or loss attributable to owners of the parent		513,837	804,163
(-) Interim dividends		**-**	-
Accumulated other comprehensive income		**376,184**	**489,035**
Items that will not be reclassified to profit or loss		42,622	42,622
Actuarial gains or (-) losses on defined benefit pension plans		42,622	42,622
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		-	-
Other valuation adjustments		-	-
Items that may be reclassified to profit or loss		333,562	446,413
Hedge of net investments in foreign operations [effective portion]		-	-
Foreign currency translation		(253)	527
Hedging derivatives. Cash flow hedges [effective portion]		(88)	(950)
Available-for-sale financial assets		280,228	397,959
Debt instruments		277,760	397,434
Equity instruments		2,468	525
Non-current assets and disposal groups classified as held for sale		(2,130)	4,262
Share of other recognised income and expense of investments in joint ventures and associates		55,805	44,615
Minority interests [Non-controlling interests]		**45,123**	**45,331**
Accumulated Other Comprehensive Income		1,440	2,401
Other items		43,683	42,930
TOTAL EQUITY		**12,901,838**	**12,837,192**
TOTAL EQUITY AND TOTAL LIABILITIES		**180,883,955**	**190,167,459**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS		**29,307,622**	**30,076,666**
Contingent exposures	18	7,240,315	7,304,402
Contingent commitments	18	22,067,307	22,772,264

The accompanying Notes 1 to 20 and Appendices I to VIII are an integral part of the condensed consolidated balance sheet at 30 June 2017.

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP
Consolidated income statement for the six months ended 30 June 2017 and 2016

(Thousands of euros)

	30/06/2017	30/06/2016 (*)
Interest income	1,165,865	1,407,118
(Interest expenses)	(170,902)	(283,571)
(Expenses on share capital repayable on demand)	-	-
A) NET INTEREST INCOME	**994,963**	**1,123,547**
Dividend income	7,313	3,940
Share of profit/(loss) of companies accounted for using the equity method	18,379	20,577
Fee and commission income	463,655	445,181
(Fee and commission expenses)	(38,546)	(39,014)
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	217,331	143,383
Gains or (-) losses on financial assets and liabilities held for trading, net	60,336	4,745
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	(15,496)	(29,275)
Exchange differences [gain or (-) loss], net	4,298	15,440
Other operating income	27,921	93,384
(Other operating expenses)	(92,545)	(96,224)
Of which: Mandatory provisions to Welfare Fund (only saving banks and credit cooperatives)	-	-
Expenses of insurance and reinsurance contracts	-	-
(Expenses of liabilities covered by insurance or reinsurance contracts)	-	-
B) GROSS INCOME	**1,647,609**	**1,685,684**
(Administrative expenses)	(680,635)	(710,618)
(Staff expenses)	(460,813)	(465,237)
(Other administrative expenses)	(219,822)	(245,381)
(Depreciation) (Notes 10 and 11)	(83,324)	(75,558)
(Provisions or (-) reversal of provisions)	2,742	(51,965)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(174,161)	(151,181)
(Financial assets measured at cost)	-	-
(Available- for-sale financial assets)	2,118	(11,262)
(Loans and receivables)	(177,833)	(155,120)
(Held to maturity investments)	1,554	15,201
C) TOTAL OPERATING INCOME, NET	**712,231**	**696,362**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	(3,000)	-
(Impairment or (-) reversal of impairment on non-financial assets)	(6,470)	(8,323)
(Tangible assets)	733	(506)
(Intangible assets)	(3,000)	(2,999)
(Other)	(4,203)	(4,818)
Gains or (-) losses on the derecognition in nonfinancial assets accounts and investments, net	1,100	(1,609)
Of which: investments in joint ventures and associates	264	*(1,523)*
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	(10,809)	(47,204)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**693,052**	**639,226**
(Tax expense or (-) income related to profit or loss from continuing operations)	(178,591)	(157,737)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	**514,461**	**481,489**
Profit or (-) loss after tax from discontinued operations	-	-
F) PROFIT OR (-) LOSS	**514,461**	**481,489**
Attributable to minority interest [non-controlling interests]	624	138
Attributable to owners of the parent	513,837	481,351
EARNINGS PER SHARE (Note 5)		
Basic earnings/(loss) per share (euros)	0.18	0.17
Diluted earnings/(loss) per share (euros)	0.18	0.17

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 2017.

(*)Presented solely and exclusively for comparison purposes.

BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP
Consolidated statement of recognised income and expense for the six months ended 30 June 2017 and 2016

(Thousands of euros)

	30/06/2017	30/06/2016 (*)
Profit or (-) loss	**514,461**	**481,489**
Other comprehensive income	**(113,812)**	**(36,741)**
Items that will not be reclassified to profit or loss	**-**	**-**
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	-	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified to profit or loss	**(113,812)**	**(36,741)**
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	(780)	(1)
Translation gains or (-) losses taken to equity	(780)	(1)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	1,231	(6,914)
Valuation gains or (-) losses taken to equity	1,231	(6,914)
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	(168,187)	(35,167)
Valuation gains or (-) losses taken to equity	(67,339)	67,800
Transferred to profit or loss	(100,848)	(102,967)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	(9,474)	(570)
Valuation gains or (-) losses taken to equity	(9,474)	(570)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of Investments in joint ventures and associates	11,190	(6,693)
Income tax relating to items that may be reclassified to profit or (-) loss	52,208	12,604
Total comprehensive income	**400,649**	**444,748**
Attributable to minority interest [Non-controlling interest]	(337)	(117)
Attributable to owners of the parent	400,986	444,865

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 2017.

(*)Presented solely and exclusively for comparison purposes.

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)

												Minority interests		
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	Accumulated Other Comprehensive Income	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 saving 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 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 2017.

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

Consolidated statement of changes in total equity for the six months ended 30 June 2016

(Thousands of euros)

												Minority interests		
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	Accumulated Other Comprehensive Income	Other items	Total
Opening balance at 31 December 2015 [before restatement]	**9,213,863**	**-**	**-**	-	**-**	**-**	**1,726,334**	**(46,473)**	**1,039,963**	**-**	**695,875**	**1,978**	**64,467**	**12,696,007**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**1,726,334**	**(46,473)**	**1,039,963**	**-**	**695,875**	**1,978**	**64,467**	**12,696,007**
Comprehensive accumulated income					**-**	**-**	**-**		**481,351**		**(36,486)**	**(255)**	**138**	**444,748**
Other changes in equity	-	-	-	-	-	-	729,339	(15,476)	(1,039,963)	-	-	-	(19,576)	(345,676)
Issuance of ordinary shares	-	-			-	-	-						-	-
Issuance of preference shares	-	-	-		-	-	-						-	-
Issuance of other equity instruments			-		-	-	-						-	-
Exercise or expiration of other equity instruments issued			-		-	-	-						-	-
Conversion of debt to equity	-	-	-	-	-		-	-					-	-
Capital reduction	-	-			-	-	-	-	-				-	-
Dividends	-	-	-	-	-	-	(300,717)	-		-			-	(300,717)
Purchase of treasury shares					-	-	-	(56,365)				-	-	(56,365)
Sale or cancellation of treasury shares					-	-	(7,825)	40,889				-	-	33,064
Reclassification of financial instruments from equity to liability	-	-	-	-									-	-
Reclassification of financial instruments from liability to equity	-	-	-	-									-	-
Transfers among components of equity			-	-	-	-	1,039,963		(1,039,963)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-			-		-	-
Share based payments	-	-		-				-					-	-
Other increase or (-) decrease in equity			-	-	-	-	(2,082)	-	-	-	-	-	(19,576)	(21,658)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)					-		-							-
Closing balance at 30 June 2016 [current period]	**9,213,863**	**-**	**-**	**-**	**-**	**-**	**2,455,673**	**(61,949)**	**481,351**	**-**	**659,389**	**1,723**	**45,029**	**12,795,079**

(*)Presented solely and exclusively for comparison purposes.

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

Consolidated statement of cash flows for the six months ended 30 June 2017 and 2016

(Thousands of euros)

	30/06/2017	30/06/2016(*)
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**1,396,737**	**(840,438)**
Consolidated profit/(loss)	**514,461**	**481,489**
Adjustments made to obtain the cash flows from operating activities	**209,505**	**314,177**
Depreciation and amortisation	83,324	75,558
Other	126,181	238,619
Net increase/(decrease) in operating assets	**(7,094,077)**	**1,938,826**
Financial assets held for trading	19,229	(41,590)
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	(5,745,260)	1,236,740
Loans and receivables	(1,560,487)	919,027
Other operating assets	192,441	(175,351)
Net increase/(decrease) in operating liabilities	**(6,497,826)**	**(3,575,262)**
Financial liabilities held for trading	(386,909)	383,828
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(5,914,725)	(2,236,973)
Other operating liabilities	(196,192)	(1,722,117)
Income tax receipts/(payments)	**76,520**	**332**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**195,664**	**(903,156)**
Payments	**738,485**	**3,324,321**
Tangible assets	47,089	21,181
Intangible assets	54,283	42,335
Investments in joint ventures and associates	3,000	341
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	105	993
Held-to-maturity investments	634,008	3,259,471
Other payments related to investing activities	-	-
Proceeds	**934,149**	**2,421,165**
Tangible assets	7,874	4,351
Intangible assets	-	-
Investments in joint ventures and associates	25,464	12,552
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	368,463	354,407
Held-to-maturity investments	532,348	2,049,855
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(1,012,400)**	**163,517**
Payments	**2,068,764**	**2,155,047**
Dividends	315,957	300,717
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	68,877	56,365
Other payments related to financing activities	1,683,930	1,797,965
Proceeds	**1,056,364**	**2,318,564**
Subordinated liabilities	497,270	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	59,094	33,064
Other proceeds related to financing activities	**500,000**	2,285,500
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**580,001**	**(1,580,077)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**2,853,756**	**4,041,584**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**3,433,757**	**2,461,507**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	651,692	666,068
Cash equivalents at central banks	1,913,098	816,486
Other financial assets	868,967	978,953
Less: Bank overdrafts refundable on demand	-	-
Total Cash and similar at the end of period	**3,433,757**	**2,461,507**
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 cash flows for the six months ended 30 June 2017.

(*)Presented solely and exclusively for comparison purposes.

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 2017

(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 2017, the Bank's branch network comprised 1,777 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 26/1988, of 29 July, on the Discipline and Intervention in Credit Institutions.

In addition to the operations it carries out directly, Bankia is a subsidiary of the BFA, Tenedora de Acciones, Group (hereinafter the "BFA Group") and, in turn, is the parent of a business group (the "Group" or "Bankia Group"). At 30 June 2017, the scope of consolidation of the Bankia Group encompassed 51 companies, including subsidiaries, associates and jointly-controlled entities. These companies engage in a range of activities, including among others, insurance, asset management, financing, services and property management.

Appendices II, III and IV list the entities that form part of the scope of consolidation of the Bankia Group at 30 June 2017 (subsidiaries controlled by the Bank, jointly-controlled entities and associates over which Bankia, directly or indirectly, exercises significant influence, distinguishing those classified under "Non-current assets held for sale"), and specifying the percentage of voting rights controlled by Bankia in each company.

The Bankia Group's condensed consolidated interim financial statements for the six months ended 30 June 2017 were authorised for issue by Bankia's directors at the Board meeting held on 21 July 2017. The Bankia Group's consolidated financial statements for 2016 were approved by the shareholders at the general meeting held on 24 March 2017.

Appendix I presents Bankia, S.A.'s separate financial statements for the six months ended 30 June 2017 and, for comparison purposes, information at 31 December 2016 and 30 June 2016.

(1.2) Restructuring plan

Bankia's main shareholder is BFA, Tenedora de Acciones S.A.U. (hereinafter "BFA"), which at the end of the first half of 2017 held a stake of 66.973% (67.341% including treasury shares).

Year 2012

At its meeting of 9 May 2012, BFA's Board of Directors agreed unanimously to submit a request to the Fund for Orderly Bank Restructuring (a public-law entity controlled by the Spanish state, hereinafter the "FROB"), through the Bank of Spain, to convert the EUR 4,465 million of convertible preference shares issued by BFA and subscribed by the FROB into BFA shares, which would be issued pursuant to the resolution adopted to increase capital to carry out the conversion. After this request, the FROB's Governing Committee, at its meeting of 14 May 2012, agreed to accept this request.

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

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

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

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

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

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

Lastly, on 28 November 2012, the BFA–Bankia Group received approval by the European Commission, the Bank of Spain and the FROB for the Bank's 2012-2017 Restructuring Plan (the "Restructuring Plan"). This final approval marked the completion of the joint analysis and work by the entities, the European Commission, the FROB and the Bank of Spain which began in July 2012 and concluded with the results of the stress test released on 28 September 2012. The capital requirements identified in the stress tests were reduced to EUR 24,552 million due to the impact of the transfer of real estate assets to the Society of Asset Management from the Banking Restructuring (SAREB) (see Note 1.13).

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

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

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

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

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

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

- The disposal of non-earning assets and non-strategic equity investments. Between the transfer of assets to the SAREB, the sale of investees and other portfolios, and the disposal of loan portfolios, Bankia expects to shed EUR 50,000 million (down from EUR 90,000 million to EUR 40,000 million).
- A change in the composition of the loan portfolio, resulting in a greater proportion of lending to businesses and practically zero exposure to the real estate business.
- Reduction in the Bank's capacity, both in terms of its branch network and its workforce, to ensure its future viability. The number of branches will be reduced by approximately 39%, from 3,117 to around 1,900-2,000.
- The workforce will be cut by 28%, from 20,589 to around 14,500 employees. This retrenchment would guarantee the Bank's viability and the preservation of 72% of existing jobs.

Year 2013

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

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

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

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

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

Year 2014

In 2014, the Group continued to implement the measures contained in the 2012-2015 Strategic Plan.

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

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

In this respect, pursuant to the resolution adopted by the FROB's Governing Committee on 19 December 2013, BFA's Board of Directors resolved to submit an application to surrender its license to operate as a credit institution. On 23 December 2014, the Bank of Spain notified BFA that it had approved its request to cease operating as a credit institution, effective from 1 January 2015, becoming from that date a holding company, mainly owing the interest in Bankia and debt portfolios, and changing its name to "BFA, Tenedora de Acciones, S.A.U.". This marked the completion of another milestone in the Group's Restructuring Plan.

Year 2015

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

Year 2016 and 2017

The Group made further inroads in implementing the measures and keeping the commitments of the 2012-2017 Restructuring Plan approved by the European Commission, the Bank of Spain and the FROB.

The authorities monitor compliance with the Group's Restructuring Plan and to date have not uncovered any significant matters regarding compliance with the commitments acquired.

(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 2016 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 thereto, which implements and adapts IFRS-EU for Spanish credit institutions.

The Group's consolidated financial statements for 2016 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 2016 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.

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 of CNMV Circular 1/2008 of 30 January, as amended by 5/2015 of 28 October. Therefore, these condensed consolidated interim financial statements will be included in the Interim Financial Report presented by the Bankia Group for the first half of 2017 in accordance with Circular 1/2008 and its amendments.

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 2016.

The accounting policies and measurement bases applied in the accompanying condensed consolidated interim financial statements are the same as those applied in the 2016 audited consolidated financial statements, but these also take into consideration the standards and interpretations that entered into force during the first half of 2017, which are described as follows.

Main regulatory changes during the period from 1 January to 30 June 2017

In the first half of year there are not new mandatory standards, amendments and interpretations applicable to the annual period beginning on 1 January 2017 approbed by European Union.

A) New mandatory standards, amendments and interpretations mandatory application in financial statement of the year after the natural financial statement of the year that began on 1 January 2017 (applicable in 2018 and forward) approbed by European Union

Following is a list of the main mandatory standards or amendments by the International Accounting Standards Board ("IASB") and endorsed by the European Union with mandatory application for annual periods beginning on or after 1 January 2017. Therefore, they have not been applied in the preparation of these condensed consolidated interim financial statements.

- **IFRS 9 "Financial Instruments**

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

  The IFRS 9 "Financial Instruments", published in July 2014 by the IASB ,being adopted by the European Union through the Ruling 2016/2067 of 22 November 2016. This standard replaces IAS 39 for annual periods beginning on or after 1 January 2018 and may be applied early.

  The Group set up a multidisciplinary work team comprised of individuals from the Risk, Financial Control and Systems areas to implement IFRS 9. This team is overseen by Risk and Financial Control officers, who provide regular progress reports to the Group's governing bodies. The project includes a number of lines of work. The first focuses on disclosures, classification and measurement, the second on impairment, the third on the expected impact on regulatory capital, and the last on the impact on hedge accounting.

A detailed plan has been drawn up to cover all milestones in the initial evaluation and analysis, design, construction, system testing stages at the same time in 2017 and the start-up on 1 January 2018.

The main highlights are as follows:

- **Classification and measurement of financial assets**. The standard requires all financial assets, except equity instruments and derivatives, to be assessed on the basis of the entity's business model and their contractual cash flow characteristics to determine whether the instruments are recognised and measured systematically at amortised cost or fair value. The three new classifications for financial assets in accordance with IFRS 9 are as follows:

    - Financial assets at amortised cost. Financial assets shall be classified in this category if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
    - Financial assets at fair value through other comprehensive income. Financial assets shall be classified in this category if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
    - Financial assets at fair value through profit or loss. Classification of financial assets in this category is mandatory when due to the business model for managing the financial assets or the characteristics of their contractual cash flows, they cannot be classified into either of the preceding categories.

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

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

  Regarding this classification and measurement process, the Group has made considerable progress on: i) the definition of the business model for managing the financial assets in accordance with the relevant quantitative and qualitative indicators under the scope of classification of IFRS 9; ii) the definition of governance of the scope of verification of the financial instruments' contractual characteristics to ensure their correct classification on this basis; and iii) the analysis of the cash flow characteristics of a significant sample of financial assets.

  The Group is assessing the overall impact of these changes, but does not expect the bases for measuring its financial assets to change significantly.

- **Classification and measurement of financial liabilities.** Financial liabilities will largely be classified and measured in the same way as under the requirements of IAS 39. However, there is a change in the treatment of fair value changes of financial liabilities designated at fair value through profit or loss which are attributable to the entity's own risk. These are presented in other comprehensive income.

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

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

  The main conclusions drawn from the comparison between the new expected loss model in IFRS 9 and the current model of incurred loss in IAS 39 are:

    - Under IFRS 9, credit losses are recognised for all typical loan and credit activities originated by the Group, as well as for all fixed income securities acquired, independently of their credit rating at the time of initial recognition.
    - There will be an increase in judgement required to determine the forward-looking information and scenarios that may occur over the life of the transactions, and how these scenarios are incorporated into the measurement of the expected loss.

  Financial instruments are grouped into three categories based on the level of credit deterioration, as follows:

    - Category 1 - Performing risk: the Group recognises an impairment allowance equal to 12 months' worth of expected credit losses

- o Category 2 – Problem risk: the Group recognises an impairment allowance to cover the lifetime expected losses of the financial instrument when there is a significant increase in the instrument's credit risk.
- o Category 3 – Non-performing risk: the Group recognises the lifetime expected credit losses of the loans. In addition, the interest income on the amortised cost of the loan, net of impairment, must be recognised.

In this area, the Group has made considerable progress on tasks related to: i) the determination of indicators for classification of the instruments into the aforementioned categories, ii) the definition of the criteria for assessing whether there has been a significant increase in credit risk; and iii) the development of the approach for estimating both 12-month and lifetime expected losses on the financial instrument.

The Group estimates that impairment losses under IFRS 9 will tend to increase compared to those recognised applying the current accounting policy (in accordance with IAS 39) as a result of these changes.

- **Hedge accounting.** IFRS 9 allows entities to continue to apply the hedge accounting requirements in IAS 39, even when other elements of IFRS are mandatory from 1 January 2018.

The new standard aligns hedge accounting more closely with risk management, maintaining the three types of hedges provided in IAS 39, while expanding the possibilities for designating hedged items and hedging instruments, and simplifying the requirements for effective hedges.

- **Transition.** The classification, measurement and impairment requirements shall be applied retrospectively by adjusting the balances without the need to restate comparatives, with the final amounts resulting from the change in standard recognised in the Group's reserves. The Group has elected to apply the requirements in IAS 39 for hedging accounting in accordance with the option provided in IFRS 9, which permits entities to continue applying the hedge accounting requirements of IAS 39.

- **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 rule previously described has not significant impact on these interim condensed consolidated financial statements or its disclosures.

B) 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 consolidated annual financial statements:

- **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.

- **Amendments to IAS 7: "Statement of Cash Flows - Disclosure Initiative"**

[Effective for annual periods beginning on or after 1 January 2017, with early adoption permitted]

The objective of the amendments to IAS 7 is to require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

- **Amendments to IAS 12: "Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses"**

[Effective for annual periods beginning on or after 1 January 2017, with early adoption permitted]

The objective of this project is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealised losses to address diversity in practice.

- **Amendments to NIC 40: "Real estate investment".**

  [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.

- **Amendments to IFRS 10 and IAS 28: "Sale or Contribution of Assets between an Investors and its Associate or Joint Venture"**

  [The effective date has been postponed indefinitely]

  The amendments set out that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognised depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3 "Business Combinations". When the assets or subsidiary constitute a business, any gain or loss is recognised in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated.

- **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.

- **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 2010 if the IASB issues the new insurance contracts standard with an effective date of 2020.

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

  [Effective for annual periods beginning on or after 1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)]

  The improvements in this cycle affect IFRS 1 "First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters"; IFRS 12 "Disclosure of Interests in Other Entities: Clarification of the scope of the standard"; and IAS 28 "Investments in Associates and Joint Ventures: Measuring an associate or joint venture at fair value".

- **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.

- **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.

- **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.

The Group is currently assessing the future impacts of the adoption of the standards described in B) above, and in. A reasonable estimate of the potential impacts cannot be provided until this analysis has concluded.

(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 2017, estimates were made in order to quantify certain of the assets, liabilities, income, expenses and obligations reported therein. These estimates relate basically to the following:

- The fair value of certain financial and non-financial assets and liabilities.
- Impairment losses on certain financial assets – considering the value of the collateral received- and non-financial assets (chiefly property).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term commitments.
- Estimate of the costs to sell and of the recoverable amount of non-current assets held for sale, investment property and inventories based on their nature, state of use and purpose for which they are intended, acquired by the Group as payment of debts, regardless of the legal format pursuant to which they were acquired.
- The recoverability of deferred tax assets recognised.
- 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 2017 and at the date of authorisation for issue of these condensed consolidated interim financial statements on the events analysed, future events may make it necessary to change these estimates (upwards or downwards). Changes to accounting estimates would be applied prospectively in accordance with the applicable standards, recognising the effects of the change in estimates in the related consolidated income statement in the future financial years concerned.

(1.5) Comparative information

In compliance with current legislation, the information contained in these condensed consolidated interim financial statements relating to 31 December 2016 and the six months ended 30 June 2016 is presented solely for the purpose of comparison with the six months ended 30 June 2017.

(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 interim statements.

(1.8) Minimum reserve ratio

At 30 June 2017 and throughout the first half of 2017, 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.

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, the Entity was informed of the class action suit presented by ADICAE (Spain’s Association of Bank, Savings Bank and Insurance Users) seeking a court declaration of abusive practices in the issuance of Bankia shares targetting retail customers through a public offering, and the nullity of purchase orders placed up to the restatement of the 2011 annual financial statements made on 25 May 2012, along with compensation for damages for the loss sustained by retail investors.

  A total of 35 customers acquiring Bankia shares have joined the suit. A plea was submitted for lack of jurisdiction of the Commercial Court (Juzgado de lo Mercantil) for which a ruling is pending.

- 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.

  It exists, requests for bail deposits amounting to EUR 5.8 million had been issued for which a ruling by the Court is pending.

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

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

  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.

  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 14).

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 2017, 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:

- Civil proceedings regarding hybrid instruments (preferred participating securities and subordinated bonds), and injunctions on certain issues of these instruments before mercantile courts. A provision for legal contingencies of EUR 230 million was recognised in 2013 to cover the costs arising from these proceedings. This provision was increased in 2014 up to a total of EUR 246 million, of which the entire amount had been used during 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.

- Three lawsuits filed by ING Belgium, S.A., BBVA, S.A., Banco Santander, Catalunya Banc and others (banking syndicate) against Bankia, S.A., Corporación Industrial Bankia, S.A. –CIBSA-, ACS, SACYR and others in three courts of first instance of Madrid:

  i) Court of 1st Instance No. 2 of Madrid: seeking enforcement of compliance with the obligations assumed by the defendants in the support agreement signed under the framework of the financing granted by the banking syndicate to the holder of the concession for the construction of the R3 and R5 motorways. A favourable ruling was issued in first and second instance. An appeal to overturn the ruling has been announced. Othewise cassation.

  ii) Court of 1st Instance No. 51 of Madrid: seeking enforcement of the support agreement and payment of the subordinated loan. The opposition was rejected in the enforcement proceedings. An unfavourable ruling was issued against Bankia, which it appealed. Have been entered in court 74.3 MM.

  iii) Court of 1st Instance No. 48 of Madrid: against Bankia for the comfort letter issued. A favourable ruling was issued in first instance and subsequently appealed.

  The total risk assumed, in accordance with its share, is EUR 165 million.

- 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. Corporate crimes. It is being investigated. No amount has been determined responsibility civil liabilities. The APABANKVAL complaint has given rise to Preliminary Proceedings 65 / 2013-10 of the Central Court of Instruction No. 1 of the National Court.

  Subsequently a second demand brought by Jacobo Carlos Rios-Capapé Carpí and others ("Banco de Valencia"): 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 Jacobo Carlos Rios-Capapé Carpí, Elena Gans García, Sebastián and María Miguela Carpí Cañellas, shareholders of Banco de Valencia against several members of the board of directors of Banco de Valencia, Deloitte, S.L. 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, criminal chamber section 3 of the National Court issued a ruling confirming (i) that Bank cannot be held criminally liable for the events, and (ii) that Bankia should be held vicariously liable.

  On 29 May 2017, Apabankval submitted a report accompanying a list of the 318 shareholders making up the association and stating that they hold 4,743,292 shares of Banco de Valencia.

- Demands seeking invalidity of interest rate floor clauses. On 30 June 2017 there are 1,117 legal proceedings in progress entailing a risk of EUR 8.8 million, with Bankia enjoying a 6% success rate. 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, involving 240 customers. A judgement against Bankia was handed down which, according to the ruling by the Supreme Courts, limits the retroactivity to 9 May 2013. This ruling, which with respect to Bankia declared invalid the floor clauses examined of integrated entities that established them in their loans (Caja Segovia, Caja Insular de Ahorros de Canarias and Caja Rioja), is awaiting resolution of an appeal lodged with the Madrid regional court.

  On 21 January 2017 has been published in BOE the RDL 1/2017. This law establishes an out-of-court procedure to facilitate the reimbursement of the amounts unduly paid by consumers to credit institutions in application of certain floor clauses. Following enactment of this RDL, on 3 February 2017, Bankia, bearing in mind its content, the legal decisions issued and its success rate, and the likely outcome of future lawsuits before the courts, initiated an out-of-court procedure for reimbursing the related amounts.

- Lawsuits filed in accordance with Law 57/68. On 30 June 2017 there are a 316 legal proceedings in progress with economy risk of 42.1 million of euros.

- 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. Received favorable judgments of the seven procedures, two in cassation, the rest are firm.

- Lawsuit filed by Activos Castellana 40, S.L., against, *inter alia*, Bankia, seeking the declaration of rights derived from the contractual arrangement, the obligation to fulfill and claiming expenses related to payment in lieu from the "Azaleas de Barriomar" development. Rulings in favour of Bankia were issued in first and second instance. The financial risk for Bankia is EUR 15.7 million.

- Lawsuit filed by Grupo Rayet, S.L.U. against Bankia and other defendants for irregularities committed in the appraisal of the land portfolio and accounting irregularities in the stock market listing of Astroc on 26 May 2006. The claims against Bankia are based on its role as lead manager of the company's flotation. The claim was contested and pleas for jurisdiction filed. The total financial risk is EUR 78.2 million.

- Lawsuits related to derivatives. There are on 30 June 2017, 267 legal proceedings in progress for a total financial risk of EUR 42.2 million. Currently on appeal.

- Lawsuit against Bankia filed by a Bankia shareholder, employees and third parties over extension of a loan by Bankia to Jomaca 98. The loan was secured with shares of Zinkia Entertainment S.A. Currently on appeal.
- Lawsuit filed by Uniper Kraftwerke GmbH against Bankia before a court in Hanover (Germany) regarding certain guarantees extended by Bancaja in respect of prepayments arising from an electrical equipment supply contract. Suspended until resolution of the arbitration. Economic risk of 11.5 million euros.
- 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, Ortiz Construcciones y Proyectos, S.A. filed a report expanding the claim against certain current and former employees of Bankia regarding loans granted to Plaza de España de San Fernando, S.L., which was rejected via a ruling of 11 April 2017 at the request of Ortiz Construcciones y Proyectos, SA. The ruling was appealed on procedure by the same company on 25 April 2017, with a resolution by the Court of Instruction itself pending.
- Notification by the Torreblanca town council of the resolution of the planning agreement with the development agent: Risk of EUR 11.4 million.

Given the uncertainty surrounding the final judicial decisions, the outcomes of the matters explained previously could give rise to a liability for an amount that cannot be quantified objectively at present. However, in the event these contingent liabilities, if any, materialized, the Group estimates that the amounts not reasonably covered would not have a material effect on the fair presentation of the Group's equity and financial position.

(1.10) Deposit Guarantee Fund and Single Resolution Fund

At 30 July 2012, the Management Committee of the Deposit Guarantee Fund of Credit Institutions (FGDEC for its initials in Spanish) agreed to recognise a shortfall among the members, payable by each through 10 equal annual instalments to be settled on the same day as the members must make their ordinary annual contributions over the next 10 years. The 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 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 118,286 thousand and an asset account for the same amount to recognise accrual of the payment in the income statement over the entire settlement period.

Meanwhile, the fifth additional provision of Royal Decree-Law 21/2012 of 13 July, introduced by Article 2 of Royal Decree-Law 6/2013, of 22 March, established a special contribution based on the deposits held by the entities adhered to the Fund as of 31 December 2012. The final payment was made in 30 June 2016 for an amount of EUR 66,786 thousand.

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

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

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

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

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

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

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

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

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

On 16 June 2017, Bankia made a contribution to the SRF of EUR 64,012 thousand (EUR 72,276 in the first half of 2016), using EUR 9,602 (EUR 10,841 in the first half of 2016) (thousand of irrevocable payment commitments (recognising the cash collateral under “Loans and advances” and the remaining EUR 54,410 thousand (EUR 61,435 in the first half of 2016) “Other operating expenses” in the accompanying consolidated income statement.

With respect to the Deposit Guarantee Fund of Credit Institutions (FEDEC for its initials in Spanish), Royal Decree 1012/2015, of 6 November, states, inter alia, that the Management Committee of the FGDEC will determine the Institution's annual contributions, amending the calculation basis of the contributions for guaranteed deposits and limiting the individual amount of deposits to EUR 100 thousand.

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

At the date of authorisation for issue of the accompanying condensed consolidated interim financial statements, 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 2017.

(1.11) Events after the reporting period

No significant events took place between 30 June 2017 and the date of authorisation 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 2017 and 2016 refer to the following business areas:

- Retail Banking
- Business Banking
- Corporate Centre

Retail Banking includes retail banking with legal and natural persons (with annual income of less than EUR 6 million), 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 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	Distribution of profit/ loss of interest by geographic areas			
	30/06/2017		30/06/2016	
ITEM	Bank	Group	Bank	Group
Domestic market	1,143,271	1,164,453	1,350,465	1,404,903
Export:	-	1,412	-	2,215
European Union	-	-	-	-
Rest of O.C.D.E. countries	-	-	-	-
Rest of countries	-	1,412	-	2,215
Total	**1,143,271**	**1,165,865**	**1,350,465**	**1,407,118**

Segment results for the six months ended 30 June 2017 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
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 at fair value through profit or loss	(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**

The table below shows the Bank ordinary income by business segments for the years ended 30 June 2017:

(Thousands of euros)

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

(1) In the table above, "Ordinary income" is understood as the balances under "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net", "Gains or (-) losses on financial assets and liabilities held for trading, net", "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net", "Gains or (-) losses from hedge accounting, net" and "Other operating income" in the accompanying income statement for the six months period ended 30 June 2017, which can be regarded as comparable to the Bank's revenue from ordinary business.

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

Segment results for the year ended 30 June 2016[1] are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
NET INTEREST INCOME	**538,939**	**178,985**	**405,623**	**1,123,547**
Return on equity instruments	-	141	3,799	3,940
Share of profit/(loss) of companies accounted for using the equity method	-	-	20,577	20,577
Net fees and commissions	307,348	73,207	25,612	406,167
+/- Gains and losses on financial assets and liabilities and exchange differences	4,383	36,613	93,297	134,293
+/- Other operating income and other operating expenses	4,298	1,972	(9,110)	(2,840)
GROSS INCOME	**854,968**	**290,918**	**539,798**	**1,685,684**
Administrative expenses	(376,242)	(25,645)	(308,731)	(710,618)
Depreciation and amortisation charge	(27,744)	(765)	(47,049)	(75,558)
OPERATING INCOME BEFORE PROVISIONS	**450,982**	**264,508**	**184,018**	**899,508**
Provisions (net)	(5,835)	(30,175)	(15,955)	(51,965)
Impairments or (-) reversal of impairment of financial assets not at fair value through profit or loss	(35,230)	33,200	(149,151)	(151,181)
Impairment losses on other assets (net) and other gains and losses	(345)	(1,971)	(54,820)	(57,136)
PROFIT/(LOSS) BEFORE TAX	**409,572**	**265,562**	**(35,908)**	**639,226**

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

The following table shows the Group's ordinary income by business segments for the six months ended 30 June 2016 [1]**:**

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Group
External customers	934,855	391,611	742,010	2,068,476
Inter-segment transactions	36,615	(92,107)	55,492	-
Total ordinary income (2)	**971,470**	**299,504**	**797,502**	**2,068,476**

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

(2) In the table above, "Ordinary income" is understood as the balances under "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net", "Gains or (-) losses on financial assets and liabilities held for trading, net", "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net", "Gains or (-) losses from hedge accounting, net" and "Other operating income" in the accompanying consolidated income statement for the six months period ended 30 June 2016, which can be regarded as comparable to the Group's revenue from ordinary business.

Segment assets and liabilities of the Bank by business segments at 30 June 2017 are as follows:

(Thousands of euros)

ITEM	Retail Banking	Business Banking	Corporate Centre	Bank
Loans and receivables - Loans and advances - Customers	77,206,357	26,273,550	663,992	104,143,899
Other assets	10,397,141	15,433,912	50,909,003	76,740,056
Total assets	**87,603,498**	**41,707,462**	**51,572,995**	**180,883,955**
Financial liabilities at amortised cost - Deposit - Customers	82,802,486	10,609,135	9,626,007	103,037,628
Net inter-segment financing	(9,020,263)	12,297,588	(3,277,325)	-
Other liabilities	922,835	16,540,284	47,481,370	64,944,489
Total liabilities	**74,705,058**	**39,447,007**	**53,830,052**	**167,982,117**

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 at 31 December 2016 are as follows [(1)]:

(Thousands of euros)

Segment balance	Retail Banking	Business Banking	Corporate Centre	Group
Loans and receivables - Loans and advances - Customers	77,983,452	25,950,772	742,419	104,676,643
Other assets	7,858,449	18,042,301	59,590,066	85,490,816
Total assets	**85,841,901**	**43,993,073**	**60,332,485**	**190,167,459**
Financial liabilities at amortised cost - Customers	81,381,316	12,626,763	11,146,737	105,154,816
Net inter-segment financing	(6,775,164)	7,888,736	(1,113,572)	-
Other liabilities	527,941	21,190,132	50,457,378	72,175,451
Total liabilities	**75,134,093**	**41,705,631**	**60,490,543**	**177,330,267**

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

(1.13) Society of Asset Management from the Banking Restructuring (SAREB).

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

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

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

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

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

In 2013, 2014, 2015, and 2016 the SAREB carried out the redemption and delivery of new bonds. As a result, the securities received by the Group and recognised under "Held-to-maturity investments" at 30 June 2017 were as follows:

(Thousands of euros and %)

Amount	Maturity	Interest rate
7,624,200	31.12.2018	-
5,550,100	31.12.2017	-
3,256,600	31.12.2018	0.06%

As the aforementioned cancellations were made by the nominal amount, there were no differences with respect to the carrying amounts. Therefore, there was no impact on the Group's consolidated income statement in 2013, 2014, 2015 and 2016.

On 31 December 2016, 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 spread of 4 basis points and the 3-month Euribor plus a spread of 3 basis points, considered equivalent to market rates of interest for public debt with a similar term. Accordingly, the bonds were accounted for at their nominal amount, with no impact recognised on the group's income statement in 2016. Rollovers of bonds carried out in 2013, 2014, and 2015 also did not have any impact on the Bank's income statement for those years.

(2) Business combinations, significant changes in interests in subsidiaries, jointly-controlled entities, 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 2016 describes the criteria followed by the Group to consider an entity as a group company, a jointly-controlled entity 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 jointly-controlled entities, respectively, for the purpose of preparing these condensed consolidated interim financial statements.

The commitments assumed by the Group under the BFA-Bankia Group Restructuring Plan approved by the Spanish and European authorities in November 2012, on 23 October 2015, the Group and Fomento de Construcciones y Contratas, S.A. (FCC) signed a purchase and sale agreement with the USS, OPTrust and PGGM investment funds for the sale of 100% of the shares of Globalvia Infraestructuras, S.A., a company in which Bankia and FCC each own 50%. The sale was the result of the exercise of pre-emptive acquisition rights by the funds as holders of the EUR 750 million convertible bond. The deal is subject to a series of conditions precedent set out in the purchase and sale agreement, including approval by certain administrations which granted administrative concessions held by Globalvia Infraestructuras, S.A. The price of the transaction is divided into an upfront payment of EUR 166 million, to be made when the transfer of the shares is completed, and a deferred payment, to be made in the first half of 2017, which could reach as a high as EUR 238 million depending on the valuation of the company at the time of the bond conversion. On 17 March 2016, the purchase and sale agreement was executed after the conditions precedent were fulfilled. However, the transaction did not generate any gain or loss in the consolidated income statement for the six months ended at 31 December 2016. Finally, on 28 February 2017, the sale operation was closed with the receipt of the deferred payment, assuming a positive result of 62 million euros in the consolidated income statement for the first half of 2017.

On 26 June 2017, the Board of Directors of Bankia and Banco Mare Nostrum, S.A. (“BMN”) drew up and signed a common merger agreement under which Bankia will merge with and absorb BMN.

On 27 June 2017 the company reported in a material disclosure the common merger proyect, as well as presentation.

The planned merger will be submitted for approval at Bankia's and BMN's General Meetings of Shareholders, and will be contingent, in any event, on securing the pertinent authorisations.

There were no significant changes in the Group’s composition or scope of consolidation in the first half of 2017.

(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 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 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, at its meeting held in September 2014 the Board of Directors approved the Risk Appetite Framework (RAF) for the BFA-Bankia Group. The RAF sets out the desired levels of risk and the maximum levels of risk that the Entity is willing to accept, monitoring mechanism and the system of responsibilities of the various committees and governing bodies involved.

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

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

The *Recovery* Plan 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 Entity 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 2017 budget, beyond the requirement to be commensurate with the risk appetite statement, was drawn up comparing business development proposals with the optimal portfolios provided by the system.

- o Status of the CRO: In April 2015, the Board of Directors approved the new status of the Bank's CRO (Chief Risk Officer), setting out: The conditions necessary for the performance of the function; His main responsibilities and the rules and faculties for his appointment and dismissal.

  The status reinforces the independence of the CRO, carried out by the Corporate Risks Department, 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.

- o Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP) adapted to new European Central Bank criteria: In these processes, the Entity 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 organizational model aligned with the general principles governing risk management. A new organisational model: the risk function has been restructured to take a comprehensive vision of risk throughout its life cycle. In this sense, management of credit risk is supported by two units, Corporate Risks and Retail Risks, with each overseeing all the functions of authorisation, monitoring and recoveries within their domain The eight management comprising the Corporate Risk Management are:

   - Retail Risks
   - Corporate Risks
   - Global Risk Management
   - Market and Operational Risks
   - Corporate Client Restructuring
   - Technical Secretariat of Risks, which includes the Internal Validation and Internal Control functions
   - Risk Process Management
   - Debt and Portfolio Management

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

4. A transformation plan, aimed primarily at enhancing the quality of reporting and providing better risk management tools. Under the framework of the Transformation Committee, the initiatives identified for implementation in the Risk Model over the 2016-2018 period, along with their objectives are as follows:

   - Recoveries model: to make recovery more efficient by focusing more on specialisation and outsourcing tasks that generate less value.
   - Lending enhancement: to achieve integrated customer management through a variety of promotion tools, contribute to the growth of the Group's lending portfolio with solvent customers (using pre-classification tools) and provide better customer service by reducing transaction response times.
   - Early warnings: to improve the detection of impairments in the risk quality of our customers or business groups sufficiently in advance so that they can be managed appropriately, thereby minimising expected loss.
   - Asset allocation: to promote business development planning that targets the maximisation of economic value within the Risk Appetite Framework (RAF) and, at the same time, make inroads in cascading the RAF down so the business units have the necessary benchmarks for assessing whether their decisions are consistent with the risk appetite and tolerance statement.

- Risk culture enhancement: to extend and improve the risk culture in the group, mainly in respect of businesses, spreading the knowledge, the allowable criteria and suitable tools to steer lending growth (new lending) to the portfolios/customers that best meet the Bank's objectives.
- Development of Data Science in the risk function: to develop and operate Big Data infrastructure that will enable the group to better classify both customers and non-customers using conventional and unconventional data. In this respect, “Data Science” can be applied to learn more about our customers from a static and dynamic approach, maximising the use of available information.

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

- Credit risk (including concentration risk), arising primarily from the business activity performed by the 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 and foreign currency risk, which relates to the potential losses due to adverse changes in the market prices of financial instruments with which the Group operates, primarily through the Treasury and Capital Markets area.
- Operational risk, which relates to possible losses arising from failures or shortcomings in processes, personnel or internal systems, or from external events.

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

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

- The Risk Advisory Committee of the Board of Directors. The main function of the Risk Advisory Committee is to advise the Board of Directors regarding overall risk exposure of the group, current and future, and its strategy in this regard.
- The Delegated Risk 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 NPL provisions, as well as watchlist; to approve the proposals of individual classification following the appearance of evidence of impairment; to authorize the approvals scheme to allow the risks teams to decide on the classification and individualised allowances for borrowers and exposures of smaller amounts; to approve reclassifications (standard, watchlist , doubtful ,failed) and changes in portfolio provisions of sets of exposures; to approve the approach for determining credit valuation adjustments (CVA) in the derivatives portfolio; and to monitor the CVA.
- Wholesale and Retail Banking Risk Coordination and Recovery Committees. These two committees monitor and coordinate the commercial activities of the business units and the Corporate Risks Division in order to meet targets more efficiently.
- Model Committee. This newly created Committee held its first session on 29 March 2017. Its main function is the management, approval and follow-up of the Entity'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 Entidadasí as, to formalize in a collegiate body the monitoring of credit scoring systems.

Meanwhile, the (Internal) Audit Department, which is overseen by the Audit and Compliance Committee, is responsible for supervising the efficiency of operating processes and internal control systems, as well as for verifying compliance with applicable regulations.

(3.1) Exposure to credit risk

(3.1.1) Credit risk management objectives, policies and processes

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

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

- Responsible risk approval. Customers should be offered the financing facilities that are tailored to their needs, for amounts and under terms and conditions that match their payment ability. The necessary support should be provided so that borrowers of good faith can overcome their financial difficulties.
- Stable general approval criteria, per borrower and transaction.
- Adaptation. Segment-specific criteria should combine stability with adaptation to the Group's strategic targets, as well as the prevailing economic environment.
- 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.
- Solvency. Policies should be aligned to current and future capital needs in accordance with the risk appetite statement.
- Compliance. Credit risk policies must be observed at all times. Exceptions to limits and conditions are approved for customers with strong ties to the Group and must be duly documented and justified.

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

- Responsible approval: The first step in approving credit operations is to gain an understanding of the customer's financing needs and ability to meet them by assessing the customer's solvency. Care should be taken to offer the financing facilities that best adapt to the customer's needs, adjusting the terms and conditions and the amounts borrowed to the borrower's payment ability. Moreover, in retail lending, customers must be provided with information so that they can understand the risks inherent in the financing.
- Activity: geared toward Retail – SMEs banking in Spain through the branch network and specialised business centres. Specifically, real estate, project, acquisition and asset finance is restricted.
- Borrower solvency: payment ability, global view of the customer, knowledge of the customer and the industry.
- Operation: financing commensurate with the customer size and profile, balance with short- and long-term financing, assessment of guarantees or collateral.
- Environmental and social risk: the environmental impact of the borrower's business activity must be taken into account. In addition, new restrictions are placed on new loans to borrowers who do not respect human rights or do not provide decent working conditions or infringe on related laws.

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

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

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

A key feature of the policies is the reference to refinancing and restructuring operations. The objective is to match financing to the customers' current ability to meet its payment commitments, providing 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). Appendix VIII details the criteria governing loan refinancing and restructuring and their accounting classification.

To date, there was only one Credit Risk Policy Manual, which set out both the general criteria and specific criteria by segment and product.

On 24 November 2016, the Board of Directors approved the new Credit Risk Policies Framework. This framework marked a substantial change compared to the Credit Risk Policies approved in previous reporting periods.

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

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

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

- Score. Cut-off points are established using risk-adjusted return (RAR) criteria or by determining the maximum default level. Based on the rating given by the model, there are three possible outcomes:
    - Reject, if the score is below the lower cut-off point.
    - Review, if the score is between the lower and 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 ECO805/2003.

However, both Finance Ministry Order EHA/2899/2011, of 28 October, on transparency and consumer protection in banking services, and Bank of Spain Circular 5/2012 introduce, as a feature of responsible consumer lending, the requirement that, on the one hand, borrowers provide the entities with complete and accurate information on their financial position and their intentions and needs regarding the purpose, amount and other conditions of the loan or credit, and, on the other, that they be adequately informed about the characteristics of the products that are suitable to what they are requesting and the inherent risks. In this respect, in due compliance with regulations, the 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.

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

The procedures for gathering accreditation of key applicant data are set out in an internal circular approved on 9 march 2017 by the Management Committee on "Quality of data on retail lending transactions".

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

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

- Risk classification.
- Risk quantification.

- Risk projection.
- Risk-adjusted return
- Business revitalisation.
- Recovery management.
- Concentration risk management.

Risk classification

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

The 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.

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 Entity must have sufficient capital to cover potential losses therefore, the higher the cover, the higher the solvency. This model simulates the default events, so it can quantify concentration risk.

Risk projection

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

Risk-adjusted return

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

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

Business revitalisation

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

Recovery management

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

Early warning models are applied in lending to retail customers. They are designed to identify potential problems and offer solutions, which may entail adapting the conditions of the loan. In fact, a large number of the mortgage loan renegotiations in 2016 resulted from the proposals put forward pro-actively by the Group.

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

Concentration risk management

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

(3.1.2) Exposure to credit risk by segment and activity

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

30 June 2017

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for ıding and financial assets at r value through profit or loss	Trading Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Hedging Derivatives	Off-balance sheet items and others
Institutions: Government agencies	**2,004**	**-**	**17,220,911**	**5,368,511**	**11,202,449**	**-**	**537,464**
Institutions: Credit institutions and others	**-**	**-**	**1,583,234**	**1,567,096**	**16,439,490**	**-**	**464,731**
Companies	**6**	**-**	**606,553**	**29,279,411**	**253,459**	**-**	**18,709,157**
Retail customers	**-**	**-**	**-**	**70,932,127**	**-**	**-**	**5,129,035**
Consumer	-	-	-	3,336,298	-	-	42,943
Mortgage – SMEs	-	-	-	-	-	-	-
Mortgage – Other	-	-	-	61,861,497	-	-	852,767
Retail – SMEs	-	-	-	5,024,083	-	-	797,249
Cards	-	-	-	710,249	-	-	3,436,076
Derivatives	**-**	**6,867,482**	**-**	**-**	**-**	**2,924,787**	
Equity instruments	**67,524**	**-**	**27,776**	**-**	**-**	**-**	**-**
Total	**69,534**	**6,867,482**	**19,438,474**	**107,147,145**	**27,895,398**	**2,924,787**	**24,840,387**
Memorandum item: Breakdown by country of the public agency							
Spanish government agencies	2,004	-	12,915,079	5,285,109	9,954,917	-	537,464
Greek government agencies	-	-	-	-	-	-	-
Italian government agencies	-	-	4,304,919	-	379,039	-	-
Portuguese government agencies	-	-		-		-	-
Other government agencies	-	-	913	83,402	868,493	-	-
TOTAL	**2,004**	**-**	**17,220,911**	**5,368,511**	**11,202,449**	**-**	**537,464**

31 December 2016

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading and financial assets at fair value through profit or loss	Trading Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Hedging Derivatives	Off-balance sheet items and others
Institutions: Government agencies	**5,005**	**-**	**20,298,721**	**5,272,275**	**10,913,867**	**-**	**258,316**
Institutions: Credit institutions and others	**-**	**-**	**3,386,146**	**3,577,553**	**16,439,549**	**-**	**531,339**
Companies	**6**	**-**	**1,537,981**	**29,948,998**	**337,827**	**-**	**18,491,279**
Retail customers	**-**	**-**	**-**	**70,018,521**	**-**	**-**	**4,883,344**
Consumer	-	-	-	2,910,830	-	-	55,001
Mortgage – SMEs	-	-	-	-	-	-	-
Mortgage – Other	-	-	-	61,485,329	-	-	851,196
Retail – SMEs	-	-	-	4,926,027	-	-	772,035
Cards	-	-	-	696,335	-	-	3,205,112
Derivatives	**-**	**8,255,624**	**-**	**-**	**-**	**3,631,322**	**-**
Equity instruments	**70,639**	**-**	**26,107**	**-**	**-**	**-**	**-**
Total	**75,650**	**8,255,624**	**25,248,955**	**108,817,347**	**27,691,243**	**3,631,322**	**24,164,278**
Memorandum item: Breakdown by country of the public agency							
Spanish government agencies	5,005	-	15,910,767	5,229,154	9,643,345	-	258,265
Greek government agencies	-	-	-	-	-	-	-
Italian government agencies	-	-	4,386,965	-	381,354	-	-
Portuguese government agencies	-	-	-	-	-	-	-
Other government agencies	-	-	989	43,121	889,168	-	-
TOTAL	**5,005**	**-**	**20,298,721**	**5,272,275**	**10,913,867**	**-**	**258,265**

In addition, exposure to credit risk, by segment and activity, corresponding to investments in companies classified as assets of disposal groups at 30 June 2017 and 31 December 2016 is as follows:

30 June 2017

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading and financial assets at fair value through profit or loss	Trading Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Hedging Derivatives	Off-balance sheet items and others
Institutions: Government agencies	-	-	-	-	-	-	-
Institutions: Credit institutions and others	-	-	-	19,883	-	-	-
Companies	-	-	-	6,906	-	-	-
Retail customers	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Others	-	-	-	38	-	-	-
Total	**-**	**-**	**-**	**26,827**	**-**	**-**	**-**

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

31 December 2016

(Thousands of euros)

SEGMENT AND ACTIVITY	Financial assets held for trading and financial assets at fair value through profit or loss	Trading Derivatives	Available-for-sale financial assets	Loans and Receivables	Held-to-maturity investments	Hedging Derivatives	Off-balance sheet items and others
Institutions: Government agencies	-	-	-	-	-	-	-
Institutions: Credit institutions and others	-	-	-	45.787	-	-	-
Companies	-	-	-	351	-	-	-
Retail customers	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Others	-	-	-	40	-	-	-
Total	**-**	**-**	**-**	**46,178**	**-**	**-**	**-**

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 9.08% at 30 June 2017 (9.78% at 31 December 2016).

(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)

	30/06/2017		31/12/2016	
Derivatives (trading and hedging)	Assets	Liabilities	Assets	Liabilities
Gross exposure	**18,066,662**	**15,743,047**	**21,617,970**	**18,979,344**
Amount netted	(8,274,393)	(8,274,393)	(9,731,024)	(9,731,024)
Carrying amount	**9,792,269**	**7,468,654**	**11,886,946**	**9,248,320**
Netting agreement	(5,469,384)	(5,469,384)	(6,740,143)	(6,740,143)
Collaterals (*)	(3,418,978)	(2,056,829)	(4,030,675)	(2,513,959)
Net exposure	**903,907**	**(57,559)**	**1,116,128**	**(5,782)**

(*) Includes securities 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)

	30/06/2017		31/12/2016	
Collateral	Delivered	Received	Delivered	Received
Cash	2,660	34,595	12,642	18,386
Securities	12,955	15,509	61,410	21,571
Total	**15,615**	**50,104**	**74,052**	**39,957**

(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 2017 and 2016 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 2017	1st half 2016
Accounting balance at the beginning of the period	**1,289,699**	**1,376,474**
Additions from:		
Assets unlikely to be recovered	119,962	82,235
Uncollected past-due amounts	26,849	28,571
Sum	**146,811**	**110,806**
Derecognition through:		
Cash collection	(14,016)	(22,588)
Foreclosure of assets, sales and other causes	(113,089)	(226,281)
Sum	**(127,105)**	**(248,869)**
Net change due to exchange differences	**(1,031)**	**(98)**
Accounting balance at the end of the period	**1,308,374**	**1,238,313**

(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 2017 and 31 December 2016 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.

(Thousands of euros)

ITEMS	30/06/2017	31/12/2016
Cash (*)	1,564	950
Undrawn amount on the facility	13,654	1,881
Highly liquid available assets (**)	13,390	27,004

(*)Notes and coins plus balances at central banks less the amount of minimum reserves.

(**)Market value considering the ECB haircut.

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

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

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

Specific liquidity risk management targets are defined for these metrics under normal market conditions. The overriding objective is to achieve appropriate self-financing of on-balance sheet credit activity, with a reduction in the loan-to-deposit ratio (relationship between loans and advances to customers and customer deposits) and budgetary monitoring of the level of self-financing in the retail and 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 2017 the LCR complies with the risk limits of the entity and the regulatory requirements.

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

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

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

As regards the net stable funding ratio (NSFR), this ratio will form part of the minimum standards on 1 January 2018, with a requirement of at least 100%, the group plans to comply with the requirements that are legally enforceable.

Maturities of issues

The following table provides information on the term to maturities of the Group's issues at 30 June 2017 and 31 December 2016, by type of financial instrument, including promissory notes and issues placed via the network.

30 June 2017

(Thousands of euros)

ITEM	2017	2018	2019	>2019
Mortgage bonds and Mortgage-backed bonds	160,000	2,435,687	1,741,887	12,785,266
Senior debt	444,413	247,000	983,000	105,901
Subordinate, preference and convertible securities	-	-	1,000,000	500,000
Securitisations sold to third parties	-	-	-	1,952,023
Total maturities of issues (*)	**604,413**	**2,682,687**	**3,724,887**	**15,343,190**

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

31 December 2016

(Thousands of euros)

ITEM	2017	2018	2019	> 2019
Mortgage bonds and Mortgage-backed bonds	555,000	2,435,687	1,718,987	12,646,166
Senior debt	1,028,199	247,000	1,000,000	106,067
Subordinate, preference and convertible securities	-	-	1,000,000	-
Securitisations sold to third parties	-	-	-	2,615,644
Total maturities of issues (*)	**1,583,199**	**2,682,687**	**3,718,987**	**15,367,877**

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

Issuance capacity

(Thousands of euros)

ITEMS	30/06/2017	31/12/2016
Mortgage-backed securities issuance capacity (Appendix VI)	10,368,699	10,844,220
Territorial bond issuance capacity	1,229,691	1,215,609

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 2017:

(Thousands of euros)

ITEM	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Assets							
Cash and balances with central banks and other demand deposits	3,387,342	-	-	-	-	-	3,387,342
Loans and advances to credit institutions	-	2,027,894	5,592	7,952	549,790	8	2,591,236
Loans and advances to customers	-	3,548,025	3,552,500	8,580,286	26,140,259	67,642,066	109,463,136
Financial assets held for trading and financial assets at fair value through profit or loss	-	-	10	2,000	-	-	2,010
Other portfolios - Debt securities	-	42,001	41,000	8,059,119	20,324,499	19,248,105	47,714,724
Derivatives (trading and hedging) (1)	-	98,707	414,703	2,243,531	6,997,551	8,312,170	18,066,662
Total	**3,387,342**	**5,716,627**	**4,013,805**	**18,892,888**	**54,012,099**	**95,202,349**	**181,225,110**
Liabilities							
Deposits from central banks and credit institutions	-	9,450,966	2,165,680	2,035,915	15,575,252	5,850,312	35,078,125
Customer deposits	58,647,832	8,520,452	5,062,701	24,072,059	4,516,874	1,069,555	101,889,473
Marketable debt securities	-	630,534	112,323	3,656,066	8,793,970	4,575,874	17,768,767
Other financial liabilities (2)	1,197,867	-	-	-	-	-	1,197,867
Derivatives (trading and hedging) (1)	-	95,393	307,395	2,092,930	6,412,323	6,835,006	15,743,047
Total	**59,845,699**	**18,697,345**	**7,648,099**	**31,856,970**	**35,298,419**	**18,330,747**	**171,677,279**
Contingent liabilities							
Financial guarantees	90	6,291	2,280	99,682	346,066	14,664	469,073

(1) Gross exposure excluding netting arrangements (see Notes 3.1.4 and 7).
(2) A residual item comprising items that are generally transitory or do not have a contractual maturity, making it impossible to allocate reliably the amounts recognised by term of maturity, and therefore classified under demand liabilities.

31 December 2016:

(Thousands of euros)

ITEM	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Assets							
Cash and balances with central and other demand deposits	2,853,756	-	-	-	-	-	2,853,756
Loans and advances to credit institutions	-	2,955,735	56,095	4,145	553,905	-	3,569,880
Loans and advances to customers	-	3,248,677	3,780,246	8,354,143	25,787,257	69,433,245	110,603,568
Financial assets held for trading and financial assets at fair value through profit or loss	-	1,000	2,011	2,000	-	-	5,011
Other portfolios - Debt securities	-	1,134,950	626,800	7,413,693	21,763,666	22,494,211	53,433,320
Derivatives (trading and hedging) (1)	-	290,162	631,498	2,368,514	8,866,126	9,461,670	21,617,970
Total	**2,853,756**	**7,630,524**	**5,096,650**	**18,142,495**	**56,970,954**	**101,389,126**	**192,083,505**
Liabilities							
Deposits from central banks and credit institutions	-	12,311,489	1,830,602	411,413	21,231,007	3,161,899	38,946,410
Customer deposits	52,780,681	10,025,667	8,017,862	23,451,006	6,204,268	3,333,942	103,813,426
Marketable debt securities	-	362,971	535,452	1,196,800	7,737,418	8,446,692	18,279,333
Other financial liabilities (2)	672,732	-	-	-	-	-	672,732
Derivatives (trading and hedging) (1)	-	211,667	581,077	2,193,632	8,217,304	7,775,664	18,979,344
Total	**53,453,413**	**22,911,794**	**10,964,993**	**27,252,851**	**43,389,997**	**22,718,197**	**180,691,245**
Contingent liabilities							
Financial guarantees	136	6,861	11,699	46,799	373,211	21,157	459,863

(1) Gross exposure excluding netting arrangements (see Notes 3.1.4 and 7).
(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.

(3.3) 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.

(3.4) 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.

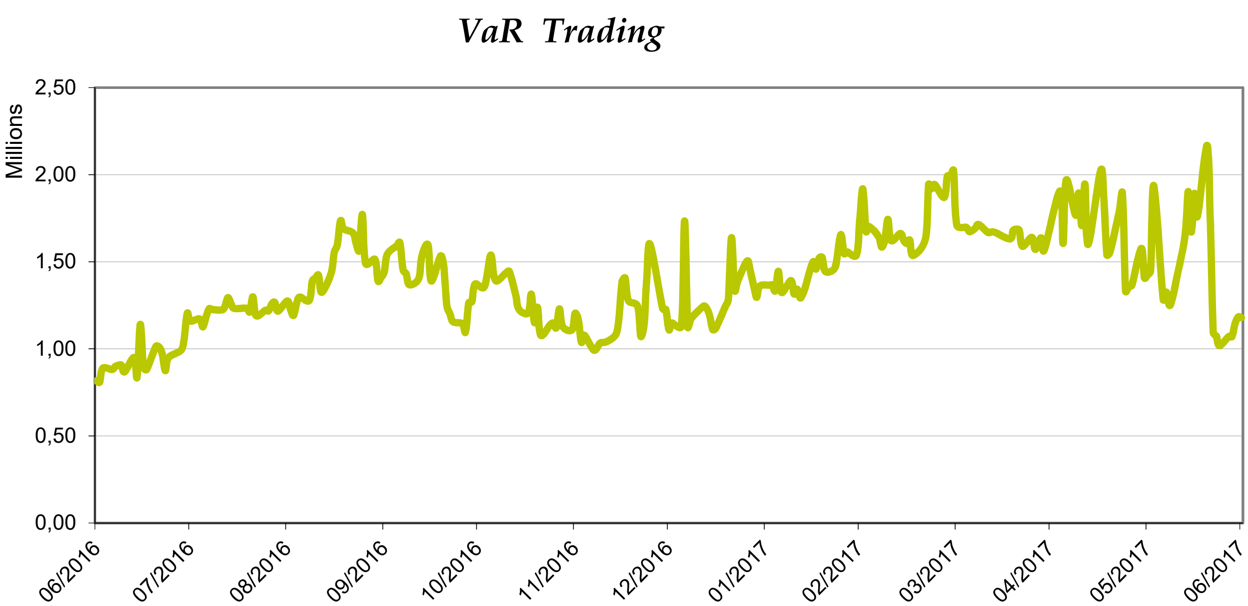
The Board of Directors delegates proprietary trading in financial markets to the Finance Department and its business areas, so they can exploit business opportunities using the most appropriate financial instruments at any given time, including interest rate, exchange rate and equity derivatives. In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

Each year, the Board of Directors approves the risk limits and internal risk measurement procedures for each product and market in which the various trading areas operate. The Market and Structural Risks Area, which reports to the Risk Department, 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 2017 compared to those used in 2016.

The following chart shows the trend in 1-day VaR with a 99% confidence level for operations in the markets area in activity trading 2017.



(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 funds,…) 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 will be applicable from 2015 onwards.
- The aim and main purpose of the CRD, which must be transposed into national legislation by the Member States according to their criteria, is to coordinate national legislation regarding the access to the activity of credit institutions and investment firms, 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.

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

Regarding combined capital buffer requirements, bearing in mind the phase-in period provided for in Law 10/2014, the capital conservation buffer applicable in 2017 will be 1.250%, corresponding to 50% of the total (2.5%). Similarly, as the Bank of Spain has identified the Bank Group as another systemically important institution (O-SII), a Common Equity Tier I capital buffer was established at 0.25% of its total risk exposure on a consolidated basis. In 2017, it must meet 50% of this buffer; i.e. 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.

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.

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 exposures to corporates, advanced internal-rating based (IRB) models approved by the Bank of Spain.
  - For exposure to institutions and retail customers:
    - Both advanced internal-rating based (IRB) models and the standardized approach depending on the portfolio.
    - Advanced internal models for all new business.
  - For exposures to institutions, both advances internal-rating based (IRB) and the standarised approach.
  - The standardized approach for all other exposures.
- Requirements linked to the held-for-trading portfolio (foreign currency and market rates) were calculated using internal models, including additional counterparty credit risk requirements to OTC derivatives (CVA “Credit Value 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 equity portfolio, a simple risk-weighting and PD/LGD approach was applied in accordance with the various subportfolios.
- To calculate the capital requirements for operational risk, the standardized approach was used.

The following table provides a detail of the Bankia Group's capital levels at 30 June 2017 and 31 December 2016 and its capital requirements calculated in accordance with the CRR and CRD IV:

(Thousands of euros and %)

ITEM	30/06/2017 (*)	31/12/2016
Common Equity Tier I (CET 1)	**11,703,053**	**11,605,956**
Equity	2,879,332	9,213,863
Profit or loss admissible attributable to owners of the parent (1)	513,837	804,163
Reserves and treasury shares	9,056,729	2,284,800
Other comprehensive eligible and accumulated income	267,429	269,971
Non-competing minority interests	7,089	13,929
Deductions	(1,021,363)	(980,770)
Deferred tax assets depend on future incomes	(490,581)	(323,672)
Prudent valuation related to assets side (AVA)	(43,678)	(66,556)
Dividend to be deducted for regulatory purposes (1)	(202,824)	(317,424)
Intangible assets and others deductions	(284,280)	(273,118)
Additional Tier I Capital (AT1)	**-**	**-**
TIER I (TIER1=CET1+AT1)	**11,703,053**	**11,605,956**
TIER2	**1,512,335**	**1,030,059**
Subordinated debt	1,497,270	1,000,000
Others eligible/deductibles elements	15,065	30,059
Total capital (TIER1+TIER2)	**13,215,388**	**12,636,015**
Total Risk Weighted Assets	**74,627,984**	**76,959,536**
Credit risk, counterparty and dilution	**65,163,441**	**67,383,302**
Standardized approach	22,406,604	23,438,352
Internal ratings-based approach	42,756,837	43,944,950
By market risk	**3,050,130**	**3,161,821**
By operational risk	**6,414,413**	**6,414,413**
Common Equity Tier I ratio	**15.68%**	**15.08%**
Equity Tier I ratio	**15.68%**	**15.08%**
Total capital ratio	**17.71%**	**16.42%**

(*) Estimated data.

(1) The entity intends to request authorisation for the calculation of profit/(loss) for the year, from which it will deduct Regulatory dividend calculated according to the forecast dividend distribution for the previous year.

At 30 June 2017, the Bankia Group showed a surplus of EUR 5,826 million (EUR 3,670 million at 31 December 2016) over the regulatory minimum Common Equity Tier I of 7,875% (10.3125% at 31 December 2016) established considering Pillar I, Pillar II and the combined requirement of buffers.

On 30 June 2017, the ankia Group shows a surplus of EUR 4,726 million (EUR 4,700 million on 31 December 2016) over the regulatory minimum Common Equity Tier 1 of 11,375%. (10.3125% on 31 December 2016) established considering Pillar I, Pillar II requirment and the combined requirement of buffers.

In addition, on 18 July 2017, Bankia, S.A. issued EUR 750 million of contingent convertible bonds carrying a 6% coupon payable quarterly, at the issuer's discretion. Bankia will request authorisation to include this issue as additional Tier 1 capital of Bankia and/or its Group, in accordance with Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, and Regulation (EU) 575/2013, of 26 June 2013, of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. The estimated impact of this issuance, which is not reflected in the preceding table, is an additional 100 basis points in Tier 1 and Total capital.

(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 from 1 January 2018, once the review and calibration stage of the ratio begun on 1 January 2013 is completed.

The entry into force of the CRR imposed on entities the obligation to calculate and report the ratio to the Supervisor quarterly from January 2014, and to publicly disclose the ratio from 1 January 2015. The CRR does not require compliance with a minimum level. 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.

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

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

(thousands of euros and %)

CONCEPTOS	30/06/2017 (*)	31/12/2016
Tier I capital	11,703,812	11,605,956
Exposure	179,608,499	189,491,589
Leverage ratio	**6.52%**	**6.12%**
(+) Exposure on balance	168,943,599	176,100,269
(+)Exposure on derivates	2,255,794	2,533,663
(+)Additions in counterparty risk in op. securities financing (SFTs)	2,059,967	1,398,395
(+)Exposure off-balance sheet (includes application of CCFs)	6,349,138	9,459,262
Total exposure on leverage ratio	**179,608,499**	**189,491,589**

(*)Estimated Includes profit for the period less the regulatory dividend, based on last year's dividend payout, for which the entity intends to request authorisation for inclusion in the calculation of regulatory capital.

At 30 June 2017, 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.

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

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

- 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:

- Basic earnings per share are calculated by dividing "profit for the year" attributable to equity holders of the parent by the weighted average number of shares outstanding during the period, excluding the average number of treasury shares held in the 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 2017 and 2016:

(Thousands of euros)

ITEM	30/06/2017	30/06/2016 (*)
Net earnings/loss attributed to the Group (thousands of euros)	513,837	481,351
Of which:		
Earnings/Loss for the period from discontinued operations (net) (thousands of euros)	-	-
Earnings/Loss from ordinary business (thousands of euros)	513,837	481,351
Weighted average number of shares outstanding	2,864,964,501	2,863,972,257
Basic earnings/(loss) per share (in euros)	**0.18**	**0.17**
Basic earnings/(loss) per share for discontinued operations (in euros)	**-**	**-**
Basic earnings/(loss) per share for continuing operations (in euros)	**0.18**	**0.17**
Dilutive effect		
Entitlement to receive shares	-	-
Adjusted average number of shares for the calculation	2,864,964,501	2,863,972,257
Diluted earnings/(loss) per share (in euros)	**0.18**	**0.17**
Diluted earnings/(loss) per share for discontinued operations (in euros)	**-**	**-**
Diluted earnings/(loss) per share for continuing operations (in euros)	**0.18**	**0.17**

(*) Number of shares and earnings per share adjusted in accordance with the "reverse split" perfomed in the year 2017 (see Note 15.1).

At 30 June 2017, the Group did not have any issues convertible into Bankia shares or other instruments conferring privileges or rights that make them convertible into shares. Therefore, there was no dilutive effect.

Dividend policy

A resolution was adopted at the General Meeting of Shareholders of Bankia held on 24 March 2017 to distribute, against earnings for the year ended 31 December 2016, a gross dividend of EUR 0.02756 per share of Bankia, S.A. entitled to dividend and outstanding at the date payment is made. The dividend was paid on 31 March 2017 with distribution of EUR 315,956,894.67.

(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 2017
Mr. José Ignacio Goirigolzarri Tellaeche	250	-	-	-	-	-	250
Mr. José Sevilla Álvarez	250	-	-	-	-	-	250
Mr. Antonio Ortega Parra	250	-	-	-	-	-	250
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. Álvaro Rengifo Abbad	-	50	-	-	-	-	50
Mr. Antonio Greño Hidalgo	-	50	-	-	-		50

ii) Golden parachute clauses in Board of Directors' contracts

Pursuant to additional provision seven of Law 3/2012, Bankia may not pay "compensation for termination of contract" for employment contracts of Directors of Bankia in excess of the lower of the following amounts:

EUR 1,000,000 or

Two years of the fixed compensation stipulated.

"Compensation for termination of contract" includes any amount of a compensatory nature that the Director may receive as a consequence of termination of contract, whatever the reason, origin or purpose, so that the sum of all the amounts that may be received may not exceed the established limits.

The contracts of three executive directors contain a termination benefit of one year of fixed remuneration if the Company decides to terminate their employment unilaterally or in the event of a change of control of the Company. The contracts also contain a post-contractual non-compete clause for the one year of fixed remuneration. Pursuant to prevailing legislation, Bankia has amended these contracts, establishing that any compensation and/or amounts received by these executive directors must comply with Royal Decree-Law 2/2012, Law 3/2012 and Law 10/2014.

iii) Share-based payment schemes

No shares were delivered as no amounts of variable compensation were paid in first half 2017.

iv) Long-term saving schemes

(Thousands of euros)

Name	Contribution Funds and Pension Plans (1) 1st Half 2017 by the entity	Life Insurance Premiums 1st Half 2017 by the entity
Mr. José Ignacio Goirigolzarri Tellaeche	-	-
Mr. José Sevilla Álvarez	-	-
Mr. Antonio Ortega Parra	-	-
Mr. Joaquín Ayuso García	-	-
Mr. Francisco Javier Campo García	-	-
Mrs. Eva Castillo Sanz	-	-
Mr. Jorge Cosmen Menéndez-Castañedo	-	-
Mr. José Luis Feito Higueruela	-	-
Mr. Fernando Fernández Méndez de Andés	-	-
Mr. Álvaro Rengifo Abbad	-	-
Mr. Antonio Greño Hidalgo	-	-

(1) Regarding pension obligations, there are no cumulative amounts as there is no pension scheme for directors.

b) Remuneration accrued for membership on the Boards of other Group companies or investees

On 7 June 2012, the Company reported, in a material disclosure 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 2016
Mr. José Ignacio Goirigolzarri Tellaeche	250	-	250
Mr. José Sevilla Álvarez	250	-	250
Mr. Antonio Ortega Parra	250	-	250
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. Álvaro Rengifo Abbad	50	-	50
Mr. Antonio Greño Hidalgo	50	-	50

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

a) Remuneration accrued at the Bank

For the purposes of these interim consolidated financial statements, the members of the Management Committee, without taking into consideration the executive directors, were considered as senior executives. A total of four people, Mr. Miguel Crespo Rodríguez, Mrs. Amalia Blanco Lucas, Mr. Fernando Sobrini Aburto and Mr. Gonzalo Alcubilla Povedano, were classified for these purposes as key personnel for the Bank.

Regarding remuneration of senior executives, the Entity applies the provisions of Royal Decree-Law 2/2012, of 3 February, on the reorganisation of the financial sector, Law 3/2012, of 6 July, on urgent measures to reform the labour market, Ministry of Economy Order ECO/1762/2012, of 3 August and Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

i) Gross remuneration

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

(Thousands of euros)	Post-employment benefits [1]	Termination benefits	Post-indemnification
Senior executives	812	64	-

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

ii) Golden parachute clauses in senior executive contracts

Pursuant to additional provision seven of Law 3/2012, Bankia may not pay "compensation for termination of contract" for employment contracts of senior executives of Bankia in excess of the lower of the following amounts:

EUR 1,000,000 or
Two years of the fixed compensation stipulated.

"Compensation for termination of contract" includes any amount of a compensatory nature that the director may receive as a consequence of termination of contract, whatever the reason, origin or purpose, so that the sum of all the amounts that may be received may not exceed the established limits.

The contracts of four senior executives included clauses that set compensation for all items if they are dismissed for legal reasons, except for disciplinary reasons considered legally valid, equivalent to two years' fixed compensation. Pursuant to prevailing legislation, Bankia has amended these contracts, establishing that any compensation and/or amounts received by 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 first half 2017.

(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 2017, 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 from 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 2017:

- On 4 occasions, Bank directors (Mr. Joaquín Ayuso García, Mrs. Eva Castillo Sanz and Mr. Fernando Fernández Méndez de Andés) refrained from participating in the deliberation and voting on matters at the Board of Directors' meetings regarding transactions that they, or persons related to them, had a direct or indirect conflict of interest with the Bank.
- On one occasion, directors Mr. José Ignacio Goirigolzarri Tellaeche, Mr. José Sevilla Álvarez and Mr. Antonio Ortega Parra, as directors of Bankia, S.A. and of BFA, Tenedora de Acciones, S.A.U. (the parent of Bankia, S.A.), refrained from participating in the deliberation and voting of assets at the Board of Directors' meetings regarding transactions considered related party transactions under the Framework Agreement between the two entities.
- 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, Tenedora de Acciones. S.A.U., and José Ignacio Goirigolzarri Tellaeche, as natural person representative of Fund for Orderly Bank Restructuring (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 merger between Bankia and Banco Mare Nostrum, both in the preliminary study and analysis stage, and in the subsequent decision-making

(7) Financial assets

(7.1) Breakdown by type 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 2017 is as follows:

(Thousands of euros)

FINANCIAL ASSETS	Held for trading	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments
Loans and advances to credit institutions	-	-	2,596,834	-
Loans and advances to customers	-	-	104,143,899	-
Debt securities	2,010	19,410,698	406,412	27,895,398
Equity instruments	67,524	27,776	-	-
Trading derivatives	6,867,482	-	-	-
Total	**6,937,016**	**19,438,474**	**107,147,145**	**27,895,398**

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 2016 is as follows:

(Thousands of euros)

FINANCIAL ASSETS	Held for trading	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments
Loans and advances to credit institutions	-	-	3,577,553	-
Loans and advances to customers	-	-	104,676,643	-
Debt securities	5,011	25,222,848	563,151	27,691,243
Equity instruments	70,639	26,107	-	-
Trading derivatives	8,255,624	-	-	-
Total	**8,331,274**	**25,248,955**	**108,817,347**	**27,691,243**

(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 2017 and 31 December 2016:

(Thousands of euros)

	30/06/2017			31/12/2016		
ITEM	Fair Value	Amount netted	Carrying amount	Fair Value	Amount netted	Carrying amount
Unmatured foreign currency purchases and sales	76,950	-	76,950	40,010	-	40,010
Equity derivatives	10,284	-	10,284	7,790	-	7,790
Interest rate derivatives	14,686,095	(7,932,338)	6,753,757	17,384,514	(9,210,330)	8,174,184
Credit derivatives	2,403	-	2,403	3,769	-	3,769
Other	24,088	-	24,088	29,871	-	29,871
Total	**14,799,820**	**(7,932,338)**	**6,867,482**	**17,465,954**	**(9,210,330)**	**8,255,624**

(7.3) Available-for-sale financial assets

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	30/06/2017	31/12/2016
By counterparty		
Credit institutions	1,583,234	3,386,146
Resident public sector	12,915,079	15,910,767
Non-resident public sector	4,305,832	4,387,954
Other resident sectors	257,541	667,168
Other non-resident sectors	377,914	900,177
Doubtful assets	4,668	4,657
Impairment losses	(5,794)	(7,914)
Total	**19,438,474**	**25,248,955**
By type of instrument		
Debt securities	19,410,698	25,222,848
Spanish government debt securities	12,915,079	15,910,767
Treasury bills	2,004	5,005
Government bonds	12,560,651	15,231,461
Regional administrations	352,424	674,301
Foreign government debt securities	4,305,832	4,387,954
Issued by financial institutions	1,583,234	3,386,146
Other fixed-income securities	612,347	1,545,895
Impairment losses and fair value adjustments due to credit risk	(5,794)	(7,914)
Equity instruments	27,776	26,107
Total	**19,438,474**	**25,248,955**

The Group's portfolio of available-for-sale financial assets contained assets amounting to EUR 4,668 thousand at 30 June 2017 (EUR 4,657 thousand at 31 December 2016) assessed individually to be impaired due to credit risk.

At 30 June 2017 and 31 December 2016. the Group did not have any assets classified in the available-for-sale financial assets portfolio with past-due amounts and no impaired

The average effective annual interest rate of debt securities included in the available-for-sale financial assets portfolio at 30 June 2017 was 1.32% (1.72% at 31 December 2016).

A summary of changes in relation to impairment losses due to credit risk in the six months ended 30 June 2017 and 2016 included in the Group's available-for-sale assets, by identification criteria and nature of counterparty, is as follows:

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

30 June 2016

(Thousands of euros)

DEBT SECURITIES	Individually assessed	Collectively assessed	Total
Balances at 31 December 2015	**4,637**	**1,569**	**6,206**
Impairment losses for the year charged to income	11,474	2	11,476
Available credit loss allowance	(4)	(210)	(214)
Net provision/(release) charged/(credited) to income statement	**11,470**	**(208)**	**11,262**
Amounts used for depreciated assets and other net movements	-	(1)	(1)
Balances at 30 June 2016	**16,107**	**1,360**	**17,467**
Of which:			
Type of counterparty:	**16,107**	**1,360**	**17,467**
Entities resident in Spain	-	720	720
Entities resident abroad	16,107	640	16,747

(7.4) Loans and receivables

Breakdown

The detail, by type of financial instrument, of "Loans and receivables" on the asset side of the balance sheet is as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Loans and recievables		
Term accounts	112,054,372	114,173,448
Reverse repurchase agreements	2,591,236	3,569,880
Other financial assets	109,463,136	110,603,568
Doubtful assets	398,077	505,004
Sum	**112,452,449**	**114,678,452**
Impairment losses	(5,293,978)	(5,918,617)
Other valuation adjustments	(11,326)	57,512
Total	**107,147,145**	**108,817,347**

Credit quality of Loans and Receivables Portfolio. Guarantees received

The breakdown at 30 June 2017 and 31 December 2016 of guarantees received related to Loans and Receivables in the accompanying balance sheet is as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Value of the colateral	68,401,995	70,754,417
Of which: collateral with default risks	4,728,047	5,188,575
Value of others collateral		-
Of which: collateral with default risks		-
Total	**68,401,995**	**70,754,417**

The value of the guarantee or collateral is the lower of the guarantee received and the amount of the loan.

Loans and receivables. Loans and advances. Credit institutions

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

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
By instrument type		
Time deposits	74,364	104,998
Reverse repurchase agreements	500,000	847,412
Other financial assets	2,016,871	2,617,470
Doubtful assets	1	-
Sum	**2,591,236**	**3,569,880**
Impairment losses	-	-
Other valuation adjustments	5,598	7,673
Total	**2,596,834**	**3,577,553**

The average effective annual interest rate of financial instruments included under this heading at 30 June 2017 was 0 % (0% at 31 December 2016).

Loans and receivables. Loans and advances to customers

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

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Public sector (1)	5,410,509	5,365,440
Other financial corporations	1,624,707	1,916,151
Non-financial corporations	28,060,831	27,475,152
Households	69,047,852	69,919,900
Total	**104,143,899**	**104,676,643**

(1) At 30 June 2017, includes EUR 17 million (EUR 76 million at 31 December 2016 in "Non-financial companies") related to amounts to be reimbursed by BFA due to its assumption of 60% of the estimated contingencies arising from Bankia's IPO under the terms of the agreement between BFA and Bankia (see Note 14).

(2) Of which EUR 9,831,017 thousand corresponds to doubtful "Loans and advances" at 30 June 2017 (EUR 10,717,085 thousand at 31 December 2016).

The average effective annual interest rate of financial instruments included under this heading at 30 June 2017 was 1.69% (1.72% at 31 December 2016).

Doubtful assets

The amounts shown in the accompanying balance sheet related to doubtful assets are:

(Thousands of euros)

ITEM	1st half 2017	1st half 2016
Accounting balance at the beginning of the period	**10.717.085**	**12.251.856**
Additions	1,856,280	2,030,100
Disposals	(2,742,348)	(3,370,804)
Through foreclosure	(243,306)	(303,078)
Through portfolios sales	(142,410)	(215,811)
Through reversals and others	(2,121,234)	(2,632,126)
Through forgiveness and disposals of assets	(235,398)	(219,789)
Accounting balance at the end of the period	**9,831,017**	**10,911,152**

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

The table below shows, for doubtful loans and receivables, 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 Receivables" at 30 June 2017 and 31 December 2016, by counterparty, age of the oldest past-due amount of each, and the type of guarantee or collateral:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
By counterparty		
Public sector	38,986	40,276
Other financial corporations	22,489	25,509
Non-financial corporations	5,442,512	6,062,574
Households	3,516,378	3,694,804
Total	**9,020,365**	**9,823,163**
By age		
Up to 6 months	4,570,398	4,513,059
Between 6 and 9 months	321,717	506,594
9 to 12 months	234,353	377,971
More than 12 months	3,893,897	4,425,539
Total	**9,020,365**	**9,823,163**
Balance doubtful operations		
Full mortgage collateral	5,393,530	5,758,014
Other colateral	41,511	66,659
Without colateral	3,585,324	3,998,490
Total	**9,020,365**	**9,823,163**

The amount of products sold and not collected from the assets accumulated at 30 June 2017, amounts to EUR 335,177 thousand (EUR 368,071 thousand as of 31 December 2016).

The following tale 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	30/06/2017	31/12/2016
Lower than or equal to 40%	467,957	836,644
Greater than 40% and lower than or equal to 60%	560,896	958,094
Greater than 60% and lower than or equal to 80%	917,435	867,107
Greater than 80%	3,488,753	3,162,828
Total	**5,435,041**	**5,824,673**

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" included in "Loans and Receivables" at 30 June 2017 and 31 December 2016, by counterparty, age past-due and type of guarantee or collateral:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
By counterparty		
Credit institutions	627	1,705
Public sector	64,038	109,861
Other financial corporations	15,836	9,016
Non-financial corporations	266,865	358,314
Households	552,015	570,498
Total	**899,381**	**1,049,394**
By age		
Less than one month	251,729	329,159
Between 1 and 3 months	78,567	127,410
More than 3 months	569,085	592,825
Total	**899,381**	**1,049,394**
By type of colateral		
Full mortgage collateral	740,189	792,034
Other colateral	1,756	2,279
Without colateral	157,436	255,081
Total	**899,381**	**1,049,394**

The following table provides a breakdown of assets with collateral included in this category by the percentage of risk in relation to the value of the collateral ("loan to value"), as the key measure for the collateral in relation to the risks to which it is exposed:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Lower than or equal to 40%	267,352	287,591
Greater than 40% and lower than or equal to 60%	291,664	299,314
Greater than 60% and lower than or equal to 80%	174,962	189,253
Greater than 80%	7,967	18,155
Total	**741,945**	**794,313**

The following table presents a summary of movements affecting impairment losses due to credit risk in the six months ended 30 June 2017 and 2016 recognised under "Loans and advances - Credit institutions" and "Loans and advances - Customers" under "Loans and receivables" in the consolidated balance sheets by identification criteria and nature of the counterparties:

30 June 2017

(Thousands of euros)

ITEM	General allowance	Country risk allowance	Specific allowance	Total
Balances at 31 December 2016	**584,937**	**16,441**	**5,316,701**	**5,918,079**
Individually assessed	-	-	2,738,630	2,738,630
Collectively assessed	584,937	16,441	2,578,071	3,179,449
Impairment losses for the year charged to income	89,973	8,008	1,340,738	1,438,719
Available credit loss allowance	(123,973)	(12,684)	(1,111,259)	(1,247,916)
Net provision/(release) charged/(credited) to income statement	**(34,000)**	**(4,676)**	**229,479**	**190,803**
Amounts used for depreciated assets and other changes	114,282	-	(899,589)	(785,307)
Exchange differences	(839)	-	(29,317)	(30,156)
Balances at 30 June 2017	**664,380**	**11,765**	**4,617,274**	**5,293,419**
Individually assessed	-	-	2,368,577	2,368,577
Collectively assessed	664,380	11,765	2,248,697	2,924,842
Of which				
Type of counterparty:	**664,380**	**11,765**	**4,617,274**	**5,293,419**
Entities resident in Spain	643,452	-	4,135,833	4,779,285
Entities resident abroad	20,928	11,765	481,441	514,134

30 June 2016

(Thousands of euros)

ITEM	General allowance	Country risk allowance	Specific allowance	Total
Balances at 31 December 2015	**56,329**	**21,393**	**7,329,704**	**7,407,426**
Individually assessed	-	-	4,585,535	4,585,535
Collectively assessed	56,329	21,393	2,744,169	2,821,891
Impairment losses for the year charged to income	98	14,638	1,518,660	1,533,396
Available credit loss allowance	-	(20,239)	(1,340,490)	(1,360,729)
Net provision/(release) charged/(credited) to income statement	**98**	**(5,601)**	**178,170**	**172,667**
Amounts used for depreciated assets and other changes	-	-	(885,264)	(885,264)
Exchange differences	-	(1)	(13,821)	(13,822)
Balances at 30 June 2016	**56,427**	**15,791**	**6,608,789**	**6,681,007**
Individually assessed	-	-	4,290,559	4,290,559
Collectively assessed	56,427	15,791	2,318,230	2,390,448
Of which				
Type of counterparty:	**56,427**	**15,791**	**6,608,789**	**6,681,007**
Entities resident in Spain	54,202	-	5,991,112	6,045,314
Entities resident abroad	2,225	15,791	617,677	635,693

(7.5) Loans and receivables. Debt securities

The detail, by counterparty, of this condensed consolidated balance sheet heading at 30 June 2017 and 31 December 2016 is as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
By counterparty		
Other resident sectors	319,468	415,099
Other non-resident sectors	78,171	89,467
Doubtful assets	438	438
Sum	**398,077**	**505,004**
Impairment losses and fair value adjustments due to credit risk	(560)	(538)
Other valuation adjustments	8,895	58,685
Total	**406,412**	**563,151**

The average effective annual interest rate of debt securities included in loans and receivables portfolio at 30 June 2017 was 4.67% (4.67% at 31 December 2016).

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 2017 and 2016 is as follows:

30 June 2017

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 december 2016	**-**	**538**	**538**
Impairment losses for the year charged to income	-	55	55
Available credit loss allowance	-	(34)	(34)
Net provision/(release) charged/(credited) to income statement	**-**	**21**	**21**
Amounts used for depreciated assets and other net movements	-	1	1
Exchange differences	-	-	-
Balances at 30 June 2017	**-**	**560**	**560**
Of which:			
Type of counterparty:	**-**	560	560
Entities resident in Spain	-	404	404
Entities resident abroad	-	156	156

30 June 2016

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 december 2015	**-**	**546**	**546**
Impairment losses for the year charged to income	-	25	25
Available credit loss allowance	-	(13)	(13)
Net provision/(release) charged/(credited) to income statement	**-**	**12**	**12**
Amounts used for depreciated assets and other net movements	-	-	-
Exchange differences	-	2	2
Balances at 30 June 2016	**-**	**560**	**560**
Of which:			
Type of counterparty:	**-**	**560**	**560**
Entities resident in Spain	-	455	455
Entities resident abroad	-	105	105

(7.6) Held-to-maturity investments

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

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
By counterparty		
Credit institutions	8,586	2,888
Resident public sector	9,954,917	9,643,345
Non-resident public sector	1,247,532	1,270,522
Other resident sectors (*)	16,571,859	16,585,564
Other non-resident sectors	115,137	192,851
Doubtful assets	2,124	2,384
Impairment losses	(4,757)	(6,311)
Total	**27,895,398**	**27,691,243**
By type of instrument		
Spanish government debt securities	9,954,917	9,643,345
Foreign government debt securities	1,247,532	1,270,522
Bonds and obligations (*)	16,697,706	16,783,687
Impairment losses	(4,757)	(6,311)
Total	**27,895,398**	**27,691,243**

(*) Includes debt securities received as consideration for assets transferred to the SAREB recognised at nominal amount and backed by the Spanish government (see Note 1.13).

The average effective annual interest rate of debt securities included in the held-to-maturity investments portfolio at 30 June 2017 was 0.73% (0.82% at 31 December 2016).

At 30 June 2017, the Group's held-to-maturity portfolio included EUR 2,124 thousand of assets individually considered to be impaired due to credit risk (EUR 2,384 thousand at 31 December 2016).

The Group did not have any assets classified in the held-to-maturity portfolio with past-due amounts and not impaired at 30 June 2017 and 31 December 2016.

A summary of changes in relation to impairment losses due to credit risk in the six months ended 30 June 2017 and 2016 included in the Group's held-to-maturity investments portfolio, by identification criteria and nature of counterparty, is as follows:

30 June 2017

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 December 2016	-	**6,311**	**6,311**
Impairment losses for the year charged to income	-	68	68
Available credit loss allowance	-	(1,622)	(1,622)
Net provision/(release) charged/(credited) to income statement	-	**(1,554)**	**(1,554)**
Amounts used for depreciated assets and other net movements	-	-	-
Balances at 30 June 2017	-	**4,757**	**4,757**
Of which:	-		
Type of counterparty:	-	**4,757**	**4,757**
Entities resident in Spain	-	2,166	2,166
Entities resident abroad	-	2,591	2,591

30 June 2016

(Thousands of euros)

ITEM	Individually assessed	Collectively assessed	Total
Balances at 31 December 2015	**-**	**27,821**	**27,821**
Impairment losses for the year charged to income	9,820	837	10,657
Available credit loss allowance	-	(25,858)	(25,858)
Net provision/(release) charged/(credited) to income statement	**9,820**	**(25,021)**	**(15,201)**
Amounts used for depreciated assets and other net movements	-	(445)	(445)
Balances at 30 June 2016	**9,820**	**2,355**	**12,175**
Of which:			
Type of counterparty:	**9,820**	**2,355**	**12,175**
Entities resident in Spain	-	2,057	2,057
Entities resident abroad	9,820	298	10,118

(8) Fair value of financial instruments

(8.1) 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 2017 were EUR 142 million for CVA (EUR 170 million at 31 December 2016) and EUR 4 million for DVA (EUR 5 million at 31 December 2016).

(8.2) 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)

	30/06/2017		31/12/2016	
ITEM	Balance sheet total	Fair value	Balance sheet total	Fair value
ASSETS				
Cash and balances with central banks and other demand deposits	3,433,757	3,433,757	2,853,756	2,853,756
Financial assets held for trading	6,937,016	6,937,016	8,331,274	8,331,274
Available-for-sale financial assets	19,438,474	19,438,474	25,248,955	25,248,955
Loans and receivables	107,147,145	116,003,011	108,817,347	118,309,011
Held-to-maturity investments	27,895,398	28,390,095	27,691,243	28,175,802
Non-current assets and disposal groups classified as held for sale – Other equity instruments	9,001	9,001	4,593	4,593
Hedging derivatives	2,924,787	2,924,787	3,631,322	3,631,322
LIABILITIES				
Financial liabilities held for trading	7,182,716	7,182,716	8,983,112	8,983,112
Financial liabilities at amortised cost	157,982,129	159,121,008	164,635,609	166,458,771
Hedging derivatives	357,866	357,866	724,045	724,045

For financial instruments whose carrying amount differs from their theoretical fair value, this latter value 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.
- The fair value of the "held-to-maturity portfolio" is considered to equivalent to the quoted prices of the securities in active markets except SAREB bonds (see Note 1.13), whose fair value was estimated using Level 2 inputs. It did not differ significantly from carrying amount (fair value was determined using quoted prices of Spanish government bonds of similar characteristics).
- Fair value of "Loans and receivables" 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.

Financial instruments whose carrying amount coincides with their fair value were measured as follows:

- Level 1: Financial instruments whose fair value was determined by reference to their quoted price in active markets, without making any change to these prices.
- Level 2: Financial instruments whose fair value was estimated by reference to quoted prices on organised markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- Level 3: Instruments whose fair value was estimated by using valuation techniques in which one or another significant input is not based on observable market data. An *input* is deemed to be significant when it is important for determining the fair value as a whole.

The Group has not recognized 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)

	30/06/2017			31/12/2016		
ITEM	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Financial assets held for trading	**73,998**	**6,766,014**	**97,004**	**78,007**	**8,158,450**	**94,817**
Debt securities	2,010	-	-	5,011	-	-
Equity instruments	67,524	-	-	70,639	-	-
Trading derivatives	4,464	6,766,014	97,004	2,357	8,158,450	94,817
Available-for-sale financial assets	**19,332,971**	**94,606**	**10,897**	**24,628,206**	**609,848**	**10,900**
Debt securities	19,332,971	77,727	1	24,628,206	594,641	-
Equity instruments	-	16,879	10,897	-	15,207	10,900
Non-current assets and disposal groups classified as held for sale – Other equity instruments	**7,468**	**-**	**1,533**	**2**	**-**	**4,591**
Other equity instruments	7,468	-	1,533	**2**	**-**	**4,591**
Hedging derivatives	**-**	**2,924,787**	-	**-**	**3,631,322**	**-**
LIABILITIES						
Financial liabilities held for trading	**72,033**	**7,104,144**	6,539	**458,900**	**8,517,143**	**7,069**
Trading derivatives	105	7,104,144	6,539	63	8,517,143	7,069
Short positions	71,928	-	-	458,837	-	-
Hedging derivatives	**-**	**357,866**	-	**-**	**724,045**	**-**

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 2017:

(Millions of euros)

Level 2 financial instruments	Valuation techniques	Main assumptions	Inputs	Fair Value
Debt securities	Present value method (discounted cash flows) Libor Market Model	Calculation of the present value of financial instruments as the present value of the future cash flows (discounted at market interest rates), bearing in mind: Estimation of prepayment rates, issuer credit risk and current market interest rates. Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.	• Yield Curves • Credit spreads • Correlation	Debt securities: 78
Equity instruments	Present value method	Calculation of the present value of future cash flows. Considering: • Issuer credit spreads • Prepayment Rates • Yield Curves • Risk Neutrality, non-arbitrage	• Yield Curves • Credit spreads	Equity instruments: 17
Derivatives	Interest rate derivatives: Black and Libor Market Model	For measurement of widely traded instruments, e.g. caps, floors, European swaptions, etc.	For equity, inflation, currency or commodity derivatives: • Forward structure of the underlying • Option Volatility • 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	Trading Derivatives: Assets: 6,766 Liabilities: 7,104 Hedging Derivatives: Assets: 2,925 Liabilities: 358
	For equity, currency or commodity derivatives: Black Scholes, Skew Model	For measurement of widely traded instruments, e.g. call, put, straddle, etc.		
	For inflation derivatives: analytical formula	Absence of correlation between interest rates and inflation. Risk neutrality, absence of arbitrage opportunities		
	For credit derivatives: analytical formula	Calculation of probability of default (PD) levels to ensure compliance with the risk neutrality and non-arbitrage assumptions		

(*)There were no outstanding transactions at 30 June 2017

(Millions of euros)

Level 3 financial instruments	Valuation techniques	Main assumptions	Inputs	Fair Value
Debt securities	Present value method. The Gaussian Copula Model Libor Market model.	Calculation of the present value of financial instruments as the present value of the future cash flows (discounted at market interest rates), bearing in mind: Estimation of prepayment rates, issuer credit risk and current market interest rates. To measure asset backed securities (ABS), future prepayments are calculated based on conditional prepayment rates provided by the issuers. The "time-to-default" model is used to measure the probability of default. One of the main variables used is the correlation of defaults extrapolated from several index tranches (ITRAXX and CDX) with the underlying portfolio of our CDOs. Inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area.	• Prepayment rates • Credit spread • Default correlation • Interest rate correlation	Debt securities: (*)
Equity instruments	Present value method	Net asset value (NAV) for hedge funds and for equity instruments listed in thin or less active markets.	• Credit spread; • NAV provided by the fund manager or the issuer of the securities	Equity instruments: 12
Derivatives	For interest rate derivatives: the Libor Market, Hull and White model	Both methods are based on modelling of future interest rate performance, replicating the yield curve and volatility surface. The HW model is used provided the volatility smile does not affect the value of the derivative. The inclusion of stochastic volatilities in LMM allows complete modelling of the volatility area, making the LMM model the most widely used to measure exotic derivatives.	• Correlation • Term structure of volatilities based on the underlying	Trading Derivatives: Assets: 97 Liabilities: 7
	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 2017

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 2017 and 2016 were as follows:

First half of 2017

(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	-	-	-	12,561	-	-	-
Available-for-sale financial assets			33,244	-	-	-	
Liabilities							
Financial liabilities held for trading – Derivatives	-	-	-	27	-	6	-

First half of 2016

(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		-	-	-	678	-	3,178
Available-for-sale financial assets		180,218	-	513,047	-	-	-
Liabilities							
Financial liabilities held for trading – Derivatives		-	-	-	203	-	-

The amount of financial instruments transferred between measurement levels in 2017 is immaterial relative to the total value of the portfolios and relates mainly to changes in one or more characteristics of the assets. Specifically:

- Transfer from Level 2 to Level 3 for EUR 13 million: As relevant inputs that represent key assumptions (credit risk) used in the valuation technique to measure certain derivatives have become unobservable.
- Transfer from Level 3 to Level 2 for EUR 6 million: As relevant observable inputs that represent key assumptions (credit risk) used in the valuation technique to measure certain derivatives have been found.
- Transfer Level 2 to Level 1 for a net EUR 33 million: As certain Level 1 quoted prices in markets for Level 2 debt instruments had become available.

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 2017 and 2016 follow:

(Thousands of euros)

	First half 2017		First half 2016	
	Assets	Liabilities	Assets	Liabilities
Opening balance	**105,717**	**7,069**	**130,979**	**4,240**
Gains (losses)	1,046	(1,988)	45,133	3,580
To profit and loss	1,046	(1,988)	45,133	3,580
Purchases, sales and settlements	(14,637)	1,467	(29,900)	(3,539)
Net inflows/(outflows) in Level 3	15,775	(9)	(791)	(37)
Transfers by stpes to assets or liabilities	-	-	1,477	1,477
Closing balance	**107,901**	**6,539**	**146,898**	**5,721**

(9) 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 2017 and 31 December 2016 are as follows:

30 June 2017

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Tangible assets for own use	274,222	(132,270)	141,952
Foreclosed tangible assets	2,985,467	(1,054,873)	1,930,594
Investments in associates and joint ventures	31,266	(21,719)	9,547
Other equity instruments	9,001	-	9,001
Assets included in disposal groups	27,697	-	27,697
Total assets	**3,327,653**	**(1,208,862)**	**2,118,791**
Liabilities included in disposal groups	826	-	826
Total liabilities	826	-	826

31 December 2016

(Thousands of euros)

ITEM	Cost	Impairment losses	Carrying Amount
Tangible assets for own use	279,730	(136,365)	143,365
Foreclosed tangible assets	3,199,794	(1,143,742)	2,056,052
Investments in associates and joint ventures	31,261	(21,716)	9,545
Other equity instruments	4,593	-	4,593
Assets included in disposal groups	46,497	-	46,497
Total assets	**3,561,875**	**(1,301,823)**	**2,260,052**
Liabilities included in disposal groups	1,276	-	1,276
Total liabilities	1,276	-	1,276

At 30 June 2017, the fair value of non-current assets held for sale not differ significantly from their carrying values.

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

At 30 June 2017, 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 ECO805/2003 or statistics appraisals, the fair value is based mainly on independent expert appraisals, adjusted, where appropriate, to factor in the estimated impact from the appraisal date of certain real estate-related variables. These variables consider mainly the age of the appraisals available, as well as the sale experience.

(9.3) Non-current assets and disposal groups that are classified as held for sale. Property, plant and equipment foreclosed in payment of debts

Breakdown

Further details relating to the Group's property assets at 30 June 2017 and 31 December 2016 are disclosed in Appendix VII.

Significant changes

The change recognised in foreclosed assets in the six months ended 30 June 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	1st half 2017	1st half 2016
Accounting balance at the beginning of the period	**2,056,052**	**2,512,642**
Additions during the year and other changes	142,296	126,208
Disposals during the year	(212,297)	(203,509)
Net impairment losses	(55,457)	(14,389)
Accounting balance at the end of the period	**1,930,594**	**2,420,952**

Further, sales of foreclosed assets, by type, made in the six-month periods ended 30 June 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	1st half 2017	1st half 2016
Property assets		
Finished dwellings	182,104	165,632
Managed rural property and offices, commercial and industrial premises	22,085	28,562
Building plots, plots and other property assets	8,108	9,315
Total	**212,297**	**203,509**

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

This includes balances related to investments in jointly-controlled entities and associates, and other investments initially recognised under "Available-for-sale financial assets" 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	30/06/2017	31/12/2016
Other equity instruments	9,001	4,593
Investments in associates and joint ventures - Jointly-controlled entities	(156)	4
Investments in associates and joint ventures – associates	9,703	9,541
TOTAL	**18,548**	**14,138**

(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 2017 and 31 December 2016:

(Thousands of euros)

	30/06/2017	31/12/2016		30/06/2017	31/12/2016
Cash and balances with central banks and other demand depoits	1	1	Financial liabilities at amortised cost	263	6
Loans and receivables	26,827	46,178	Other liabilities	563	1,270
Held-to-maturity investments	-	-			
Tangible assets	29	40			
Other assets	840	278			
TOTAL ASSETS	**27,697**	**46,497**	**TOTAL LIABILITIES**	**826**	**1,276**

(10) Tangible assets

The movement of this item in the accompanying consolidated balance sheet for the six-month period ended at 30 June 2017 and 30 June 2016 is as follows:

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**

30 June 2016

(Thousands of euros)

ITEM	For own use	Investment property	Total
Cost			
Balances at 31/12/2015	**3,807,954**	**1,185,966**	**4,993,920**
Additions/disposals (net)	22,574	(5,744)	16,830
Transfers to/from non-current assets held for sale and other changes	(33,492)	20,991	(12,501)
Balances at 30/06/2016	**3,797,036**	**1,201,213**	**4,998,249**
Accumulated depreciation			
Balances at 31/12/2015	**(2,366,419)**	**(35,777)**	**(2,402,196)**
Additions/disposals (net)	42	839	881
Depreciation during the year	(38,959)	(5,546)	(44,505)
Transfers to/from non-current assets held for sale and other changes	24,218	1,348	25,566
Balances at 30/06/2016	**(2,381,118)**	**(39,136)**	**(2,420,254)**
Impairment losses			
Balances at 31/12/2015	**(15,562)**	**(518,192)**	**(533,754)**
Net provision/(release) charged/(credited) to income statement	-	(506)	(506)
Transfers to/from non-current assets held for sale and other changes	495	(1,949)	(1,454)
Balances at 30/06/2016	**(15,067)**	**(520,647)**	**(535,714)**
Total at 31 December 2015	**1,425,973**	**631,997**	**2,057,970**
Total at 30 June 2016	**1,400,851**	**641,430**	**2,042,281**

Recoverable amount at 30 June 2017 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 2017, the Group did not have any significant contractual obligations in connection with the future operation of the investment properties included on the balance sheet, and there were no relevant restrictions thereon, other than those inherent to the current conditions of the property market.

During the period ended at 30 June 2017 net income from the Group's investment property totalled EUR 6,753 thousand (EUR 13,752 thousand at 30 June 2016).

(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	30/06/2017	31/12/2016
Bankia Pensiones, S,A, Entidad Gestora de Fondos de Pensiones	94,462	95,662
Total	94,462	**95,662**

Movements (gross amounts) in goodwill recognised under this item in the consolidated balance sheet in the six months ended 30 June 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	1st half 2017	1st half 2016
Carrying amount at beginning of period	**95,662**	**98,162**
Additions due to business combinations	-	-
Provisions charged to the income statement	(1,200)	(2,500)
Carrying amount at end of period	**94,462**	**95,662**

As explained in Note 2.16.1 to the 2016 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. Impairments 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 performances of the various cash-generating units that could give indications of impairment, the directors concluded that in the first half 2017, there were no declines in losses warranting the recognition of additional impairment to the EUR 1,200 thousand recognised in the accompanying consolidated income statement attached (2,500 thousand of euros at 30 June 2016).

(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	30/06/2017	31/12/2016
With an indefinite useful life	**-**	**-**
Other assets	-	**-**
With a finite useful life	**138,412**	**124,556**
Computer software	978,945	926,278
Other	3,156	3,213
(Accumulated amortisation)	**(843,689)**	**(804,935)**
Total assets net of amortisation	**138,412**	**124,556**
Impairment losses	**(388)**	**(403)**
Total	**138,024**	**124,153**

The movements existing in this item on the consolidated balance sheet during the first half of 2017 and the first half of 2016 were as follows:

(Thousands of euros)

ITEM	1st half 2017	1st half 2016
With indefinite useful life		
Carrying amount at beginning of period	**-**	**68**
Additions	-	-
Amortisation recognised in income	-	-
Other changes	**-**	**-**
Carrying amount at end of period	**-**	**68**
With finite useful life		
Carrying amount at beginning of period	**124,153**	**104,855**
Additions	54,284	42,218
Amortisation charged to income	(40,412)	(31,053)
Other changes	(1)	118
Carrying amount at end of period	**138,024**	**116,138**
Total	**138,024**	**116,206**

(12) Other assets

Details of "Other assets" on the consolidated balance sheets at 30 June 2017 and 31 December 2016 are as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Insurance contracts linked to pensions	388,684	398,404
Inventories	455	20,187
Other items (1)	314,217	435,187
Total	**703,356**	**853,778**

Other items heading Includes mainly, transactions in transit, accruals associated with operating income, and unaccrued prepayments.

Inventories

The Group's most significant inventories at 30 June 2017 and 31 December 2016 are classified as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Raw materials and goods held for conversion (Land)	**-**	**24,194**
Of which: acquired in payment of debt	-	**-**
Other	-	24,194
Work in progress (Property developments under construction)	**-**	**11,755**
Of which: acquired in payment of debt	-	**-**
Other	-	11,755
Finished products (Completed property developments)	**455**	**15,980**
Of which: acquired in payment of debt	-	**-**
Other	455	15,980
Total, gross	**455**	**51,929**
Less: Impairment losses:	-	**(31,742)**
Raw materials and assets acquired for conversion (Land)	-	(15,790)
Work in progress (Property developments under construction)	-	(11,755)
Finished products (Completed property developments)	-	(4,197)
Total, net	**455**	**20,187**

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 2017 and 2016, are as follows:

(Thousands of euros)

ITEM	1st half 2017	1st half 2016
Carrying amount at beginning of period	**31,742**	**174,731**
Net provisions charged against/(credited to) profit for the year	4,203	2,883
Other changes (*)	(35,945)	(147,134)
Carrying amount at end of period	**-**	**30,480**

(*)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 2017:

(Thousands of euros)

FINANCIAL LIABILITIES	Financial liabilities held for trading	Financial liabilities at amortized cost
Deposits from central Banks	-	12,815,970
Deposits from credit institutions	-	22,268,431
Customer deposits	-	103,037,628
Marketable debt securities	-	18,662,233
Trading derivatives	7,110,788	-
Short positions	71,928	-
Other financial liabilities	-	1,197,867
Total	**7,182,716**	**157,982,129**

The following table shows the balances of this item in the condensed consolidated balance sheet by nature and category at 31 December 2016:

(Thousands of euros)

FINANCIAL LIABILITIES	Financial liabilities held for trading	Financial liabilities at amortized cost
Deposits from central Banks	-	14,968,759
Deposits from credit institutions	-	23,993,139
Customer deposits	-	105,154,816
Marketable debt securities	-	19,846,163
Trading derivatives	8,524,275	
Short positions	458,837	
Other financial liabilities	-	672,732
Total	**8,983,112**	**164,635,609**

(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 2017 and 31 December 2016 is as follows:

(Thousands of euros)

	30/06/2017			31/12/2016		
ITEM	Fair Value	Amount netted	Carrying amount	Fair Value	Amount netted	Carrying amount
Unmatured foreign currency purchases and sales	33,875	-	33,875	37,468	-	37,468
Equity derivatives	10,317	-	10,317	8,513	-	8,513
Interest rate derivatives	14,963,734	(7,932,338)	7,031,396	17,644,489	(9,210,330)	8,434,159
Credit derivatives	2,838	-	2,838	4,796	-	4,796
Other	32,362	-	32,362	39,339	-	39,339
Total	**15,043,126**	**(7,932,338)**	**7,110,788**	**17,734,605**	**(9,210,330)**	**8,524,275**

(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	30/06/2017	31/12/2016
Bank of Spain	12,815,970	14,966,970
Sum	**12,815,970**	**14,966,970**
Valuation adjustments	-	1,789
Total	**12,815,970**	**14,968,759**

Regarding finance raised under the framework of the T-LTRO II programme, the Group considers that, based on the growth in eligible loans up to 30 June 2017 and expected growth for the rest of 2017, it will meet the requirements to receive the incentive included in the terms of the programme. As a result, the Group recognised EUR 22,873 thousand in the six months ended 30 June 2017 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	30/06/2017	31/12/2016
Term accounts	3,332,473	3,674,683
Repos	15,576,738	16,678,499
Other accounts	3,352,944	3,626,258
Sum	**22,262,155**	**23,979,440**
Valuation adjustments	6,276	13,699
Total	**22,268,431**	**23,993,139**

This consolidated balance sheet items includes one-off non-marketable mortgage-backed securities issued by the Group amounting to EUR 2,000 thousand at 30 June 2017 (EUR 72,000 thousand at 31 December 2016).

The average effective annual interest rate on deposits from central banks and other credit institutions at 30 June 2017 was 0.21% (0.29% at 31 December 2016).

(13.5) Financial liabilities at amortised cost - Customer deposits

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

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Public sector	4,801,143	5,029,040
Current accounts	4,113,947	3,570,005
Term deposits	687,196	1,459,035
Other financial corporations	13,506,340	16,385,973
Current accounts	5,729,543	4,936,076
Term deposits	7,706,041	10,244,905
Repos	70,756	1,204,992
Non-financial corporations	11,526,871	12,065,204
Current accounts	9,362,487	8,548,290
Term deposits	2,164,384	3,516,874
Repos	-	40
Households	73,203,274	71,674,599
Current accounts	41,240,313	37,874,057
Term deposits	31,962,717	33,796,732
Repos	244	3,810
Total	**103,037,628**	**105,154,816**

This consolidated balance sheet items includes one-off non-marketable mortgage-backed securities issued by the Group amounting to EUR 4,881,790 thousand at 30 June 2017 (EUR 5,206,790 thousand at 31 December 2016).

The average effective annual interest rate of these instruments at 30 June 2017 was 0.11% (0.23% at 31 December 2016).

(13.6) Financial liabilities at amortised cost – Issued marketable debt securities

This heading the issues of negotiable 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 2017 amounted to EUR 25,492 thousand (EUR 20,586 thousand at 30 June 2016), recognised under "Interest expense" in the consolodited income statement.

The average effective annual interest rate of these instruments at 30 June 2017 has been 0.96% (0.75% at 31 December 2016).

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 2017 and 2016:

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

30 June 2016

(Thousands of euros)

TYPE OF ISSUE	31/12/2015	Issues (*)	Repurchases or repayments	Valuation adjustments, treasury and others	30/06/2016
Debt securities issued in an EU Member State requiring a prospectus to be registered	23,926,807	2,285,500	(4,252,589)	2,454,624	24,414,342
Debt securities issued in an EU Member State not requiring a prospectus to be registered	-	-	-	-	-
Other debt securities issued outside the EU	-	-	-	-	-
Total	**23,926,807**	**2,285,500**	**(4,252,589)**	**2,454,624**	**24,414,342**

(*)Nominal amounts

The main issues and repurchases or repayments in the first half of 2017 were:

– On 14 February 2017 it proceeded to the redemption at maturity of the Bond issue of Bancaja 14/02/2017 for EUR 500 million.

– On 8 March 2017 it proceeded to the redemption at maturity of Bancaja issue 9, for EUR 20 million.

– On 15 March 2017 it was the issue of subordinated bond Bankia 2017-1 to qualified investors to term 10 years for EUR 500 million.

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 2017 and 2016.

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 30 June 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.

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

Mortgage-backed securities were issued in accordance with Mortgage Market Law 2/1981, of 25 March, 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	30/06/2017	31/12/2016
Obligations payable	164,363	226,783
Collateral received	2,123	2,058
Tax collection accounts	545,396	119,632
Special accounts and other items	443,605	275,474
Financial guarantees	42,380	48,785
Total	**1,197,867**	**672,732**

(14) Provisions

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

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Pensions and other post employment defined benefit obligations	392,530	401,664
Pending legal issues and tax litigation	207,262	421,071
Commitments and guarantees given	378,766	389,690
Other provisions	145,381	192,679
Total	**1,123,939**	**1,405,104**

The changes in the provisions recognised in the consolidated balance sheet in the six-months ended 30 June 2017 and 2016 and the purposes thereof are as follows:

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**

30 June 2016

(Thousands of euros)

ITEM	Pensions and other post employment defined benefit obligations	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balances at 31 December 2015	**364,368**	**1,911,372**	**386,498**	**236,084**	**2,898,322**
Provisions charged to the income statement	-	22,312	96,308	2,326	120,946
Reversals credited to the income statement	-	-	(53,972)	(15,009)	(68,981)
Net provisions/(reversals) charged to profit recognised for the year	**-**	**22,312**	**42,336**	**(12,683)**	**51,965**
Use of funds and other movements	(8,704)	(1,467,432)	1,176	8,185	(1,466,775)
Balances at 30 June 2016	**355,664**	**466,252**	**430,010**	**231,586**	**1,483,512**

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.

The detail of items of “Provisions for taxes and other legal contingencies” in the accompanying balance sheet at 30 June 2017 and 31 December 2016 is as follows:

(Millions of euros)

ITEMS	30/06/2017	31/12/2016
Provision for lawsuits related to the IPO	12	60
Other	195	321
Total	**207**	**421**

Key information on each type of provision shown in the preceding table is as follows:

Provision for lawsuits related to the IPO

<u>Criminal procedure in the National Court</u>

As indicated in Note 1.9, the Group is involved in various legal proceedings related to Bankia's IPO.

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.

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.

<u>Civil proceedings</u>

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, EUR 416 million and EUR 320 million, respectively, are attributable to them for each of the items indicated (EUR 736 million in all). At that date, the related provisions had been recognised.

On 27 January 2016, Supreme Court Civil Courtroom 1 held a plenary session to review the appeals for judicial review and breach of procedural law against the rulings issued by the Valencia and Oviedo regional courts over the invalidation of the 2011 IPO arising from claims filed by individual investors in the retail tranche.

On 2 February 2016, the Bank was notified of two rulings issued by the Civil Chamber of the Supreme Court over these appeals for judicial review, rejecting the arguments put forward in them.

The Chamber rejected that the outstanding criminal case with the National Court could block individual actions in civil courts, ruling that the plaintiffs should not have to bear excessive delays due to the probable complexity and duration of the criminal proceeding. The Court also ruled that neither of the two rulings were in breach of procedural law in assessing Bankia's financial situation or determining the relevant facts. In any event, the Court held that the causal link between the material inaccuracies in the IPO prospectus and the errors affecting the plaintiffs who, as individual investors in the retail tranche, unlike what may have occurred with other more qualified investors, lack other means of obtaining information on the financial data of a company whose shares are being listed which is crucial for the investment decision, was sufficiently reasoned in the rulings.

Subsequent to the date of authorisation for issue of the 2015 financial statements, the Bank, upon notification of the aforementioned rulings of the Civil Chamber of the Supreme Court, assessed the implications of measuring the impact of the rulings in its court strategy for the civil proceedings of which it is party brought by individual investors in the retail tranche.

On 17 February 2016, as a result of this analysis and without prejudice to the outcome of the proceedings in the High Court, Bankia began the voluntary restitution to shareholders of the amounts paid in the subscription of Bankia shares in the 2011 IPO, and interest. This process only includes retail investors who acquired shares in the 2011 IPO, even if they are involved in any ongoing legal proceedings by individual investors in the retail tranche.

Basically, the restitution process included an agreement whereby eligible investors would receive as restitution, depending on whether they had sold the shares acquired in the IPO or not, the following:

- For shares sold: the amount of their initial investment less the amount received for the sale of the shares sold in the IPO plus interest of 1% per annum on the difference over the time elapsed from the date of subscription in the Bankia 2011 IPO to the date of signing of the transactional agreement.
- For shares retained: the amount of their initial investment plus interest of 1% per annum of this amount over the time elapsed from the date of subscription in the Bankia 2011 IPO to the date of signing of the transactional agreement. At the same time, investors would free Bankia, at no charge, of any ongoing actions.

At 30 June 2017, a total of 2,920 civil proceedings regarding actions arising from the IPO and subsequent share purchases remained in force, in addition to certain out-of-court claims.

As a result of these, at 30 June 2107, the Group had used provisions amounting to EUR 1,828 million, of which EUR 736 million related to Bankia (EUR 534 million in respect of nullity for reimbursement of shares, and EUR 202 in indemnities, interest and expenses) and EUR 1,092 million 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.

Meanwhile, as of 30 June 2017, a total of 62 rulings had been issued affecting institutional investors (12 individuals and 50 companies), of which eight were favourable in first instance (seven companies and one individual), 41 were unfavourable and 32 were appealed. In addition, one favourable ruling was issued by a regional court, and 12 unfavourable rulings (three for individuals and nine for companies) by a number of regional courts.

Appeals for judicial review have been filed in two of the cases over two major favourable rulings given the claimaints' investor profile, and have been completely rejected. The parties filed appeals against this ruling, which Bankia opposed in due time and form.

The Group's directors consider that the provision set aside on 30 June 2017 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.

Rest

Includes the estimated provisions necessary to cover the pending legal issues and/or claims detailed in Note 1.9.2, and provisions for taxes.

The change in provisions in the first half of 2017 related mainly to the use of provisions for the reimbursement of amounts related to floor clauses.

Remaining provisions

"Other provisions" includes the Restructuring Plan cost provisions described in Note 1.2, as well as the estimated and necessary provisions losses on real estate assets and investees.

(15) Equity

(15.1) Capital

At 31 December 2016, the Bank's share capital amount to EUR 9,213,863 thousand, represented by 11,517,328,544 fully subscribed and paid up registered shares with a par value of EUR 0.8 each of the same class and series.

The resolutions adopted on 24 March at the General Meeting of Shareholders were placed on file at the Valencia Mercantile Register on 1 June 2017. These included the resolution adopted, with the majority required by the Capital Enterprises Act and the Bylaws, to reduce capital, and amend the Bylaws accordingly, as follows:

- Reduction of share capital by an amount of EUR 6,334,531 thousand to increase the voluntary reserves, by reducing the par value of all shares by EUR 0.55 to EUR 0.25 per share based on the balance sheet closed at 31 December 2016.

- Reverse split by combining every four shares with a par value of EUR 0.25, per the value resulting from the aforementioned reduction of capital, into one new share of EUR 1 par value. The number of shares after the reverse split will be 2,879,332,136 shares, with no change to the Company's share capital figure.

During the first half-year of 2017 and 2016, no transaction costs were recognised for the issuance or acquisition of own equity instruments.

Bankia, S.A.'s main shareholders at 30 June 2017 and 31 December 2016 were as follows:

Shareholder	Number of shares 30/06/2017[1]	Number of shares 31/12/2016	% of participation 30/06/2017	% of participation 31/12/2016
BFA, Tenedora de Acciones, S.A.U.	1,928,376,693	7,590,372,430	66.973%	65.904%

(1) Updated in accordance with the resolutions adopted at the General Meeting of Shareholders regarding capital reduction and "reverse split"

As explained in Note 1.2, on 27 June 2012, the FROB became the sole shareholder of BFA (the parent company of the BFA Group, of which Bankia forms part).

(15.2) Transactions with treasury shares

In the half-years ended 30 June 2017 and 2016, changes to "Equity - Less: Treasury shares" on the balance sheet, showing the amount of Bankia's equity instruments held by the Bank, were as follows:

(Thousand euros and number of shares)

ITEMS	30/06/2017 No. shares	30/06/2017 Amount (thousands of euros)	30/06/2016 No. shares	30/06/2016 Amount (thousands of euros)
Balance at 1 January	**52,059,789**	**44,758**	**39,867,346**	**46,473**
+ Purchases during the period	55,501,494	68,877	69,781,221	56,365
- Sales and other changes (1)	(91,821,068)	(52,130)	(41,423,498)	(40,889)
Balances at 30 June	**15,740,215**	**61,505**	**68,225,069**	**61,949**
Net gain/(loss) on transactions with treasury shares (reserves)		6,964		(7,825)

1) Includes the reverse split explained in Note 15.1 for 46,275 thousand shares.

In accordance with prevailing regulations, treasury share transactions are recognised directly in equity; no gain or loss may be recognised in respect of such transactions in the consolidated income statement.

(15.3) Reserves

The Group's consolidated statement of changes in total equity for the six months ended 30 June 2017 and 2016 includes shows the changes to consolidated equity for this item in the period.

Restricted reserves

The information on the Group's restricted reserves is disclosed below:

Pursuant to the Consolidated Text of the Spanish Corporate Enterprises Act, companies must earmark an amount at least 10% of profit for the legal reserve until such reserve represents 20% of the capital. The legal reserve may be used to increase capital to the extent that it exceeds 10% of the increased capital figure. Other than for this purpose, the legal reserve may be used to set off losses if no other sufficient reserves are available for such purpose.

The Company's legal reserve after the distribution of 2016; i.e. EUR 1,087,338 thousand, represented 38% of the share capital resulting from this reduction of capital. Therefore, the excess legal reserve over the 20% of share capital resulting after this reduction was taken to unrestricted reserves.

The amount of this reserve recognised under "Equity - Reserves" of the company it is reduced on EUR 511,472 thousand, up to the figure EUR 575,866 thousand (EUR 1,015,393 thousand at 31 December 2016)

(15.4) Other comprehensive accumulated 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 2017.

(15.7) Other information

At the General Meeting of Shareholders held on 24 March 2017, resolutions were adopted to delegate to the Board of Directors of the Bank the following powers:

- The authority to increase the share capital by up to a maximum of 50% of the subscribed share capital, by means of one or more increases and at any time within a maximum of five years, by means of cash contributions, with authority, if applicable, to 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 2017 and 2016 is as follows:

	Workforce at 30 june 2017				Workforce at 30 june 2016			
	Men	Women	Year-end workforce	Average head count for >= 33% (1)	Men	Women	Year-end workforce	Average head count for >= 33% (1)
Directors	**3**	**-**	**3**	**-**	**3**	**-**	**3**	**-**
Senior executives	**3**	**1**	**4**	**-**	**3**	**1**	**4**	**-**
Other employees by remuneration level	**5,949**	**7,180**	**13,129**	**155**	**5,995**	**7,173**	**13,168**	**142**
Level I	118	10	128	1	115	10	125	1
Level II	496	116	612	3	456	99	555	2
Level III	797	294	1,091	12	839	283	1,122	10
Level IV	923	689	1,612	17	907	649	1,556	15
Level V	629	652	1,281	13	702	729	1,431	11
Level VI	1,135	1,651	2,786	39	1,006	1,434	2,440	33
Level VII	212	385	597	6	256	447	703	9
Level VIII	386	888	1,274	18	368	836	1,204	17
Level IX	254	440	694	8	243	474	717	4
Level X	303	712	1,015	5	201	516	717	6
Level XI	683	1,316	1,999	31	877	1,659	2,536	31
Level XII	7	21	28	-	10	20	30	1
Level XIII	2	2	4	-	10	16	26	-
Level XIV	-	3	3	-	-	-	-	-
Group 2 and others	4	1	5	2	5	1	6	2
Total Bankia, S.A.	**5,955**	**7,181**	**13,136**	**155**	**6,001**	**7,174**	**13,175**	**142**
Other Group companies	154	187	341	3	122	152	274	2
Total	**6,109**	**7,368**	**13,477**	**158**	**6,123**	**7,326**	**13,449**	**144**

(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 2017 and 2016, by gender, in accordance with the provisions of Organic Law 3/2007, of 22 March:

	Bank		Group	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
Average workforce	**13,075**	**13,145**	**13,415**	**13,410**
Men	5,955	6,009	6,109	6,131
Women	7,120	7,136	7,306	7,279

(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 2017 and 31 December 2016, 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	30/06/2017	31/12/2016
Deferred tax assets arising at the Bank with consolidation adjustments	**7,231,108**	**7,356,384**
Deferred tax assets arising from temporary differences in the recognition of accounting and taxable income and expense:	5,018,554	5,122,761
Credit losses (*)	3,927,394	3,961,253
Not monetizable credit losses	70,050	48,854
Impairment losses on equity instruments with consolidation adjustments	37,139	68,711
Impairment losses on foreclosed assets (*)	779,065	779,065
Additions to provisions for pensions (*)	169,377	169,377
Other provisions	35,529	95,501
Tax credits for deductions and bonuses pending application	-	-
Losses on available-for-sale financial assets	15,838	11,512
Recognised unused tax losses	2,196,716	2,222,111
Deferred tax assets arising at Group companies (*)	**606,516**	**606,516**
Total	**7,837,624**	**7,962,900**

(*) Deferred tax assets eligible to be "monetised"

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Deferred tax liabilities arising at the Bank	**579,801**	**642,467**
Unrealised gains on available-for-sale financial assets	452,292	514,336
Unrealised gains on properties	86,930	87,553
Other	40,579	40,578
Deferred tax liabilities arising at other Group entities	**22,057**	**22,176**
Total	**601,858**	**664,643**

To assess the recoverability of the net deferred tax assets recognised by the Group at 30 June 2017, amounting to EUR 7,235,766 thousand (EUR 7,298,257 thousand at 31 December 2016), the directors analysed, based on the nature of the assets, the ability to generate sufficient taxable profit against which the deferred tax assets can be utilised. This analysis was based on the assumptions, conditions and estimates in forecasts for 2017 to 2019 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 5,482,352 thousand (EUR 5,516,211 thousand at 31 December 2016) 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

Financial guarantees are amounts the Bank would be obliged pay on account of third parties if the original debtors were to default on payments pursuant to commitments assumed by those entities in the course of their ordinary business activities.

The detail of these financial and non-financial guarantees provided at 30 June 2017 and 2016 is as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Financial guarantees	**469,073**	**459,863**
Others given commitments	**6,771,242**	**6,844,539**
Other guarantees and indemnities and other contingent risks	6,398,675	6,520,952
Irrevocable documentary credits issued	332,150	307,007
Irrevocable documentary credits confirmed	40,001	16,164
Other contingent risk	416	416
Total	**7,240,315**	**7,304,402**

A significant portion of these guarantees will expire without any payment obligation materialising for the Bank. Therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Bank to third parties.

Drawable by third parties

At 30 June 2017 and 2016, the limits of the financing contracts granted and the amounts drawn down thereon in relation to which the Bank had assumed a credit commitment which was higher than the amount recognised on the asset side of the balance sheet at that date were as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Drawable by third parties	17,600,072	16,859,876
Immediately drawable	13,619,118	13,196,004
Conditionally drawable	3,980,954	3,663,872
Others given commitments (1)	4,467,235	5,912,388
Total	**22,067,307**	**22,772,264**

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

The maximum exposure to credit risk; i.e. the amount payable if the guarantees and commitments extended are called, is as follows:

(Thousands of euros)

ITEM	30/06/2017	31/12/2016
Commitments and given loan	17,600,072	16,859,876
Of which, classified as doubtful	411,001	406,208
Recognized as liabilities in the balance sheet (1)	26,099	22,489
Total commitments and given loans	**17,600,072**	**16,859,876**
Financial guarantees	469,073	459,863
Of which, classified as doubtful	97,519	108,529
Recognized as liabilities in the balance sheet (1)	23,616	25,526
Total commitments and given guarantees	**469,073**	**459,863**
Other guarantees and given loans	11,238,477	12,756,927
Of which, classified as doubtful	618,393	642,589
Recognized as liabilities in the balance sheet (1)	329,051	341,675
Total other commitments	**11,238,477**	**12,756,927**
Total guarantees issued provided by the third party	**29,307,622**	**30,076,666**

(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 2017 and the gains and losses recognised on the condensed consolidated income statement for the six-month period ended 30 June 2017 arising from transactions with related parties is as follows:

(Thousands of euros)

ITEMS	Associates	Jointly-controlled entities	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
Collaterals 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 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 2016, which have their origin in operations with related parties:

(Thousands of euros)

ITEMS	Associates	Jointly-controlled entities	Significant shareholders [1]	Board of Directors and senior executives	Other related parties
ASSETS					
Loans and advances – Customers	361,920	31,585	1,966,692	1,404	503
Impairment of financial assets	(115,322)	(31,585)	-	-	-
Other assets	-	-	1,245,937	-	-
Total	**246,598**	**-**	**3,212,629**	**1,404**	**503**
LIABILITIES					
Deposits – Customers	125,065	1,411	1,381,499	1,808	141,898
Debt securities issued	-	-	-	199	-
Other liabilities	-	-	149,941	-	-
Total	**125,065**	**1,411**	**1,531,440**	**2,007**	**141,898**
OTHER					
Contingent commitments granted	766	-	-	152	92
Collaterals granted	11,976	-	5,879	9	4
Total	**12,742**	**-**	**5,879**	**161**	**96**
PROFIT OR LOSS					
Interest income [2]	1,392	-	66,169	7	2
Interest expense [2]	(930)	-	(20,093)	(7)	(116)
Profit/(loss) of companies accounted for using the equity method	20,577	-	-	-	-
Commission income/expense	138	-	7,721	32	65
Provision for impairment of financial assets	8,267	-	-	-	1

(1) Transactions between Bankia and shareholder BFA only
(2) Finance income and expense are presented gross.

The list of associates and jointly-controlled entities 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 2017, the FROB, through BFA, Tenedora de Acciones, S.A.U., held a 66.973% (67.341% 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 2017 are disclosed in the following notes to the condensed consolidated financial statements:

- Note 7.4 Loans and receivables.
- Note 7.3 Available-for-sale financial assets
- Note 7.6 Held-to-maturity investments
- Note 13.5 Financial liabilities at amortised cost - Customer deposits

The income and expense recognised in the consolidated income statements for the half-year 2017 and 2016 are as follows:

(Thousands of euros)

ITEM	30/06/2017	30/06/2016
Finance income(*)	30,739	43,090
(Finance expense)(*)	(1,690)	(6,161)

(*)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 2017 include:

- "Loans and advances -customers" on the asset side of the balance sheet includes EUR 17 million related to amounts to be reimbursed by BFA due to its assumption of 60% of the estimated contingencies arising from Bankia's IPO under the terms of the agreement between BFA and Bankia. The balance of reverse repurchase agreements with BFA, for EUR 367 million; the debit balance of the mutual account held against BFA amounting to 3 million euros;
- "Deposits - Customers" on the liability side of the balance sheet includes the amount arising from the guarantees received by BFA as collateral in connection with the transactions mentioned in the preceding paragraph, totalling EUR 20 million. This item also includes a demand deposit (interest-bearing) made by BFA for EUR 62 million;
- "Other assets" includes mainly receivables related to the accrual of fees and commissions explained below**;**
- "Collaterals granted" includes the amounts drawn on the line of guarantees granted by Bankia to BFA;
- "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 2017 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 2017 and 31 December 2016

(Thousands of euros)

ASSETS	30/06/2017	31/12/2016 (*)
Cash, cash balances at central banks and other demand deposits	**2,656,872**	**2,081,771**
Financial assets held for trading	**6,896,079**	**8,278,722**
Derivatives	6,888,055	8,266,655
Equity instruments	6,020	7,062
Debt securities	2,004	5,005
Loans and advances	-	-
Central Banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	244	5,004
Financial assets designated at fair value through profit or loss	**-**	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Central Banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-
Available-for-sale financial assets	**19,612,277**	**25,420,776**
Equity instruments	27,776	26,107
Debt securities	19,584,501	25,394,669
Memorandum item: loaned or advanced as collateral with right to sell or pledge	7,741,446	9,860,557
Loans and receivables	**107,362,781**	**108,984,992**
Debt securities	557,648	726,600
Loans and advances	106,805,133	108,258,392
Central Banks	-	-
Credit institutions	2,598,116	3,578,821
Customers	104,207,017	104,679,571
Memorandum item: loaned or advanced as collateral with right to sell or pledge	71,806,539	74,855,038
Held-to-maturity investments	**27,898,787**	**27,695,063**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	10,571,693	9,999,995
Derivatives – Hedge accounting	**2,914,029**	**3,620,293**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investments in subsidaries, joint ventures and associates	**2,697,017**	**2,662,372**
Group entities	2,574,731	2,536,348
Jointly-controlled entities	-	-
Associates	122,286	126,024
Tangible assets	**1,649,307**	**1,636,708**
Property, Plant and Equipment	1,378,207	1,381,542
For own use	1,378,207	1,381,542
Leased out under an operating lease	-	-
Assigned to welfare projects (saving banks and credit cooperatives)	-	-
Investment property	271,100	255,166
Of which: assigned under operating leases	271,100	255,166
Memorandum item: acquired in financial leasing	-	-
Intangible assets	**136,119**	**121,813**
Goodwill	-	-
Other intangible assets	136,119	121,813
Tax assets	**7,454,885**	**7,692,782**
Current tax assets	223,865	338,400
Deferred tax assets	7,231,020	7,354,382
Other assets	**774,987**	**760,501**
Insurance contracts linked to pensions	388,684	398,404
Inventories	-	-
Other	386,303	362,097
Non-current assets and disposal groups classified as held for sale	**1,957,957**	**2,051,940**
TOTAL ASSETS	**182,011,097**	**191,007,733**

(*)Presented solely and exclusively for comparison purposes.

BANKIA, S.A.
Balance sheets at 30 June 2017 and 31 December 2016

(Thousands of euros)

LIABILITIES AND EQUITY	30/06/2017	31/12/2016 (*)
Financial liabilities held for trading	**7,211,441**	**9,008,035**
Derivatives	7,139,513	8,549,198
Short positions	71,928	458,837
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	**160,037,954**	**166,407,360**
Deposits	140,822,435	147,470,875
Central Banks	12,815,970	14,968,759
Credit institutions	22,178,780	23,881,424
Customers	105,827,685	108,620,692
Debt securities issued	17,928,951	18,195,679
Other financial liabilities	1,286,568	740,806
Memorandum item: subordinated liabilities	1,518,010	1,045,492
Derivatives – Hedge accounting	**356,746**	**723,034**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Provisions	**1,024,289**	**1,287,208**
Pensions and other post employment defined benefit obligations	392,530	401,664
Other long term employee benefits	-	-
Pending legal issues and tax litigation	182,357	395,161
Commitments and guarantees given	382,612	398,469
Other provisions	66,790	91,914
Tax liabilities	**579,801**	**642,631**
Current tax liabilities	-	163
Deferred tax liabilities	579,801	642,468
Share capital repayable on demand	-	-
Other liabilities	**738,821**	**912,517**
Of which: Welfare Fund (only saving banks and credit cooperatives)	-	-
Liabilities included in disposal groups classified as held for sale	-	-
TOTAL LIABILITIES	**169,949,052**	**178,980,785**
Equity	**11,743,204**	**11,584,894**
Capital	2,879,332	9,213,863
Paid up capital	2,879,332	9,213,863
Unpaid capital which has been called up	-	-
Memorandum item: Uncalled capital	-	-
Share Premium	-	-
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other equity instruments issued	-	-
Other equity	-	-
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves	8,431,151	1,696,334
(-) Treasury shares	(61,505)	(44,758)
Profit or loss attributable to owners of the parent	494,226	719,455
(-) Interim dividends	-	-
Accumulated other comprehensive income	**318,841**	**442,054**
Items that will not be reclassified to profit or loss	42,622	42,622
Actuarial gains or (-) losses on defined benefit pension plans	42,622	42,622
Non-current assets and disposal groups classified as held for sale	-	-
Rest valuation adjustment	-	
Items that may be reclassified to profit or loss	276,219	399,432
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	(261)	511
Hedging derivatives. Cash flow hedges [effective portion]	(88)	(950)
Available-for-sale financial assets	281,514	399,874
Debt instruments	279,046	399,349
Equity instruments	2,468	525
Non-current assets and disposal groups classified as held for sale	(4,946)	(3)
TOTAL EQUITY	**12,062,045**	**12,026,948**
TOTAL EQUITY AND TOTAL LIABILITIES	**182,011,097**	**191,007,733**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS	**29,902,131**	**32,765,453**
Contingent exposures	7,611,643	7,683,450
Contingent commitments	22,290,488	25,082,003

(*)Presented solely and exclusively for comparison purposes.

BANKIA, S.A.
Income statement for the six months ended 30 June 2017 and 2016

(Thousands of euros)

	30/06/2017	30/06/2016 (*)
Interest income	1,143,271	1,350,465
(Interest expenses)	(195,887)	(325,627)
(Expenses on share capital repayable on demand)	-	-
A) NET INTEREST INCOME	**947,384**	**1,024,838**
Dividend income	37,978	28,737
Fee and commission income	425,398	406,771
(Fee and commission expenses)	(35,862)	(35,319)
Gains or (-) losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, net	217,488	143,496
Gains or (-) losses on financial assets and liabilities held for trading, net	71,015	15,010
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	(15,496)	(29,275)
Exchange differences [gain or (-) loss], net	4,258	16,112
Other operating income	28,083	83,990
(Other operating expenses)	(92,236)	(86,580)
Of which: Mandatory provisions to Welfare Fund (only saving banks and credit cooperatives)	-	-
B) GROSS INCOME	**1,588,010**	**1,567,780**
(Administrative expenses)	(671,252)	(698,721)
(Staff expenses)	(453,259)	(457,599)
(Other administrative expenses)	(217,993)	(241,122)
(Depreciation)	(82,396)	(71,353)
(Provisions or (-) reversal of provisions)	(32,711)	(51,893)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(149,782)	(135,035)
(Financial assets measured at cost)	-	-
(Available- for-sale financial assets)	2,112	(11,262)
(Loans and receivables)	(153,448)	(138,974)
(Held to maturity investments)	1,554	15,201
C) TOTAL OPERATING INCOME, NET	**651,869**	**610,778**
(Impairment or (-) reversal of impairment of investments in subsidaries, joint ventures and associates)	31,644	1,337
(Impairment or (-) reversal of impairment on non-financial assets)	712	(2,134)
(Tangible assets)	712	(200)
(Intangible assets)	-	-
(Other)	-	(1,934)
Gains or (-) losses on the derecognition in nonfinancial assets accounts and investments, net	1,100	(659)
Of which: investments in subsidiaries, joint ventures and associates	264	(573)
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	(41,451)	(34,482)
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**643,874**	**574,840**
(Tax expense or (-) income related to profit or loss from continuing operations)	(149,648)	(117,520)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	**494,226**	**457,320**
Profit or (-) loss after tax from discontinued operations	-	-
F) PROFIT OR (-) LOSS FOR THE PERIOD	**494,226**	**457,320**

(*)Presented solely and exclusively for comparison purposes.

BANKIA, S.A.

Statement of recognised income and expense for the six months ended 30 June 2017 and 2016

(Thousands of euros)

	30/06/2017	30/06/2016 (*)
Profit or (-) loss for the period	**494,226**	**457,320**
Other comprehensive income	**(123,213)**	**(26,921)**
Items that will not be reclassified to profit or loss	**-**	**-**
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Non-current assets and disposal groups held for sale	-	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified to profit or loss	**(123,213)**	**(26,921)**
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	(1,103)	-
Translation gains or (-) losses taken to equity	(1,103)	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	1,232	(1,430)
Valuation gains or (-) losses taken to equity	1,232	(1,430)
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	(169,085)	(37,083)
Valuation gains or (-) losses taken to equity	(68,162)	65,998
Transferred to profit or loss	(100,923)	(103,081)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	(7,061)	54
Valuation gains or (-) losses taken to equity	(7,061)	54
Transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	52,804	11,538
Total comprehensive income for the period	**371,013**	**430,399**

(*)Presented solely and exclusively for comparison purposes.

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 saving 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**

BANKIA, S.A.

Statement of changes in total equity for the six months ended 30 June 2016 (*)

(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 31/12/2015 [before restatement]	**9,213,863**	-	-	-	-	-	**1,218,016**	**(46,473)**	**940,064**	-	**634,310**	**11,959,780**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period]	**9,213,863**	-	-	-	-	-	**1,218,016**	**(46,473)**	**940,064**	-	**634,310**	**11,959,780**
Total comprehensive income for the period					-	-	-		**457,320**		**(26,921)**	**430,399**
Other changes in equity	-	-	-	-	-	-	**611,739**	**(15,476)**	**(940,064)**	-	-	**(343,801)**
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)	-	-	-	-	-	-	(300,717)	-		-		**(300,717)**
Purchase of treasury shares					-	-	-	(56,365)				**(56,365)**
Sale or cancellation of treasury shares					-	-	(7,825)	40,889				**33,064**
Reclassification of financial instruments from equity to liability	-	-	-	-								-
Reclassification of financial instruments from liability to equity	-	-	-	-								-
Transfers among components of equity			-	-	-	-	940,064		(940,064)	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-			-	-
Share based payments	-	-		-				-				-
Other increase or (-) decrease in equity			-	-	-	-	(19,783)	-	-	-	-	**(19,783)**
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)					-		-					-
Closing balance 30/06/2016 [current period]	**9,213,863**	-	-	-	-	-	**1,829,755**	**(61,949)**	**457,320**	-	**607,389**	**12,046,378**

(*)Presented solely and exclusively for comparison purposes.

BANKIA, S.A.

Statement of cash flows for the six months ended 30 June 2017 and 2016

(Thousands of euros)

	30/06/2017	30/06/2016(*)
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**607,833**	**(2,446,422)**
Profit/(loss) for the period	**494,226**	**457,320**
Adjustments made to obtain the cash flows from operating activities	**200,786**	**252,131**
Depreciation and amortisation	82,396	71,353
Other	118,390	180,778
Net increase/(decrease) in operating assets	**(6,972,475)**	**2,001,044**
Financial assets held for trading	27,042	48,969
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	(5,742,449)	(1,270,472)
Loans and receivables	(1,536,841)	(1,134,286)
Other operating assets	279,773	354,745
Net increase/(decrease) in operating liabilities	**(7,136,174)**	**(5,157,249)**
Financial liabilities held for trading	(386,909)	378,550
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(6,547,771)	(3,866,806)
Other operating liabilities	(201,494)	(1,668,993)
Income tax receipts/(payments)	**76,520**	**332**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**62,466**	**(859,776)**
Payments	**738,096**	**3,672,868**
Tangible assets	46,877	20,887
Intangible assets	54,111	42,064
Investments in joint ventures and associates	3,000	350,279
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	100	167
Held-to-maturity investments	634,008	3,259,471
Other payments related to investing activities	-	-
Proceeds	**800,562**	**2,813,092**
Tangible assets	7,874	4,351
Intangible assets	-	-
Investments in joint ventures and associates	16,911	538,665
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	243,429	220,221
Held-to-maturity investments	532,348	2,049,855
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(95,198)**	**1,823,306**
Payments	**2,492,463**	**1,595,258**
Dividends	315,957	300,717
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	68,877	56,365
Other payments related to financing activities	2,107,629	1,238,176
Proceeds	**2,397,265**	**3,418,564**
Subordinated liabilities	497,270	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	59,094	33,064
Other proceeds related to financing activities	1,840,901	3,385,500
D) EFFECT OF EXCHANGE RATE DIFFERENCES	-	-
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**575,101**	**(1,482,892)**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**2,081,771**	**3,073,790**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**2,656,872**	**1,590,898**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	651,685	666,016
Cash equivalents at central banks	1,913,098	816,486
Other financial assets	92,089	108,396
Less: Bank overdrafts refundable on demand	-	-

(*)Presented solely and exclusively for comparison purposes.

Appendix II – Subsidiaries

The key details on subsidiaries, including those classified under "Non-current assets held for sale" at 30 June 2017 are as follows:

			% Ownership interest owned by the Group		
			% Current interest		Total ownership interest
Company	Business activity	Location	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
BANCAJA EMISIONES, S.A.U.	Financial brokerage	Castellón – SPAIN	100.00	-	100.00
BANKIA FONDOS, S.G.I.I.C., S.A.	Manager of collective investment undertakings	Madrid – SPAIN	100.00	-	100.00
BANKIA HABITAT, S.L.U.	Real Estate	Valencia – SPAIN	100.00	-	100.00
BANKIA INVERSIONES FINANCIERAS, S.A.U.	Corporate management	Madrid – SPAIN	100.00	-	100.00
BANKIA MEDIACIÓN, OPERADOR DE BANCA SEGUROS VINCULADO, S.A.U.	Insurance intermediary-Bancassurance operator	Madrid – SPAIN	100.00	-	100.00
BANKIA PENSIONES, S.A., ENTIDAD GESTORA DE FONDOS DE PENSIONES	Pension fund manager	Madrid – SPAIN	35.74	64.26	100.00
BEIMAD INVESTMENT SERVICES COMPANY LIMITED	Business management advisory services	Beijing - POPULAR REPUBLIC OF CHINA	100.00	-	100.00
CAYMADRID INTERNACIONAL, LTD.(2)	Financial brokerage	Gran Caimán - CAIMAN ISLAND	100.00	-	100.00
CENTRO DE SERVICIOS OPERATIVOS E INGENIERIA DE PROCESOS, S.L.	Other independent services	Madrid – SPAIN	100.00	-	100.00
CORPORACIÓN FINANCIERA HABANA, S.A. (1)	Industry, commerce and services financing	La Habana - REPUBLIC OF CUBA	60.00	-	60.00
CORPORACIÓN INDUSTRIAL BANKIA, S.A.U.	Corporate management	Madrid – SPAIN	100.00	-	100.00
COSTA EBORIS, S.L.U.	Real Estate	Valencia – SPAIN	-	100.00	100.00
ENCINA LOS MONTEROS, S.L.U.	Real Estate	Valencia – SPAIN	-	100.00	100.00
GARANAIR, S.L.	Other independent services	Madrid – SPAIN	87.00	-	87.00
GEOPORTUGAL - IMOBILIARIA, LDA.	Real Estate development	Povoa du Varzim – PORTUGAL	-	100.00	100.00
INMOGESTIÓN Y PATRIMONIOS, S.A.	Corporate management	Madrid – SPAIN	0.10	99.90	100.00
INVERSIONES Y DESARROLLOS 2069 MADRID, S.L.U. on liquidation (2)	Real Estate	Madrid – SPAIN	100.00	-	100.00
MEDIACIÓN Y DIAGNÓSTICOS, S.A.	Corporate management	Madrid – SPAIN	100.00	-	100.00
NAVICOAS ASTURIAS, S.L. (1)	Real Estate	Madrid – SPAIN	-	95.00	95.00
NAVIERA CATA, S.A.	Acquisition, leases and operation of ships	Las Palmas de Gran Canarias – SPAIN	100.00	-	100.00
PAGUMAR, A.I.E.	Acquisition, leases and operation of ships	Las Palmas de Gran Canarias – SPAIN	85.45	-	85.45
PARTICIPACIONES Y CARTERA DE INVERSIÓN, S.L.	Corporate management	Madrid – SPAIN	0.01	99.99	100.00
SECTOR DE PARTICIPACIONES INTEGRALES, S.L.	Corporate management	Madrid – SPAIN	100.00	-	100.00
SEGURBANKIA, S.A. CORREDURÍA DE SEGUROS DEL GRUPO BANKIA	Insurance intermediary	Madrid – SPAIN	0.02	99.98	100.00
VALENCIANA DE INVERSIONES MOBILIARIAS, S.L.U.	Corporate management	Valencia – SPAIN	100.00	-	100.00
VALORACIÓN Y CONTROL, S.L.	Corporate management	Madrid – SPAIN	0.01	99.99	100.00

(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

The key details on associates entities at 30 June 2017 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group % Current interest Direct	 Indirect	 Total ownership interest
BANKIA MAPFRE VIDA, S.A. DE SEGUROS Y REASEGUROS	Life insurance	Madrid – SPAIN	19.39	29.61	49.00
NETIT COLABORATIVE PAYMENT, S.L	Other independen services	Madrid –SPAIN	30.00	-	30.00

Appendix IV – Jointly-controlled entities and associates classified under Non-current assets held for sale

The key details on jointly-controlled entities and associates classified under "Non-current assets held for sale" at 30 June 2017 are as follows:

Company	Business activity	Location	% Ownership interest owned by the Group % Current interest Direct	 Indirect	 Total ownership interest
Multigroup					
IB OPCO HOLDING, S.L.	Other independent services	Madrid – SPAIN	-	43.59	43.59
MADRID DEPORTE AUDIOVISUAL, S.A.	Other independent services	Madrid – SPAIN	47.50	-	47.50
BAJA CALIFORNIA INVESTMENTS, B.V.	Real State	Holland – NETHERLAND	-	72.57	72.57
PORTUNA INVESTMENT, B.V.	Real State	Holland – NETHERLAND	-	72.57	72.57
RIVIERA MAYA INVESTMENT, B.V.	Real State	Holland – NETHERLAND	-	72.57	72.57
VARAMITRA REAL ESTATES, B.V.	Real State	Holland – NETHERLAND	-	72.58	72.58
Associates					
ALAZOR INVERSIONES, S.A.	Other activities related to road transport	Villaviciosa de Odón (Madrid)- SPAIN	-	20.00	20.00
ARRENDADORA FERROVIARIA, S.A.	Purchase and lease of train equipment	Barcelona – SPAIN	29.07	-	29.07
AVALMADRID, S.G.R.	SME Financing	Madrid – SPAIN	26.42	-	26.42
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
NEWCOVAL, S.L.	Real State	Valencia-SPAIN	-	50.00	50.00
PARQUE CENTRAL AGENTE URBANIZADOR, S.L.	Real State	Valencia – SPAIN	10.83	17.10	27.93
PLAN AZUL 07, S.L.	Purchase and lease of train equipment	Madrid – SPAIN	31.60	-	31.60
RESIDENCIAL NAQUERA GOLF, S.A.	Real State	Valencia – SPAIN	-	23.75	23.75
ROYACTURA, S.L.	Real State	Las Rozas de Madrid (Madrid) - SPAIN	-	45.00	45.00
SERALICAN, S.L.	Feeding	Ingenio (Las Palmas de Gran Canarias) - SPAIN	40.00	-	40.00
SHARE CAPITAL, S.L.	Real State	Paterna (Valencia) – SPAIN	-	43.02	43.02
URBANIZADORA FUENTE DE SAN LUIS, S.L.	Real State	Valencia – SPAIN	9.90	15.56	25.46
VEHÍCULO DE TENENCIA Y GESTIÓN 9, S.L.	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 2017 and 2016 by the Bank or Group companies.

30/06/2017

(Millions 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	-	Estructured	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
Spain	Issue	F3	Miscellanous	Promissory notes and ECPs	Miscellaneous	Miscellaneous	Miscellaneous	euro	-	-	Miscellanous	Bankia Personal Guarantee
Spain	Repayment	F3	Miscellanous	Promissory notes and ECPs	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	-	-	Miscellanous	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

30/06/2016

(Millions of euros)

Issuer information					Data concerning issuances, repurchases and repayments in 1st half of 2016							
Country of residence	Transaction	Credit rating Issuer/Issue(1)	ISIN code	Type of security	Transaction date	Maturity date	Market where listed	Issue currency	Amount of issue/repurchase or repayment	Balance outstanding	Coupon	Type of guarantee issued
Spain	Issue	AA+	ES0413307119	Mortgage-backed securities BANKIA 2016-1	21/01/16	21/01/21	AIAF	euro	1,000	1,000	0.88%	Mortgage Portfolio-Mortgage Law
Spain	Issue	AA+	ES0413307127	Mortgage-backed securities BANKIA 2016-2	14/03/16	14/03/23	AIAF	euro	1,000	1,000	1.00%	Mortgage Portfolio-Mortgage Law
Spain	Issue	AA+	ES0413307093	1st extension Mortgage-backed securities BANKIA 2015-1	28/04/16	25/09/25	AIAF	euro	286	1,286	1.00%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	BBB-	ES0214977094	BN 4ª EMISIÓN OBL SIMPLES BANCAJA	25/01/06	25/01/16	AIAF	euro	500	-	EUR 3M+0.20%	Bankia Personal Guarantee
Spain	Repayment	AA+	ES0414977407	CH 20ª EMISIÓN BANCAJA	10/05/11	10/01/19	AIAF	euro	1,500	-	EUR 1M+2.50%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	AA+	ES0414950560	CH 01-1 CM	29/06/01	29/06/16	AIAF	euro	1,000	-	5.75%	Mortgage Portfolio-Mortgage Law
Spain	Repayment	-	ES0313307011	Bankia 2014-1 ICO facili-ty bonds	10/05/14	10/05/16	AIAF	euro	2	-	EUR 6M+2.30%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307029	Bankia 2014-2 ICO facility bonds	10/05/14	10/05/18	AIAF	euro	0.4	2	EUR 6M+3.50%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307037	Bankia 2014-3 ICO facility bonds	10/06/14	10/06/16	AIAF	euro	2	-	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307045	Bankia 2014-4 ICO facility bonds	10/06/14	10/06/18	AIAF	euro	0.4	2	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	-	ES0313307060	Bankia 2014-6 ICO facility bonds	10/07/14	10/07/16	AIAF	euro	4	4	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307078	Bankia 2014-7 ICO facility bonds	10/07/14	10/07/18	AIAF	euro	3	5	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	-	ES0313307086	Bankia 2014-9 ICO facility bonds	11/08/14	10/08/16	AIAF	euro	1	1	EUR 6M+2.24%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307094	Bankia 2014-10 ICO facility bonds	11/08/14	10/08/16	AIAF	euro	8	8	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307102	Bankia 2014-11 ICO facility bonds	11/08/14	10/08/18	AIAF	euro	0.4	2	EUR 6M+ 2.75%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307110	Bankia 2014-12 ICO facility bonds	10/09/14	10/09/16	AIAF	euro	1	1	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307128	Bankia 2014-13 ICO facility bonds	10/10/14	10/10/16	AIAF	euro	1	1	EUR 6M+1.85%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307136	Bankia 2014-14 ICO facility bonds	10/10/14	10/10/18	AIAF	euro	0.4	2	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0213307020	Bankia 2014-15 ICO facility bonds	10/10/14	10/10/20	AIAF	euro	1	6	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307144	Bankia 2014-16 ICO facility bonds	10/11/14	10/11/16	AIAF	euro	10	10	EUR 6M+1.55%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307151	Bankia 2014-17 ICO facility bonds	10/11/14	10/11/18	AIAF	euro	1	5	EUR 6M+ 2.35%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307169	Bankia 2014-18 ICO facility bonds	10/12/14	10/12/16	AIAF	euro	1	1	EUR 6M+ 1.55%	Bankia Personal Guarantee
Spain	Repayment	-	ES0313307177	Bankia 2014-19 ICO facility bonds	10/12/14	10/12/18	AIAF	euro	1	3	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
Spain	Repayment	F3	Miscellaneous	Promissory notes and ECPs	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	744	2	Miscellaneous	Bankia Personal Guarantee
Miscellaneous	Repayment	-	Miscellaneous	Securitisation bonds	Miscellaneous	Miscellaneous	Miscellaneous	Miscellaneous	472	-	-	-

(1) Latest credit rating assigned by DBRS for mortgage-backed securities is from 23 June 2016

Ratings of other issues by Fitch Ratings on 23 February 2016

Appendix VI – Information on the mortgage market

Mortgage-backed securities, marketable and non-marketable, issued by the Group and outstanding at 30 June 2017 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.

Bankia has a Credit Risk Policies Framework approved by the entity Board of Directors on 24 November 2016. This framework is composed of: i) a Credit Risk Policies, Methods and Procedures Manual, which sets out issues such as principles, scope of application, roles and responsibilities, organisation, delegation of specific criteria, approval process, monitoring and control over compliance, and dissemination, and ii) the General Credit Risk Policies, Methods and Procedures Statement, which sets out the general criteria and delegates in the Risk Committee the governance of the specific criteria by segment and product (including the specific criteria for portfolios related to the mortgage market) for authorisation and modification of transactions, documentation of transactions, monitoring, recoveries and valuation of eligible collateral and guarantees. It delegates the development of criteria for risk classification and allowances and provisions.

The purpose of the Credit Risk Policies, Methods and Procedures Manual is to establish the general principles guiding the statement of credit risk policies in the BFA-Bankia Group and governing the approval, monitoring and control processes, actions in the event of breaches and dissemination of the policies. In also includes a scheme of delegations affording the Policies Framework greater flexibility to design and update specific criteria, enabling it to better adapt and providing greater accuracy in the criteria governing the authorisation, monitoring and recovery of risk transactions. In this regard, on 31 January 2017, the Risks Committee, in fulfilment of its duties, approved a document entitled *Specific Criteria on Policies, Methods and Procedures on Credit Risk*. This document sets out specific criteria that must prevail in the area of credit risk for processing risk transactions (understood as risk approval, as well as the renewal, amendment, novation or subrogation of risks already authorised). 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 mortgage-backed instruments 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 mortgage-backed securities issued and outstanding at the date of the insolvency filing will be settled, as preferred claims, up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the securities and from the cash flows generated by the financial instruments associated with the issues.

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the administrative receivers must settle them by realising the replacement assets, if any, identified to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed securities, and the finance provider must be subrogated to the position of the security-holders.

In the event that the measure indicated in Article 155(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 mortgage-backed securities

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

The following table itemises the aggregate nominal value of marketable and non-marketable mortgage-backed securities outstanding at 30 June 2017 and 31 December 2016 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 2017 and 31 December 2016, with their average residual maturity period.

(Thousands of euros)

MORTGAGE SECURITIES	Nominal value 30/06/2017	Average residual maturity period (months) 30/06/2017	Nominal value 31/12/2016	Average residual maturity period (months) 31/12/2016
Mortgage bonds issued	-		-	
Of which: recognised on the liability side of the balance sheet	-		-	
Mortgage-backed securities issued	**26,079,290**		**26,474,290**	
Of which: recognised on the liability side of the balance sheet	17,450,840		17,862,840	
Debt securities. Issued through a public offering (1)	**13,595,500**		**13,595,500**	
Residual maturity up to one year	2,060,000		-	
Residual maturity over one year but not more than two years	1,500,000		2,060,000	
Residual maturity over two years but not more than three years	-		1,500,000	
Residual maturity over three years but not more than five years	2,500,000		1,000,000	
Residual maturity over five years but not more than ten years	5,535,500		7,035,500	
Residual maturity over ten years	2,000,000		2,000,000	
Debt securities. Other issues (1)	**7,600,000**		**7,600,000**	
Residual maturity up to one year	-		-	
Residual maturity over one year but not more than two years	-		-	
Residual maturity over two years but not more than three years	100,000		100,000	
Residual maturity over three years but not more than five years	-		-	
Residual maturity over five years but not more than ten years	5,000,000		2,500,000	
Residual maturity over ten years	2,500,000		5,000,000	
Deposits (2)	**4,883,790**		**5,278,790**	
Residual maturity up to one year	750,000		715,000	
Residual maturity over one year but not more than two years	358,387		538,387	
Residual maturity over two years but not more than three years	567,412		490,537	
Residual maturity over three years but not more than five years	485,000		611,875	
Residual maturity over five years but not more than ten years	1,857,991		1,327,991	
Residual maturity over ten years	865,000		1,595,000	
Mortgage participation certificates issued	**5,149**	**115**	**5,703**	**118**
Issued in a public offering	-	-	-	-
Other issues	5,149	115	5,703	118
Mortgage transfer certificates issued	**11,998,133**	**248**	**12,469,042**	**252**
Issued in a public offering	-	-	-	-
Other issues	11,998,133	248	12,469,042	252

(1) These securities are recognised under "Financial liabilities at amortised cost - Marketable debt securities" in the accompanying balance sheet at 30 June 2017 and 31 December 2016 (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 2017 and 31 December 2016 (see Note 13).

The nominal value at 30 June 2017 and 31 December 2016 of the amounts available (committed amounts not drawn down) of all mortgage loans and credits, with a distinction made between those potentially eligible and those that are not eligible, is shown in the table below:

(Thousands of euros)

ITEMS	Undrawn balances (nominal value) (2) 30/06/2017	31/12/2016
Mortgage loans that back the issuance of mortgage-backed securities (1)	**369,526**	**378,858**
Of which:		
Potentially eligible (3)	211,154	262,179
Not eligible	158,372	116,679

(1) At 30 June 2017 and 31 December 2016, the Group had no mortgage bonds in issue.

(2) Committed amounts (limit) less amounts drawn down on all loans with mortgage collateral, irrespective of the percentage of total risk on the amount of the last appraisal (Loan to Value), not transferred to third parties or relating to financing received. Also includes balances that are only delivered to developers when the dwellings are sold.

(3) Loans potentially eligible for issuance of mortgage-backed securities under Article 3 of Royal Decree 716/2009.

With regard to lending operations, the table below shows the breakdown at 30 June 2017 and 31 December 2016 of the nominal value of mortgage loans and credit facilities that back the issue of mortgage-backed securities issued by Bankia (as already mentioned, as at the reporting date 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)

	Nominal value	
ITEMS	30/06/2017	31/12/2016
Total loans	**72,176,311**	**74,100,105**
Mortgage certificates issued	**308,290**	**339,482**
Of which: loans maintained on the balance sheet	5,149	5,703
Mortgage transfer certificates issued	**12,203,036**	**12,687,487**
Of which: loans maintained on the balance sheet	11,998,133	12,469,042
Mortgage loans pledged as security for financing received	-	**-**
Loans that back the issue of mortgage bonds and mortgage-backed securities	**59,664,985**	**61,073,136**
Loans not eligible	13,979,312	14,297,406
Loans that meet the requirements to be eligible except for the limit established in Article 5.1 of Royal Decree 716/2009	5,835,864	6,525,254
Other	8,143,448	7,772,152
Eligible loans	45,685,673	46,775,730
Loans to cover mortgage bonds issues	-	**-**
Loans eligible to cover mortgage-backed securities issues	45,685,673	46,775,730
Ineligible amounts (1)	125,687	127,593
Eligible amounts	**45,559,986**	**46,648,137**

(1) Amount of the eligible loans which, pursuant to the criteria laid down in Article 12 of Royal Decree 716/2009, are not eligible to cover issuance of mortgage bonds and covered bonds.

The reconciliation between eligible loans and mortgage-backed securities issued is presented, along with issuance capacity and percentage of overcollateralization:

(Thousands of euros)

	Nominal value	
ITEMS	30/06/2017	31/12/2016
Mortgage loans and credits which, pursuant to the criteria laid down in Article 12 of RD 716/2009, are eligible to cover issuance of covered bonds securities	45,559,986	46,648,137
Issue limit = 80% of eligible mortgage loans and credits	36,447,989	37,318,510
Mortgage-backed securities issued	26,079,290	26,474,290
Mortgage-backed securities issuance capacity (1) (Note 3.2)	10,368,699	10,844,220
Memorandum item:		
Percentage of overcollateralization of the portfolio	229%	231%
Percentage of overcollateralization of the eligible portfolio	175%	176%

(1) At 30 June 2017, EUR 8,628,450 thousand of mortgage-backed securities remained on the balance sheet. Therefore, the issuance capacity would be EUR 18,997,149 thousand (EUR 8.611.450 thousand at 31 December 2016, with a EUR 19,455,670 thousand issuance capacity).

The table below shows the detail at 30 June 2017 and 31 December 2016 of the nominal value of the loans and credits that back mortgage-backed securities issued by Bankia and of those loans and credits that are eligible, without taking into consideration the restrictions on their eligibility established in Article 12 of Royal Decree 716/2009, based on (i) if they arose from Bankia or from creditor subrogations and other cases; (ii) if they are denominated in euros or in other currencies; (iii) if they have a normal payment situation and other cases; (iv) their average residual maturity; (v) if the interest rate is fixed, floating or mixed; (vi) if the transactions are aimed at legal entities or individuals that are to use the loan proceeds for the purpose of their business activity (with a disclosure of the portion related to property development) and transactions aimed at households; (vii) if the guarantee consists of assets/completed buildings (with a distinction made between those used for residential, commercial and other purposes), assets/buildings under construction (with a disclosure similar to that of the finished buildings) or land (with a distinction made between developed land and other land), indicating the transactions that are secured by government-subsidised housing, even that under development:

(Thousands of euros)

	Loans that back mortgage bonds and covered bonds		Of which: eligible loans	
ITEM	30/06/2017	31/12/2016	30/06/2017	31/12/2016
TOTAL	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
ORIGIN OF OPERATIONS	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
Originated by Bankia	51,029,208	51,995,063	37,300,720	37,980,377
Subrogated to other entities	667,886	704,659	656,828	692,648
Other	7,967,891	8,373,414	7,728,125	8,102,705
CURRENCY	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
Euro	59,425,669	60,829,889	45,685,673	46,775,730
Other currencies	239,316	243,247	-	-
PAYMENT SITUATION	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
Normal payment situation	54,035,020	55,434,203	44,632,770	45,670,423
Other situations	5,629,965	5,638,933	1,052,903	1,105,307
AVERAGE RESIDUAL MATURITY	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
Up to ten years	8,795,377	8,698,993	6,034,513	6,085,122
More than ten years and up to 20 years	20,869,710	20,637,981	18,132,892	17,946,128
More than 20 years and up to 30 years	16,727,583	17,672,332	14,429,916	15,181,521
More than 30 years	13,272,315	14,063,830	7,088,352	7,562,959
INTEREST RATES	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
Fixed	1,500,888	815,835	704,430	335,780
Floating	50,979,701	52,811,236	39,676,512	40,975,686
Mixed	7,184,396	7,446,065	5,304,731	5,464,264
OWNERS	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
Legal entities and natural person entrepreneurs	17,364,287	17,933,731	10,890,096	11,415,304
Of which: constructios and property developments (land included)	*1,107,992*	*1,164,982*	*580,666*	*614,920*
Other	42,300,698	43,139,405	34,795,577	35,360,426
TYPE OF COLLATERAL	**59,664,985**	**61,073,136**	**45,685,673**	**46,775,730**
Assets/completed buildings	59,316,932	60,707,931	45,685,508	46,775,410
Residential	50,647,603	51,896,738	41,909,647	42,798,276
Of which: government-subsidised housing	*1,255,949*	*1,303,577*	*879,246*	*895,408*
Commercial	46,805	48,600	17,870	19,375
Other buildings and constructions	8,622,524	8,762,593	3,757,991	3,957,759
Assets/buildings under construction	46,437	38,749	165	320
Residential	31,911	32,030	165	320
Of which: government-subsidised housing	-	76	-	-
Commercial	-	-	-	-
Other buildings and constructions	14,526	6,719	-	-
Land	301,616	326,456	-	-
Developed	3,185	2,715	-	-
Other	298,431	323,741	-	-

The nominal value of eligible mortgage loans and credits at 30 June 2017 and 31 December 2016, broken down by the ratios of the amount of the transactions to the last available appraisal of the mortgaged assets (Loan to Value), is shown in the tables below:

30 June 2017

(Thousands of euros)

ITEMS	Amount of the transactions to the last available appraisal (Loan to Value)				
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Loans eligible for issuance of mortgage-backed securities and mortgage bonds					**45,685,673**
Housing	12,125,788	16,831,931	12,952,093	-	41,909,812
Other assets	2,191,631	1,584,230			3,775,861

31 December 2016

(Thousands of euros)

ITEMS	Amount of the transactions to the last available appraisal (Loan to Value)				
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Loans eligible for issuance of mortgage-backed securities and mortgage bonds					**46,775,730**
Housing	12,068,207	16,881,964	13,848,426	-	42,798,597
Other assets	2,316,101	1,661,032			3,977,133

Movements in the nominal amounts of mortgage loans backing the issuance of mortgage bonds and mortgage-backed securities are as follows

(Thousands of euros)

MOVEMENTS	Eligible loans	Non eligible loans	Eligible loans	Non eligible loans
	30/06/2017		30/06/2016	
Balance at 1 January	**46,775,730**	**14,297,406**	**49,677,135**	**17,202,195**
Disposals at the period	**(2,449,141)**	**(1,476,793)**	**(2,728,729)**	**(2,941,980)**
Principal due cashed	(11,563)	(136,022)	(5,853)	(4,450)
Prepayments	(569,526)	(411,119)	(740,113)	(591,468)
Subrogation by other entities	-	-	-	-
Others	(1,868,052)	(929,652)	(1,982,763)	(2,346,062)
Additions at the period	**1,359,084**	**1,158,699**	**953,235**	**1,441,521**
Originated by the entity	897,035	917,362	473,358	1,097,857
Subrogation of other entities	2,260	-	1,573	690
Others	459,789	241,337	478,304	342,974
Balance at 30 June	**45,685,673**	**13,979,312**	**47,901,641**	**15,701,736**

Finally, at 30 June 2017 and 31 December 2016 there were no replacement assets backing the Bank's mortgage-backed securities 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 2017 and 31 December 2016 for the purposes of construction and property development and the respective credit risk coverage in place at that date (1):

30 June 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)	771,097	272,367	266.135
Of which: Doubtful	458,628	198,035	254.785
Memorandum item:			
Assets written off (4)	(324,178)		

Memorandum item (Consolidated Group figures):

(Thousands of euros)

Items	Carrying amount
1. Total loans and advances to customers, excluding the public sector (transactions in Spain) (5)	98,254,891
2. Total consolidated assets (all transactions)	180,883,955
3. Total general coverage (all transactions) (3)	(738,702)

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

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

(3) The excess of the gross amount of the financing over the value of any property rights received as collateral, calculated pursuant to Annex IX of Circular 4/2004, in accordance with the nature of the mortgaged asset (all transactions).

(4) Gross amount of the loan for the purpose of construction and property development granted by 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 2016

(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)	837,126	342,356	(312,904)
Of which: Doubtful	497,659	262,431	(300,108)
Memorandum item:			
Assets written off (4)	357,933		

Memorandum item (Consolidated Group figures):

(Thousands of euros)

Items	Carrying amount
1. Total loans and advances to customers, excluding the public sector (transactions in Spain) (5)	98,813,058
2. Total consolidated assets (all transactions)	190,167,459
3. Total general coverage (all transactions) (3)	(660,009)

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

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

(3) The excess of the gross amount of the financing over the value of any property rights received as collateral, calculated pursuant to Annex IX of Circular 4/2004, in accordance with the nature of the mortgaged asset (all transactions).

(4) Gross amount of the loan for the purpose of construction and property development granted by 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 2017 and 31 December 2016:

(Thousands of euros)

ITEMS	Finance intended for construction and property development (gross)	
	30/06/2017	31/12/2016
1. Not mortgage-secured	58,920	63,709
2. Mortgage-secured (1)	712,177	773,417
2.1. Finished buildings (2)	573,375	620,412
2.1.1. Housing	264,267	279,195
2.1.2. Other	309,108	341,217
2.2. Buildings under construction (2)	27,800	31,363
2.2.1. Housing	25,503	28,911
2.2.2. Other	2,297	2,452
2.3. Land	111,002	121,642
2.3.1. Urban land	84,821	92,329
2.3.2. Other land	26,181	29,313
Total	**771,097**	**837,126**

(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 2017 and 2016 of financing granted by the credit institutions comprising the Group for the purpose of home purchase (business in Spain):

(Thousands of euros)

ITEMS	Total gross 30/06/2017	Of which: Doubtful 30/06/2017	Total gross 31/12/2016	Of which: Doubtful 31/12/2016
Loans for home purchases	58,764,147	3,133,239	60,229,807	3,258,959
Non-mortgage-secured	554,209	3,019	572,566	2,449
Mortgage-secured	58,209,938	3,130,220	59,657,241	3,256,510

The table below presents the detail of mortgage-secured loans to households for home purchases at 30 June 2017 and 31 December 2016, classified by the ratio of the outstanding amount to the latest available appraised value (LTV) in respect of transactions recognised by Group credit institutions (transactions in Spain):

30 June 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	12,369,191	18,689,724	17,339,241	4,972,278	4,839,504	58,209,938
Of which: doubtful	122,351	189,801	349,228	509,016	1,959,824	3,130,220

31 December 2016

(Thousands of euros)

	LTV ranges					
ITEMS	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Total gross	12,327,285	18,927,742	18,620,028	5,365,809	4,416,377	59,657,241
Of which: doubtful	127,475	196,187	368,776	529,993	2,034,079	3,256,510

3. Information concerning 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

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.

Further progress was made in the first half of 2017 on a number of projects and initiatives, affording better and deeper knowledge of the portfolio. This, coupled with increasing strong sales efforts, helped continue reducing the stock of property assets.

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.
- **Unique assets:** the primary reference of unique assets will be the latest appraisal value, although the complex nature of sales of these assets will require individual negotiations, using the same references as cited above.
- **Adaptation to changes in the housing market:** dynamic adaptation and review of prices in accordance with changes on the property market. Prices will be reviewed regularly, with updates of appraisals and observance of regulations and consideration of changes to the official housing market indexes.
- **Special events**: at trade fairs, real estate fairs or other temporary events, more attractive prices may be published for that period only.
- **Leases:** property assets will be leased with a rent approved by the appropriate committee, which will at all times contemplate a minimum return in accordance with the value of the asset to be leased.

The table below presents the detail of assets acquired by the Group through foreclosure (transactions in Spain) at 30 June 2017 and 31 December 2016, classified by type (a):

(Thousands of euros)

ITEMS	Gross amount (b)	Impairment allowance	Gross amount (b)	Impairment allowance
	30/06/2017		31/12/2016	
1. Property assets from financing intended for construction and property development (c)	354,069	(114,224)	373,183	(118,224)
1.1. Finished buildings	242,103	(64,049)	272,886	(73,174)
1.1.1. Housing	189,807	(50,762)	207,786	(57,311)
1.1.2. Other	52,296	(13,287)	65,100	(15,863)
1.2. Buildings under construction	30,003	(10,951)	28,691	(9,461)
1.2.1. Housing	29,017	(10,481)	28,014	(8,906)
1.2.2. Other	986	(470)	677	(555)
1.3. Land	81,963	(39,224)	71,606	(35,589)
1.3.1. Urban land	74,531	(34,706)	53,508	(27,165)
1.3.2. Other land	7,432	(4,518)	18,098	(8,424)
2. Property assets from mortgage-secured financing granted to households for home purchases	2,294,451	(859,701)	2,501,744	(939,085)
3. Other property assets received in settlement of debt (d)	610,574	(138,727)	573,951	(140,338)
4. Equity instruments, investments and financing to companies holding such assets	36,762	(29,308)	22,249	(22,249)
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 2017 and 31 December 2016, distinguishing between collateral and other guarantees, is provided in the table below. The value is understood as the maximum amount of the guarantee considered, except for non-performing loans, which is the fair value.

(Thousands of euros)

ITEMS	30/06/2017	31/12/2016
Collaterals	562,228	538,938
Other collateral	-	-
Total	**562,228**	**538,938**

The detail of the guarantees extended at 30 June 2017 and 31 December 2016 related to construction and property development loans; i.e. the amount the Bank would have to pay if the guarantee or collateral was called, which could exceed the amount recognised under liabilities in the balance sheet, is as follows:

(Thousands of euros)

ITEMS	30/06/2017	31/12/2016
Financial guarantees extended	26,985	28,574
Recognised in the liability of the consolidated balance sheet	490	460

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:

- Garantee 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 4/2004, modified in the year 2016 which in general are compatible with those of the ESMA and the EBA. These criteria set out certain rules for classification at source, as well as general criteria for a restructured or refinanced exposure to be considered cured, and therefore, reclassified to a lower risk level. As a general rule, all refinancings and restructurings should be classified as substandard risk when they are arranged, unless there are objective circumstances for them to be classified as doubtful or standard risks.

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

- Some or all of the payments of the modified transaction have been due for more than 30 days (without being classified as doubtful) at least once in the three months preceding its modification, or would be due for more than 30 days without said modification.
- Simultaneously or nearly simultaneously with the granting of additional financing by the Entity, the borrower has made payments of the principal or interest on another transaction with it, on which some or all of the payments have been due for more than 30 days at least once in the three months prior to the refinancing.
- When the Entity approves the use of implicit restructuring or refinancing clauses in relation to borrowers with outstanding amounts 30 days or more than 30 days past due if such clauses have not been exercised.

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

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

Financial effort	Grace period			Refinancing [2] with doubtful origin
	<=24 months		>24 months	
	Forgiveness [1] No	Forgiveness [1] Si		
<= 50%	Watchlist	Doubtful	Doubtful	Doubtful
> 50%	Doubtful	Doubtful	Doubtful	Doubtful

(1) Forgiveness above % of the allowances and provisions established in Appendix IX of Bank of Spain Circular 4/2004

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

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

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

- Refinancing transactions classified as doubtful will remain in this category until:
  - A year has elapsed since the refinancing and the forbearance period, if any, has ended.
  - The borrower has paid the accrued principle and interest instalments from the date of the refinancing or the reclassification of the transaction as doubtful and complied with the commitments.
  - The amount past due at the date of the refinancing has been settled.
  - The borrower does not have any other transaction classified as doubtful for objective reasons (more than 90 days past due from the date of reclassification to watchlist).
- Refinancing transactions classified as special monitoring will remain in this category until:
  - It is not foreseeable the borrower will encounter financial difficulties and is not classified in monitoring levels I and II (see Note 3.1.1), except those subject to collective estimation, and no amounts on the transaction are past due more than 35 days.
  - Two years have elapsed since the date of the refinancing, or, as appropriate, the forbearance period has ended.
  - The borrower has paid the principal and interest, and the amounts past due.
  - The borrower does not have any other transactions with amounts more than 30 days past due at the end of the probation period.

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

The table below shows the gross amount of refinancing operations, with a breakdown between their classification as transactions that require special monitoring, substandard risk or doubtful risk, and their respective coverages of credit risk at 30 June 2017 and 31 December 2016:

30 June 2017

Thousand of euros)	TOTAL							Of which: DOUBTFUL						
	Without collateral		With collateral					Without collateral		With collateral				
					Maximum amount of the collateral							Maximum amount of the collateral		
	Number of operations	Gross carrying	Number of operations	Gross carrying amount	Property-based collateral	Other collateral	Accumulated impairment losses or accumulated fair value losses due to credit risk	Number of operations	Gross carrying	Number of operations	Gross carrying amount	Property-based collateral	Other collateral	Accumulated impairment losses or accumulated fair value losses due to credit risk
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector	36	86,227	2,675	76,660	74,310	-	(14,775)	21	42,150	2,359	34,391	33,713	-	(14,775)
Other financial institutions and natural person entrepeneurs (financial business)	130	468,398	19	12,115	11,941	15	(134,887)	42	370,132	9	911	796	15	(120,130)
Non financial institutions and natural person entrepeneurs (non-business)	9,791	3,250,003	5,373	2,031,551	1,716,733	94,684	(2,231,511)	7,374	2,387,450	3,066	1,410,935	1,200,925	79,796	(2,167,045)
Of which: Construction and property development (including land)	1,740	382,907	1,255	295,680	246,401	1	(478,758)	1,682	380,545	507	223,647	176,278	1	(474,442)
Other households	21,922	387,646	32,280	4,453,030	3,696,620	201	(833,152)	13,777	302,327	15,154	2,112,391	1,700,060	72	(792,231)
Total	**31,879**	**4,192,274**	**40,347**	**6,573,356**	**5,499,604**	**94,900**	**(3,214,325)**	**21,214**	**3,102,059**	**20,588**	**3,558,628**	**2,935,494**	**79,883**	**(3,094,181)**
Adjustment of value for colective impairment							(1,456,555)							
Adjustment of value for specific impairment							(1,757,770)							
ADITIONAL INFORMATION														
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

31 December 2016

(Thousand if euros)

	TOTAL							Of wich: DOUBTFUL						
	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due to credit risk	Without collateral		With collateral				Accumulated impairment losses or accumulated fair value losses due to credit risk
	Number of operations	Gross carrying	Number of operations	Gross carrying amount	Maximum amount of the collateral			Number of operations	Gross carrying	Number of operations	Gross carrying amount	Maximum amount of the collateral		
					Property-based collateral	Other collateral						Property-based collateral	Other collateral	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector	353	118,570	2,366	44,063	42,516	-	(14,936)	22	69,115	2,365	34,865	34,156	-	(14,936)
Other financial institutions and natural person entrepeneurs (financial business)	120	111,459	21	34,230	9,742	16	(34,263)	34	9,981	11	24,437	829	16	(19,422)
Non financial institutions and natural person entrepeneurs (non-business)	9,415	4,264,887	3,677	2,055,626	1,389,051	106,666	(2,688,338)	6,198	3,060,502	2,913	1,516,230	1,126,349	17,604	(2,620,759)
Of which: Construction and property development (including land)	1,326	533,529	571	184,878	145,854	-	(538,136)	560	466,440	524	178,404	139,735	-	(533,877)
Other households	23,391	488,244	23,320	3,437,785	2,785,360	354	(860,605)	16,478	385,750	15,105	2,167,173	1,760,408	311	(830,357)
Total	**33,279**	**4,983,160**	**29,384**	**5,571,704**	**4,226,669**	**107,036**	**(3,598,142)**	**22,732**	**3,525,348**	**20,394**	**3,742,705**	**2,921,742**	**17,931**	**(3,485,474)**
Adjustment of value for colective impairment							(1,467,296)							
Adjustment of value for specific impairment							(2,130,846)							
ADITIONAL INFORMATION														
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Movements at the first half year of 2017 and 2016 were as follows:

(Thousands of euros)

Items	1st half 2017	1 st half 2016
Balances at 31 December	**6,956,722**	**18,750,325**
(+) Refinancing and restructuring	1,641,350	1,368,672
(-) Debt depreciation	(881,876)	(1,549,990)
(-) Foreclosure	(66,154)	(89,140)
(-) Disposals (reclassified as written off)	(20,681)	(38,412)
(+/-) Other changes	(78,056)	(73,655)
Balances at 30 June (*)	**7,551,305**	**18,367,800**

(*)The acumulated impairment at the 1st half year 2017 was EUR 383,817 thousand (EUR 427,685 thousand at the 1st half-year end 2016).

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

INTERIM MANAGEMENT REPORT

JUNE 2017

CONTENTS

This report was prepared following the recommendations of the "Guidelines for the preparation of management reports of listed companies" issued by the CNMV in September 2013.

1.- KEY EVENTS OF THE FIRST HALF OF 2017

The key highlights of the Bankia Group performance in the first half of 2017 are as follows:

1.1.- Stability on earnings

The Bankia Group's new commercial model continued to create value for customers and shareholders alike in the first half of 2017, enhancing customers' loyalty, making significant strides in the multichannel distribution strategy and driving business volumes. These advances, coupled with one of the best efficiency ratios in the industry, have enabled the Bankia Group to deliver stable and predictable earnings, largely offsetting the effects of a particularly challenging economic backdrop for banks in which the interest rates remain low, as was the case in the 2016.

The Bankia Group reported net attributable profit of EUR 514 million in the first half of 2017, up 6.7% year-on-year. The Group achieved this result while maintaining a sound balance sheet structure, with healthy liquidity ratios and significant improvement in its capital positions and the credit quality of its portfolios.

1.2.- The momentum of the new commercial model has driven business volumes

The advances made in the new commercial model in 2016 were consolidated in the first half of 2017. New products and services were developed in the various business areas to increase customers' loyalty, leveraging new technologies and working on different levels of the digital transformation. This has led to sharp increases in the Bankia Group's multi-channel and digital customer bases. At 30 June 2017, multi-channel customers accounted for 39.3% of all Bankia customers, up from 37.6% at 31 December 2016 and 31.5% at 31 December 2015.

The growth in business volumes illustrates the greater availability and closeness to customers achieved through digital channels. On the lending front, the period featured further growth in new loans to strategic segments for the Bankia Group, such as SMEs and consumer lending, with portfolios that are highly diversified and show an adequate level of credit quality.

In customer funds, demand deposits and off-balance sheet funds (mainly mutual funds) performed especially well, with increases of 10.5% and 5.1%, respectively, from December 2016, benefiting from the shift in customer savings out of term deposits.

1.3.- Capital strength

The Bankia Group's ability to generate capital makes it one of the most solvent entities in Spain's financial system. The Group's CET 1 *phased-in ratio* at 30 June 2017 was 15.68%, up 60 points (bps) than December 2016. The fresh improvement was underpinned by the Group's organic capital generation model, predicated on the capitalisation of profits and selective growth in the business segments considered strategic by Bankia for their higher credit quality. At the same time, Bankia continued with its gradual balance sheet deleveraging and the disposal of non-strategic assets, which is feeding through positively to its solvency. Allowing the entity to maintain at the first of half year 2017 a high surplus (EUR 5,826 millions) minimal of capital above the minimum requirement of capital CET1 SREP communicated by the ECB to the group to financial statement 2017 (7.875%)

In terms of total solvency, the period featured the issuance of EUR 500 million of Tier 2 subordinated bonds in March, with an estimated positive impact on total solvency of 66 basis points (bps). With this issue, the Bankia Group has increased its stock of loss-absorbing capital instruments ahead of the future regulatory requirement of the MREL. At 30 June 2017, the Bankia Group's phased-in total capital ratio stood at 17.71%, with a surplus of EUR 4,726 million over the SREP minimum total capital ratio for 2017 (EUR 11.375%).

The excellent solvency level underscores the Bankia Group's ability to continue generating capital while still payment dividends to shareholders.

1.4.- Further improvements in asset quality, risk management and foreclosed assets.

The Bankia Group is keeping a low risk profile in its balance sheet and high asset quality. The Group's credit quality indicators improved further in the first half of 2017. Non-performing loans (NPLs) fell by 8% from the end of December, while the NPL ratio decreased by 70bps, to 9.1% at the end of June. This performance is related directly to the low risk profile of the balance sheet, the high quality of assets, and the growing risk culture in the Group over the past few years, leading to lower NPL inflows and better management of recoveries.

The strategy of reducing problem assets also resulted in a decline in the volume of foreclosed assets, of 4.7% since December 2016.

1.5.- Financial Strength, sound funding structure and high liquidity

Bankia Group still continues with a financial soundness underpinned by the funding of its credit activity, mainly with customer resources. According to the retail business model, on first half year of 2017 customers represents 62.1% external funding sources, operating Bankia Group's LTD at 98.3%, bearing out of financial structure.

Bankia also taps capital markets to raise funds in order to supplement its structural liquidity needs. At 30 June 2017, wholesale issuances accounted for 11.8% of the Group's borrowings and consisted primarily of mortgage covered bonds (*cédulas hipotecarias*). Issuances included EUR 500 million of Tier 2 subordinated bonds in March, which was more than 10 times oversubscribed. The Group had sufficient available liquid assets at the end of June 2017 to cover its entire wholesale debt maturities.

Meanwhile, ECB funding decreased by EUR 2,153 million in the year's first half to EUR 12,816 million at the end of June 2017. This consists entirely of funds obtained through the auctions held under the framework of the ECB's TLTRO programmes.

The financial strength achieved by the Group has resulted in further rating upgrades. In February 2017, Standard & Poor's raised its long-term rating for Bankia from BB+ to BBB-. With this, Bankia was rated investment grade by the three agencies from which the Bank has applied for a rating.

1.6.- Changes in share capital and value creation for shareholders

On 1 June 2017, Bankia reduced share capital by EUR 6,335 million to increase the Group's voluntary reserves, by reducing the par value of all shares by EUR 0.55 to EUR 0.25 per share. Bankia's share capital post-reduction stood at EUR 2,879 million.

On the same day, Bankia carried out a reverse split, converting each four shares of EUR 0.25 par value into a new share of EUR 1 par value. This reduced the number of Bankia shares from 11,517 million to 2,879 million, with effect on the stock exchange from 5 June 2017.

The transaction was agreed to adapt Bankia's equity structure and reduce the volatility of its shares. It did not result in any change in the economic value of shareholders' interests in the entity.

Increasing shareholder returns is one of the Bankia Group's top priorities. On 31 March 2017, Bankia pay a gross dividend out of 2016 profit of EUR 317.42 million (EUR 2.756 cents per share), 5% higher than the dividend paid last year.

Positive results, coupled with the good performance of the balance sheet and the main solvency metrics, have enabled Bankia to earmark EUR 820 million for shareholder remuneration since 2014. This is one of the Group's main achievements since its incorporation.

Underpinned by organic capital generation ability and an increasingly strong balance sheet, the Bankia Group's goal is to maintain and enhance shareholder remuneration in coming years as another step towards getting the business back to normal and repaying the public assistance received.

1.7.- Merger with Banco Mare Nostrum (BMN)

As part of the shareholder value creation process, on 26 June 2017, the Board of Directors of Bankia and Banco Mare Nostrum (“BMN”) drew up and signed a merger agreement under which Bankia will merge with and absorb BMN.

The merger reafirmes Bankia’s position as Spain's fourth largest bank by total assets, and comes at a time when the outlook for the financial system is positive, in terms of both expected business growth and the foreseeable trend in interest rates. The merger will also enable the shareholders of both entities to benefit from significant value generation through expected cost synergies (EUR 155 million in recurring expenses as of 2020). Both Bankia's and BMN's business models target retail customers, with a similar customer profile. This leaves considerable scope to extract synergies by reducing cost overlaps, maintaining low integration risk.

Bankia's comfortable capital position, confortably above the regulatory minimums and its peers, has allowed the Bank to fund the merger without having to tap capital markets. As a result, Bankia is optimizing the use of its existing capital surplus, achieving a return above cost of capital, which translates into value creation for shareholders. Bankia expects to achieve a return on invested capital (ROIC) of 12% and an increase in ROE of approximately 120bps in 2020. The estimated fully-loaded CET1 at year-end 2017, when the merger is expected to be completed, is 12%.

The merger will be implemented through the delivery to current BMN shareholders of 205.6 million new Bankia shares, after which Bankia’s total capital will consist of 3,085 million shares. This values BMN at EUR 825 million (0.41x tangible book value at year-end 2016).

The planned merger will be submitted for approval at Bankia's and BMN's General Shareholders’ Meetings, and is contingent, in any event, on securing authorisation by the Minister of Economy, Industry and Competitiveness and all other necessary authorisations.

1.8.- Issue of perpetual contingent convertible bonds

At its meeting on 29 June 2017, Bankia’s Board of Directors agreed to carry out the Bank’s first issue of perpetual contingent bonds convertible into newly issued ordinary shares of Bankia, with exclusion of pre-emptive subscription rights for shareholders (“AT1 issuance”).

Pursuant to the Board resolution, after the end of the first half of 2017, on 6 July, Bankia completed the EUR 750 million issue, with a coupon of 6.00 %, lower than the coupon of recent issues by other Spanish banks due to the strong demand it attracted in the market. The issue targeted exclusively non-resident institutional investors and was 3.3 times oversubscribed.

Bankia submitted a request to the Supervisor to include the AT1 issuance as Additional Tier 1 (AT1) capital, which would reinforce the Group’s solvency and increase the buffer of liabilities with capacity to absorb losses ahead of the future MREL regulatory requirement.

2.- ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

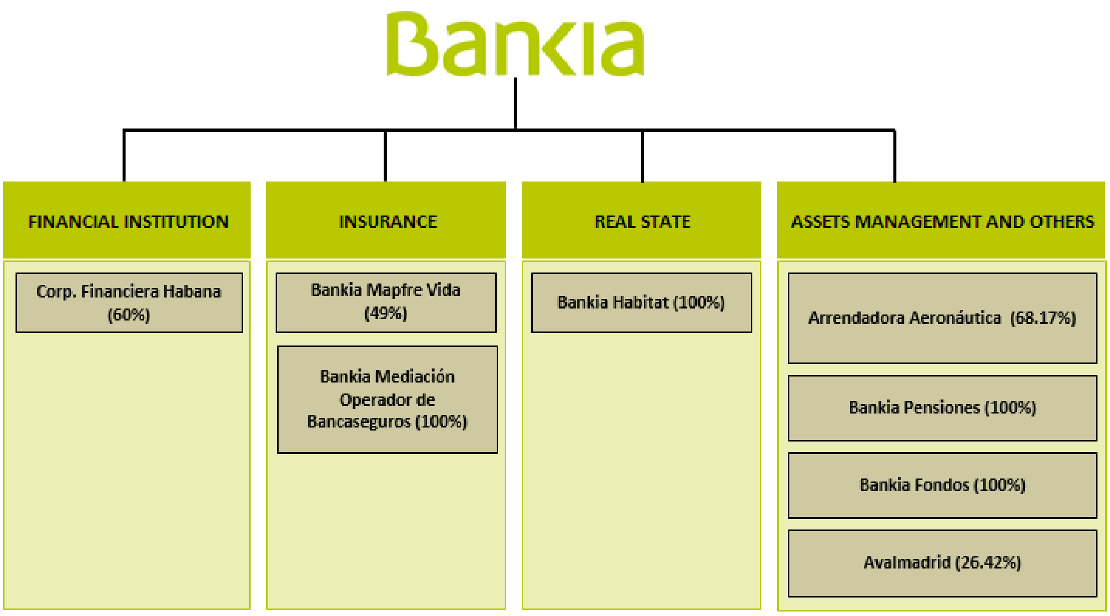
2.1.- Overview of Bankia Group and its organisational structure

Bankia is a financial group with operations throughout Spain, focusing mainly on the traditional retail banking, corporate banking, asset management and private banking businesses. Its corporate objects include all manner of activities, operations, acts, contracts and services related to the banking sector in general or directly or indirectly related thereto, permitted to it by current legislation, including the provision of investment services and ancillary services and performance of the activities of an insurance agency.

Bankia mainly does business in Spain. The Group had total assets at 30 June 2017 of around EUR 180,884 million, at the end of first half year, the Bank’s branch network comprised 1,777 offices. Section 2.4 below provides a breakdown of the branch office network by region.

Organisationally, Bankia is the Group’s parent. At 30 June 2017, the consolidation scope comprised 51 companies between subsidiaries, associates and jointly-controlled entities engaging in a range of activities, including the provision of finance, insurance, asset management, services, and real estate development and management. Of these, 29 are Group companies, 6 are jointly-controlled entities and 16 are associates.

BFA is Bankia's biggest shareholder, with a 66.97% stake at 30 June 2017. Investments in companies included in the Bankia Group's scope of consolidation are held directly in Bankia's portfolio or indirectly through other holdings. The most important are:



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 in the terms established by the Law and the approval of the Director remuneration policy.

- **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 the investment and financing, corporate governance, corporate social responsibility, control and risk management and dividend policies.

- There are six Board Committees, whose members are appointed in accordance with their suitability based on their knowledge, aptitudes, experience and the duties of each committee.

Board of directors **The Board of Directors held 18 meetings in the first half of 2017**
(8 independent directors and 3 executive directors) • Mr. José Ignacio Goirigolzarri Tellaeche. Executive Chairman • Mr. José Sevilla Álvarez. Chief Executive Officer • Mr. Antonio Ortega Parra. Executive Director • Mr. Joaquín Ayuso García. Consejero Lead Independent Director • Mr. Francisco Javier Campo García. Independent Director • Mrs. Eva Castillo Sanz. Independent Director • Mr. Jorge Cosmen Menéndez-Castañedo. Independent Director • Mr. José Luis Feito Higueruela. Independent Director • Mr. Fernando Fernández Méndez de Andés. Independent Director • Mr. Antonio Greño Hidalgo. Independent Director • Mr. Álvaro Rengifo Abbad. Independent Director

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 include, among others, proposing the appointment, reappointment and removal of, and establishing the appropriate relationships with, the external auditors, and reviewing 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 12 meetings at June 2017.

Appointments Committee and Responsible Management	
The Appointments Committee has general authority to propose and report on appointments and removals of directors and senior managers. It is also responsible for 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 organises the succession plan for governance bodies. Other responsibilities include the review of the Company's corporate social responsibility policy, ensuring that it is geared towards value creation, and monitoring of the corporate social responsibility strategy and practices and assessing their degree of compliance. among other responsibilities	**Four external independent directors:** - Mr. Joaquín Ayuso García (Chairman) - Mr. Francisco Javier Campo García (Director) - Mr. Fernando Fernández Méndez de Andés (Director) - Mr. Álvaro Rengifo Abbad (Director) The Appointments Committee held 9 meetings at 30 June 2017.
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 programmes, considering their appropriateness and utility, and ensuring transparency of remuneration and compliance with the remuneration policy set by the Company, among other responsibilities	**Four external independent directors:** - Mrs. Eva Castillo Sanz (Chairwoman) - Mr. Joaquín Ayuso García (Director) - Mr. Jorge Cosmen Menéndez-Castañedo (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Remuneration Committee held 9 meetings at 30 June 2017.
Risk Advisory Committee	
The Risk Advisory Committee advises on the overall propensity of risk and the risk strategy, overseeing the pricing policy, presenting risk policies and proposing to the Board the company's and group's risk control and management policy through the Internal Capital Adequacy Assessment Process (ICAAP). Supervise the internal control and risk management function and propose the system of credit risk authorities to the Board of Directors.	**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 19 meetings at 30 June 2016.
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 at 30 June 2017.

Moreover, on 24 March 2017 the Board of Directors resolved to create the **Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum**, amending the Board of Directors Regulations by introducing a final provision to regulate the Committee's duties, functioning, composition and organisation. This Committee is composed exclusively of independent directors. The core mission of this committee will be to monitor and oversee the whole process of the merger of Bankia with Banco Mare Nostrum, as regards both the study and analysis phases of the transaction and also as regards compliance with all the established legal requirements.

The Committee shall report to the Board of Directors on the development of all these tasks. In addition, it will focus in particular on the interests of all Bankia shareholders, ensuring autonomy and independence in decision-making.

The Committee's four independent directors are: Joaquín Ayuso García (Lead Independent Director and Chairman of the Appointments and Responsible Management Commitee), as Chairman, and Francisco Javier Campo García (Chairman of the Risk Advisory Committee), Eva Castillo Sanz (Chairman of the Remuneration Committee) and Antonio Greño Hidalgo (Chairman of the Audit and Compliance Committee), as members

The Committee met seven times between its creation on 24 March 2017 and 30 June 2017.

The Committee will be extinguished once the merger between Bankia and Banco Mare Nostrum is completed.

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

In relation to the above, the Board of Directors has defined a corporate governance system that ensures healthy, prudent management of the Company and that provides for an appropriate distribution of functions within the organization and the prevention of conflicts of interest. The Board oversees the application of this system and regularly monitors and assesses its effectiveness, taking whatever measures are necessary to resolve possible deficiencies.

Bankia also has a Management Committee, composed of the Chairman of the Board of Directors, Mr. José Ignacio Goirigolzarri, CEO Mr. José Sevilla, Executive Director and General Manager of People, Resources and Technology Mr. Antonio Ortega, General Secretary and Deputy General Director of the General Secretariat Mr. Miguel Crespo, Deputy General Director of Communication and External Relations Mrs. Amalia Blanco, the Deputy General Director of Retail Banking Mr. Fernando Sobrini and the Deputy General Director of Business Banking Mr. Gonzalo Alcubilla.

As for **appointments**, in line with the considerations highlighted by the European Central Bank (ECB) in relation to establishing a procedure that ensures the correct renewal of members of the Board of Directors, of particular relevance as the majority of the mandates of the Bankia's Directors ended on the same date, it was resolved to partially renew the mandates of the members of the Board at the General Meeting of Shareholders held on 15 March 2016. In order to continue this process, approval was given at the General Meeting of Shareholders held on 24 March 2017 for a second renewal of the mandates of the members of the Group, and the re-election, with their related classifications and by the Bylaw-stipulated term of four years, for Mr. José Ignacio Goirigolzarri Tellaeche, Mr. Antonio Ortega Parra, Mr. Jorge Cosmen Menéndez-Castañedo, Mr. José Luis Feito Higueruela, Mr. Fernando Fernández Méndez de Andés and Mr. Álvaro Rengifo Abbad.

In addition, pursuant to these directors' re-elections, the Board of Directors agreed to re-elect José Ignacio Goirigolzarri as the Executive Chairman of Bankia and the other five directors to the Board Committees to which they belonged.

- **Advances in corporate governance**

One of Bankia's main priorities is to align its corporate governance with national 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 (sociedad anónima) focused on the profitable and sustainable pursuit of its objects and the creation of long-term value. The main priorities are:

- To ensure a correct distribution of functions within the organisation
- To prevent and resolve conflicts of interest
- To establish a transparent framework for relations between Bankia and its shareholders

The system embodies the Group's corporate values with respect to business ethics and corporate social responsibility, and is backed by the principles of good governance developed by the Company based on the recommendations of the Good Governance Code.

A key part of the system of corporate governance is the set of rules and regulations, which provides a Group-wide internal control framework. They comprise a set of internal rules that regulate the Entity's corporate governance and operational functioning, basically made up of corporate texts and policies, as well as internal procedures or rules of conduct. Specifically, the body of work includes:

- **Bylaws and regulations.** These include the Corporate Bylaws, which set out the general lines of governance, the regulations of the governing bodies (General Meeting Shareholder Regulations and Board of Directors Regulations) and other rules and codes, such as the Code of Ethics or the Customer Ombudsman regulations, the Rules of Conduct in Securities Markets and the Regulations of the Confidential Whistleblowing Channel.

  The General Meeting of Shareholders of 24 March 2017 passed a resolution to amend the Company bylaws and General Meeting Regulations and was informed about the amendment of article 8 to the Board of Directors Regulations with the aim of including a shareholding requirement for members of the Board of Directors as a means of aligning their interests with those of the shareholders.

Also in 2017, the Board of Directors Regulations have been amended to introduce Final Provision governing the Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum, as indicated previously.

- **Corporate policies.** These set out guidelines or principles governing functions, activities and processes, ensuring internal control and providing legal security. They take into consideration both legal requirements and good governance recommendations. They are general guidelines for the long term.

  In particular, the Corporate Governance System of the Company includes, among others, the following:

  - **The Group's structure and corporate governance policy.** This policy sets forth the Group's general implementation guidelines and principles through the various subsidiaries and their respective governance bodies, as well as coordination among companies.

  - **Bankia, S.A. corporate governance policy.** This policy sets forth the principles and core elements of the Company's corporate governance structure.

  - **Director selection policy.** This policy establishes the requirements and criteria which the Board of Directors and the Appointments Committee and must consider when selecting new members of the Board of Directors, as well as in the re-election and ratification of existing directors. This policy seeks a balance of diversity of knowledge, experience and gender in the Board's membership.

  - **Senior management selection and appointment policy.** This policy defines the requirements and criteria for selecting and appointing Bankia's senior officers.

  - **Dividend policy.** This policy lays out the basic principles and criteria that should govern proposed resolutions to distribute dividends submitted by the Board of Directors for approval at the General Shareholders Meeting or, where appropriate, resolutions regarding the interim dividends approved by the Board. It also contains the disclosure obligations regarding dividends based on the principle of transparency.

  - **Conflicts of interest policy.** The policy sets out the procedures for preventing conflicts of interest between shareholders and members of the Board of Directors, as well as employees of Bankia Group companies, with the interests of the Company, its parent, other companies of its group and customers.

  - **Policy of information, communication and contact with shareholders, institutional investors and proxy advisors.** This policy encourages discussion and ongoing dialogue with all of the Company's stakeholder groups, particularly shareholders, institutional investors and proxy advisors, in order to forge stable and long-term trust-based relationships and to promote transparency in the framework of corporate interest.

  - **Risk control and management policies.** They address, *inter alia*, the various types of financial non-financial risks (social, environmental, corporate governance and reputation), including tax risks, to which the Company and its Group are exposed, and the bases of the internal reporting and control systems used to control and manage these risks, the criteria used to determine acceptable risk levels and the corrective measures to limit the impact of the risks identified, should they materialise.

- **Responsible management policy.** The purpose of this policy is to promote the integration of social, environmental and corporate governance criteria in Bankia's and the Group's business, so that their activity is geared towards creating value for the various stakeholders and the communities where they are present.

In addition to the aforementioned policies, the Board of Directors may approve other corporate policies to the extent that they are deemed appropriate for establishing strategies and management criteria, and policies for their monitoring and supervision.

- **Powers and proxies.** These govern the delegation of decision-making abilities over certain activities. They may supplement specific policies and, in some cases, be temporary or tacit.

- **Circulars.** Circulars provide a simple, easily understandable summary of the regulations that all Bank professionals are required to know. They highlight the issues with the greatest impact on operations and functions.

- **Conflicts of interest**

Among the top priorities of the corporate governance policy is to detect and manage potential conflicts of interest. In this respect, without prejudice to those set out in applicable legislation, the Entity has a number of information and decision-making tools included, inter alia, in the following rules and regulations: the Corporate Governance Policy, the Conflicts of Interest Policy, the Board of Directors Regulations of Bankia, the Bankia Rules of Conduct for Securities Markets Activities, the Framework Agreement, and any other internal protocols or procedures in place at any time. These mechanisms include the following:

- Directors must disclose to the Board of Directors any direct or indirect conflict either they or persons related thereto have with the interest of Bankia and must refrain from attending meetings and participating in deliberations on matters which affect, directly or indirectly, them or persons related to them.
- Directors must adopt the necessary measures to avoid situations in which their interests, on their own behalf or on behalf of another, can be in conflict with the Company's interests and their duties to it. In addition, they must perform their functions in accordance with the principle of personal responsibility, exercising their own judgement, independently of any instructions from or ties to third parties.
- All directors must make a first declaration of potential conflicts at the time of taking office. This declaration must be updated immediately in the event of a change in any of the circumstances declared or if new circumstances appear.

2.3 Compliance and control systems

Bankia Group has numerous internal controls in place, set up to mitigate specific risks related to the business and/or to comply with various financial and internal control regulations (Crime Prevention and Detection Model, Policies and Procedures regarding Anti-Money Laundering, Market Abuse, MiFID, personal data protection, IT security, etc.).

Bankia also has an Internal Audit unit, whose activity is overseen by the Audit and Compliance Committee. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, corporate governance and information systems. It also works together with external auditors in audit service engagements and with supervisory bodies to ensure compliance with regulations.

In addition, Bankia Group has a Code of Ethics and Conduct, approved by the Board of Directors in August 2013, which sets forth the rules and guidelines of conduct all Bankia employees must assume and guides their behaviour and professional conduct. The Code of Ethics and Conduct is mandatory for anyone with a professional relationship with Bankia Group.

To help enforce the Code and facilitate the internal flow of information, the Audit and Compliance Committee approved the launch of the Confidential Whistleblowing Channel, through which any breaches of the Code can be reported through an inhouse digital platform or by email. In line with the latest best practices, Bankia has outsourced management of this channel to a specialist firm outside the Group (currently PwC), which is overseen by the Ethics and Conduct Committee, guaranteeing anonymity, that all reports are evaluated independently and treated confidentially, and that only those people who are strictly necessary to the investigation and resolution are notified.

The Code of Ethics and Conduct and the Confidential Whistleblowing Channel not only set high standards of ethical conduct by employees and directors, but they also allow for the detection and management of situations that infringe on the rules and criteria of professional conduct and help prevent criminal activity.

2.4.- Responsible management

Following the approval by the Board of Directors of the Responsible Management Policy in early 2015, during the first half of 2017 work has been carried out on deployment and compliance the 2016-2018 Responsible Management Plan. The Plan revolves around the Entity's values (professionalism, integrity, commitment, closeness and achievement orientation) and is underpinned by two key cornerstones. The first entails listening to and maintaining dialogue with stakeholders; the second entails ongoing supervision and performance assessment of the planned actions. The plan was approved by the Board of Directors on 26 February 2016. The Board is response for ensuring the management, monitoring and control of the plan, through the Appointments and Responsible Management Committee.

The objectives of the Bankia Group's Responsible Management Plan are aligned with the 10 principles of the UN Global Compact and the Sustainable Development Goals approved by UN members in September 2015.

The following table summarizes the objectives and strategic lines of Responsible Management Plan 2016-2018:

STRATEGIC LINE	OBJECTIVES	Policies Areas
Corporate governance	Integrate and encourage responsible management to help foster a culture of transparency and integrity that safeguards the interests of all stakeholders	• Integration of the CSR function into Bankia's governance. • Promoting responsible management and recognition of good governance in Bankia • Identifying and managing non-financial risks
Customers	Maintain respectful relationships tailored to the customer's needs so Bankia stands out for the service received and the trust built as a respectful and transparent entity	• Adapting to the needs of customers, offering products and services that respond to their requirements. • Promoting responsible marketing based on transparency, simplicity and relevance in the information provided
Employees	Consolidate the corporate identity through a project in which Bankia's success is everyone's success and the responsible management culture is present in every area of the business	• Promoting values-based management • Fostering diversity and equality
Society	Be recognised as a driver of social and economic development in the areas near the business, pro-actively addressing the main concerns of society and seeking to maximise the positive impact	• Supporting employability • Contributing to the most pressing needs of our community • Generating a portfolio of products/services that contributes to social development and care for the environment
Shareholders and investors	Reinforce transparency with analysts and investors regarding the Entity's non-financial performance, disclosing transparent and clear extra-financial information	• Providing access to non-financial information • Pro-actively communicating with ESG analysts and investors
Suppliers	Promote responsible management in the supply chain, assessing counterparty risks and encouraging improvement plans to help spread responsible committment and drive economic development in other sectors of production	• Managing ESG risks in the supply chain • Supporting economic growth through management efficiency and excellence

Environment	Minimise impact and reduce costs through more efficient use of resources and correct environmental management in all processes	• Environmental training and awareness-for the bank's employees • Environmental management • Energy efficiency and climate change

2.5. - 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 value, taking a long-term, to respond to the expectations of its shareholders, customers, employees and society at large. Accordingly, the Bankia Group's business model is characterised by its customer focus, providing a service that is close to customers, professional and tailored to customers' needs at all times.

With this purpose, the comercial model of Bankia's group, is structured in three main business lines:

Bankia Group's business lines are as follows:

- Retail Banking
- Business Banking
- Corporate Centre

Note 1.12 to the Bankia Group's interim financial statements provides a breakdown of the results of each business line in the six months ended 30 June 2017 and 2016, as well as the key balance sheet items of each at 30 June 2017 and 31 December 2016.

The Bankia Group carries out its business through a network of 1,777 branches, distributed geographically as follows:

Autonomous communities	Branches number
Andalucía	67
Aragon	12
Asturias	11
Baleares	22
Canarias	107
Cantabria	21
Castilla - La Mancha	107
Castilla - León	128
Cataluña	143
Ceuta	5
Extremadura	10
Galicia	23
La Rioja	51
Madrid	662
Murcia	7
Navarra	4
País Vasco	18
Valencia	379
TOTAL BRANCHES	**1,777**

Retail Banking

Retail Banking includes retail banking with legal and natural persons with annual income of less than EUR 6 million, distributed through a large multi-channel network in Spain and operating a customer- satisfaction and asset management profitability business model. Including the Corporate Management of Private Banking and Asset Management, as well as the Banking Insurance Division.

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

This area focuses on **retail activity** following a universal **banking model**. Its objective is to forge relationships with and retain customers, providing them with added value in products and services, and in advisory, and service quality, thereby increasing its satisfaction rate with Bankia. To achieve this, it segments customers in accordance with the need for specialised service and the needs of each customer type. Customer segmentation allows Bankia to assign specific customers to specialist managers, who are in charge of the customer's relationship with the Bank. This approach yields greater customer satisfaction and generates new sources of business. Moreover, with a view to offering families comprehensive commercial service, ensuring that they are provided the same quality as the biggest customers, all customers of each family group have been assigned the same manager. This way, we simply their dealings with Bankia, while at the same time enhancing the service we offer them

In first half of 2017, Retail Banking continued to focus a loyalty strategy with retail customers which began on January 2016, eliminating fees for customers whose income is paid directly into their accounts. In the same line, in January the Group began marketing the "Hipoteca sin comisiones" (no-fee mortgage), offering the best rates for customers with direct deposit of income.

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 innovative features developed in the first half of 2017 to make it easier for customers to arrange products and contact the Bank. Also this year, Bankia has launched "Bankia online", the net internet office for retail customers.

Bankia's distribution network is composed of a finely meshed **branch network**, a complementary agency network (spearheaded by Mapfre) that gives the bank a valuable competitive advantage, and a low-cost multi-channel distribution network (e.g. ATMs, Internet, mobile and telephone banking).

With the aim of strengthening its competitive positioning, grounded in its relationship with customers, Bankia model is model based on a segmented branch network in which universal branches, business branches, private banking centres and the new 'agile' branches coexist. Agile branches are a new type of branch launched by Bankia in a pioneering move in the Spanish financial system that allow it to deliver quality, fast service to the customers who execute the most transactions. The offices have longer opening hours and are equipped with a large number of ATMs and quick service cashier positions, covering the areas with the largest concentration of transaction-intensive customers.

In addition, Plus+ offices. These are offices located around the agile branches which, due to their size in terms of customers and business, require greater commercial specialisation. All Plus+ offices customers are segmented and managed by financial advisors. The rollout of the Plus+ offices started in Madrid and Valencia, where new regional divisions have been created with a view to unifying the offices' divisional and management model.

In line with its multi-channel strategy, the Bank has a full suite of technological channels (Oficina Internet, Oficina Móvil and Oficina Telefónica), which makes it easier for customer to perform transactional operations, to contract and manage products, and to use the online broker. At 30 June 2017, the "Conecta con tu Experto" service, provided though multi-channel managers integrated in the multi-channel branches, had 473,000 digital customers requiring personalised service. These customers interact with Bankia in over 90% of the cases through remote channels (e.g. Oficina Internet, ATM, Oficina Telefónica, Oficina Móvil) 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 ***assets management*** which provide financial products to the net.

Bankia owns 100% of Bankia Fondos SGIIC, and has marketing agreements with international fund managers for certain niche products. Bankia's investment fund manager offers a wide range of competitive, high quality products in all categories (money market, fixed income, equity, mixed, guaranteed, global, etc.), in both Spain and abroad. This variety allows it to meet the needs of different customer profiles, from the most conservative, whose priority is capital preservation, to the more adventurous, and who are willing to take certain risks in the interest of a higher return.

In pension funds, significant efforts were made to encourage long-term saving, highlighting the need to address the situation of savings to supplement future pensions sufficiently in advance. Pension fund advisory services and simulation tools are the main marketing tools for these retirement saving products. Bankia Pensiones, a wholly owned subsidiary of Bankia, is the Group's pension fund management company. It is engaged in the management of all types of pension plans (individual, employment and related), focusing on meeting unitholders' needs and offering products that are suitable for their investment profile and the time horizon established by the retirement age.

Within Retail Banking, the ***Bancassurance*** area is responsible for distributing life and general insurance in all of the Group companies. For which Bancassurance Plan to provide specialised support for the network.

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

The insurance distribution network currently relies primarily on traditional offices, although penetration of this activity in the Bank's other channels (public website, multi-channel managers, etc.) increased throughout 2016 and 2017, thereby broadening the range of insurance products offered to Bankia's multi-channel customers.

The concept of the bancassurance distribution network is closely linked to the banking network and, therefore, it has been evolving in recent years. The agreements signed with Mapfre in January 2014 considered, as a distribution network, not only the bank branches, but also any other distribution channels the Bank could have at any given time. Accordingly, the insurance distribution network is backed primarily by traditional offices, although penetration of this activity in the rest of the Bank's channels (public website, multi-channel managers, etc.) increased throughout 2016, thereby broadening the range of insurance products offered to Bankia's multi-channel customers.

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

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-employees 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 service sector, manufacturing, followed by construction, commerce and supply. The Entity has traditionally had a large number of customers in the medium and large company segment in two of the three biggest business markets: Madrid and Valencia. Bankia also has good penetration among companies in other regions where it is a strong player such as, La Rioja, the Canary Islands, Castilla la Mancha.

Bankia 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 (including those belonging to the corporate segment). It has a network of 59 centres throughout Spain, concentrated in the regions with the greatest business activity. A network of specialist managers are responsible for serving customers and bringing in business. They are assigned a limited number of customers -structuring portfolios where the region's critical mass allows based on the business's revenues- so that they can provide personalised service. The managers also receive support by a team of experts in legal, tax, risk approval and management, marketing and specialised products.

- **Corporate Banking**. This segment caters to Bankia's largest accounts, which have several common denominators: the size of the businesses (over EUR 300 million in annual sales), groups comprising a large number of companies, and the demand for more complex and sophisticated financial services. Commercial coverage of Corporate Banking customers is provided by two centres, in Madrid and Barcelona, staffed by industry specialists, working in conjuntion with the Capital Markets products teams.

- **Capital Markets**. The Capital Markets segment consists of a number of areas specialising in products, offering specific financial products demand mainly by Business Banking and Corporate Banking customers.

These segments and distribution channels come in addition to a powerful online banking service, which allows client companies to carry out practically all their transactional operations.

The commercial **strategy** is predicated on active management of total returns for clients, combining a price discipline that sets floor prices based on the cost of funds and the client's risk (assessed using Bank of Spain-approved internal models) and the active search for cross-selling opportunities, efficiency in capital consumption by including the RaR approach to transactions.

The objectives of the teams are to contribute business volume and results, cross-selling and close supervisions of risks, so as to provide financial support to business ventures with a view to establishing long-term relationships with customers.

To control and manage risk, there are Business Banking teams that report hierarchically and functionally to the Corporate Risk Department, whose objective is to analyse risks, admit them as appropriate, and monitor them as needed. There are risk analysis and approval teams specialised in businesses some of them centralised teams provide support to transactions with large corporations and institutions. The rest are not centralised in business directions.

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 Plann, 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.

At the first half year of 2017 it continues strides in the Bankia Group's multi-channel strategy, cementing many of the projects initiated in 2015 and 2016, which have driven considerable growth in the multi-channel and digital customer bases. At midyear-end 2017, multi-channel customers accounted for 39.3% of all Bankia customers, up from 37.6% in December 2016.

Bankia's big project in terms of digital service for customers is "Conecta con tu Experto" (connect with your expert), a free and remote specialist advisory service, which is key to delivering multi-channel customer services, especially to the more digital customers. In this service, Bankia assigns a personal manager which customers can contact through the telematics means of their choice, by phone, e-mail, virtual chat, etc., who can provide personalised service and do away with waiting times. All types of banking transactions can be performed through this service, except cash withdrawals.

In 2017, "Conecta con tu Experto" expanded its customer base to 473,000 at the end of the first half (from 300,000 in December 2016). The goal is to double the number of advisers from last year, so that the number of customers that can be managed through the system exceeds 600,000.

As part of Bankia's strategic digital transformation in 2017, "Bankia Online" has been rolled out so that customers can access all their transactions, with accessibility from any device and interaction across the various channels. In keeping with its customer-centric digital strategy, Bankia has developed an architecture capable of processing customer events related to their financial transactions, generated across various channels and contact points (omni-channel) to not only offer them better service, but also personalised commercial offers in real time. Bankia won the **Computing 2017** for this.

The initiatives undertaken until now, coupled with advances in the multi-channel strategy to be rolled out in the coming years, are designed to enhance customer satisfaction and attracte new customers to the Bankia Group. The results obtained in recent years are encouraging, but more work needs to be done.

3.- ACTIVITY AND RESULTS

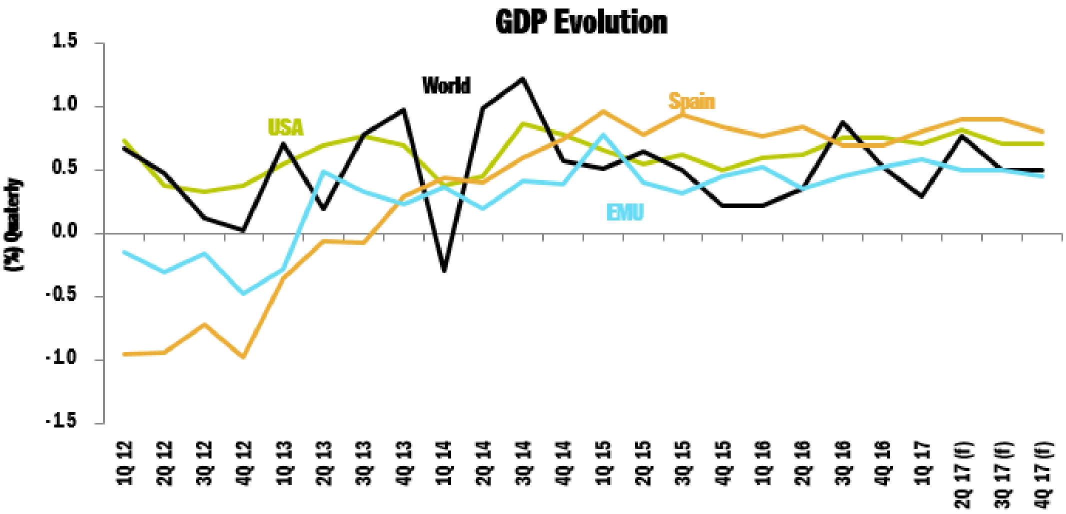
3.1.- Economic and financial backdrop

The global economy fared well in the first half of 2017, outperforming expectations for the most part. The resilience of the euro area stands out, with above-potential growth despite widespread political uncertainty: Brexit, elections in France, challenging situation in Italy and the review of Greece's bailout. Moreover, recovery in emerging markets gained momentum, corporate earnings were higher, and capital investment, the manufacturing industry and international trade all rebounded. The US economy extended its growth trend, yet was somewhat disappointing, with confidence about the Trump administration's ability to push through economic policy measures waned. Elsewhere, the uptrend in inflation begun in mid 2016 appears to have touched its ceiling in the main developed economies, as the base effect related to energy began diminishing; headline inflation in the euro area eased to 1.3% in June from 2.0% in February (source: Eurostat).

Against this backdrop, the ECB maintained its strategy, adopting an even more cautious stance, but still showed the first indications of a change in the tone of its monetary policy going forward. In April it reduced the size of its asset purchase programme, from a monthly volume of EUR 80,000 million to EUR 60,000 million, and in June hinted at the possibility of fresh cuts in interest rates. Turning to government bonds, yield on peripheral debt showed a slight bullish trend at the beginning of the year due to the increase in risk premiums caused by political uncertainty in the euro area. Spanish 10-year bond yields peaked at above 1.90% (source: Bloomberg). Political uncertainty began waning in the spring, enabling risk premiums to come down. The yield of the Spanish 10-year bond dipped to below 1.40%, before ticking back up to 1.70% in July (source Bloomberg).

In Spain, economic activity was robust in the first half of the year. GDP accelerated to 0.9% quarter-on-quarter in 2Q 2017 (from 0.8% in 1Q 2017), fuelled by domestic demand against a propitious backdrop for finance and strong job creation (672,836 people registered with Social Security in the past year). Drivers included robust investment in both capital goods and construction. Moreover, growth was more balanced, as the resilience of internal spending has come alongside a lengthy improved in Spain's international financial position, with the country's financing capacity at its highest ever.

Spain's healthy economy fed through to the performance of the country's banking industry. The pace of decline in overall lending continued to each, while new loans to SMEs and households rebound sharply, delivering double-digit growth. At the same time, NPL ratios in the industry improved further, with overall returns underpinned by lower provisions. For the first in several years, Spain saw intra-sector concentration moves, with two major deals around the end of the second quarter. On the legislative front, RDL 11/2017 on urgent measures regarding financial matters was enacted, entail two important milestones: the reform of the legal regime for cooperatives and the creation of a new class of liabilities eligible for absorbing losses in accordance with the European Resolution Director, non-preferred senior debt, which will help progress towards compliance with the MREL (minimum requirement for own funds and eligible liabilities) and, ultimately, the banking union.



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

3.2.- Financial performance in the first half of 2017

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 2017.

3.3.- Key figures

KEY FIGURES DATA - BANKIA GROUP

Balance (Millions of euros) (*)	Jun-17	Dec-16	Variation
Total assets	180,884	190,167	(4.9%)
Loans and advances to customers (net)	104,144	104,677	(0.5%)
Loans and advances to customers (gross)	109,437	110,595	(1.0%)
Balance sheet customer funds	121,700	125,001	(2.6%)
Customer deposits	103,038	105,155	(2.0%)
Debt securities issued	18,662	19,846	(6.0%)
Total customer managed funds (1)	142,830	145,097	(1.6%)
Total turnover (2)	246,974	249,773	(1.1%)
Equity	12,902	12,837	0.5%

Solvency and leverage (%) (*)	Jun-17	Dec-16	Variation
Common Equity Tier I (CET 1) - BIS III Phase In	15.68%	15.08%	+0.60 p.p.
Solvency ratio - Total BIS III Phase In capital	17.71%	16.42%	+1.29 p.p.
BIS III Risk Weighted Assets	74,628	76,960	(3.0%)
Phase In leverage ratio (Delegated regulation No. 62/2015)	6.52%	6.12%	+0.40 p.p.

Risk management (Millions of euros and %) (*)	Jun-17	Dec-16	Variation
Total risk	116,188	117,330	(1.0%)
Doubtful loans	10,554	11,476	(8.0%)
Provisions for credit lose	5,683	6,323	(10.1%)
NPL ratio	9.1%	9.8%	(0.7) p.p.
Hedging ratio	53.8%	55.1%	(1.3) p.p.

Profit/Losses (Millions of euros) (*)	Jun-17	Dec-16	Variation
Net interest income	995	1,124	(11.4%)
Gross income	1,648	1,686	(2.3%)
Operating income /(expenses) before provisions	884	900	(1.8%)
Operating income /(expenses)	712	696	2.3%
Profit/Loss before tax from continuing operations	693	639	8.4%
Profit/Loss	514	481	6.8%
Profit/Loss attributable to owners of the parent	514	481	6.7%

Key ratio (%)	Jun-17	Dec-16	Variation
Efficiency	46.4%	46.6%	(0.2) p.p.
ROA (3)	0.6%	0.5%	+0.1 p.p.
RORWA (4)	1.4%	1.2%	+0.2 p.p.
ROE (5)	8.6%	8.2%	+0.4 p.p.
ROTE (6)	8.7%	8.4%	+0.3 p.p.

Bankia's share	Jun-17	Dec-16	Variation
Weighted average number of shares (millions) (7)	2,865	11,459	(75.00%)
Market price at close	4.23	0.97	335.8%

Additional information	Jun-17	Dec-16	Variation
Numbers of employees	13,477	13,505	(0.2%)

(*) 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) Profit/Loss/average total assets
(4) Profit/Loss attributable to owners of the parent/risk weighted assets
(5) Profit/Loss attributable to owners of the parent/average own funds
(6) Profit/Loss attributable to owners of the parent/average tangible own funds
(7) In June 2017 shows the number of shares after the reduction of capital and the reverse split carried out

3.4.- Highlights of the balance sheet

CONSOLIDATED BALANCE SHEET - BANKIA GROUP

(Millions of euros) (*)	Jun-17	Dec -16	Change on Dec-16 Amount	%
Cash, cash balances at central banks and other demand deposits	3,434	2,854	580	20.3%
Financial assets held for trading	6,937	8,331	(1,394)	(16.7%)
Derivatives	6,867	8,256	(1,388)	(16.8%)
Debt securities	2	5	(3)	(59.9%)
Equity instruments	68	71	(3)	(4.4%)
Available-for-sale financial assets	19,438	25,249	(5,810)	(23.0%)
Equity instruments	28	26	2	6.4%
Debt securities	19,411	25,223	(5,812)	(23.0%)
Loans and receivables	107,147	108,817	(1,670)	(1.5%)
Debt instruments	406	563	(157)	(27.8%)
Loans and advances to credit institutions	2,597	3,578	(981)	(27.4%)
Loans and advances to customers	104,144	104,677	(533)	(0.5%)
Held to maturity investments	27,895	27,691	204	0.7%
Derivatives – Hedge accounting	2,925	3,631	(707)	(19.5%)
Investments in joint ventures and associates	286	282	4	1.6%
Tangible and intangible assets	1,903	1,878	25	1.3%
Non-current assets and disposal groups classified as held for sale	2,119	2,260	(141)	(6.3%)
Other assets	8,799	9,174	(375)	(4.1%)
TOTAL ASSETS	**180,884**	**190,167**	**(9,284)**	**(4.9%)**
Financial liabilities held for trading	7,183	8,983	(1,800)	(20.0%)
Derivatives	7,111	8,524	(1,413)	(16.6%)
Short positions	72	459	(387)	(84.3%)
Financial liabilities measured at amortised cost	157,982	164,636	(6,653)	(4.0%)
Deposit from central banks	12,816	14,969	(2,153)	(14.4%)
Deposit from credit institutions	22,268	23,993	(1,725)	(7.2%)
Customer deposits	103,038	105,155	(2,117)	(2.0%)
Debt securities issued	18,662	19,846	(1,184)	(6.0%)
Others financial liabilities	1,198	673	525	78.1%
Derivatives – Hedge accounting	358	724	(366)	(50.6%)
Provisions	1,124	1,405	(281)	(20.0%)
Other liabilities	1,335	1,582	(247)	(15.6%)
TOTAL LIABILITIES	**167,982**	**177,330**	**(9,348)**	**(5.3%)**
Minority interests (Non-controlling interests)	45	45	-	-
Other comprehensive accumulated income	376	489	(113)	(23.1%)
Own funds	12,481	12,303	178	1.4%
TOTAL EQUITY	**12,902**	**12,837**	**65**	**0.5%**
TOTAL LIABILITIES AND EQUITY	**180,884**	**190,167**	**(9,284)**	**(4.9%)**

(*) Financial Statement amounts rounded to millions of euros

- **Summary of Group Activities**

The Bankia Group had total assets and total liabilities at 30 June 2017 of EUR 180,884 million, a decrease of 4.9% from 2016.

Lending was broadly stable (-0.5%), thanks to the good performance of new loans, which offsets repayments of mortgages, and the sustained reduction in NPLs. Conversely, investment in fixed income was lower (-10.8%) owing to maturities and portfolio sales made in the period.

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 funds withdrawn by customers from term deposits. Particularly noteworthy was the increase in mutual funds (+7%), underscoring the growing demand for these savings products and the organic growth of the Group's assets under management.

The following table presents the trends of the Bankia Group's key balance sheet items in the first half of 2017.

- **Loans and receivables**

Note 3 and Appendices VII and VIII of the notes to the Bankia Group's financial statements provide details on loan approval policies, NPL monitoring, debt refinancing and recovery of the Bankia Group 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 2017 and the main movements therein.

Loans and receivables amounted to EUR 107,147 million at 30 June 2017, registering a descrease of 1.5% in first half 2017.

Under this item, loans and advances to customers totalled EUR 104,444 million, largely stable (-0.5%) from 31 December 2016. In gross terms (before provisions), loans and receivables from customers decreased slightly, by 1%, in the first half of the year. The stabilisation of loans is explained by the positive impact of commercial strategies geared towards being close to customers and the improvement in macroeconomic indicators. This led to new consumer and SME loans and made up for the decline in home purchase loans (including collateralised loans) caused by household deleveraging despite the increase in new loans granted by the Group in this segment. The higher volume of new loan arrangements in the more profitable segments was reflected in the growth of loans to non-financial entities, of EUR 586 million (+2.1%) in the first half of 2017.

The doubtful receivable had conserved the reduction way already shown in 2016, decreasing 886 million (-8.3%) over previous year. The fall was mainly organic (lower gross NPL inflows and healthy pace of recovery), but there were also portfolio sales in the half year amounting to EUR 142 million.

Stripping out non-performing loans and reverse repurchase agreements, the Group's performing loan portfolio increased by EUR 749 million (+0.8%) in terms of gross loans in the period, driven by the good performance of new loans to households and SMEs.

LOANS AND ADVANCES TO CUSTOMERS BANKIA GROUP BY COUNTERPARTY

			Change Dec -16	
(Millions of euros) (*)	Jun-17	Dec-16	Amount	%
Government agencies	5,411	5,365	45	0.8%
Other financial companies	1,625	1,916	(291)	(15.2%)
Non-financial companies	28,061	27,475	586	2.1%
Households	69,048	69,920	(872)	(1.2%)
Loans and advances to customers	**104,144**	**104,677**	**(533)**	**(0.5%)**
Less: Doutful	(9,831)	(10,717)	886	(8.3%)
Less: Reserve repurchase agreement	(73)	(469)	396	(84.5%)
Less: accounting balance with BFA	(17)	(76)	59	(77.8%)
Healthy loan portfolio	**94,240**	**93,491**	**749**	**0.8%**

(*) Financial Statement amounts rounded to millions of euros

Under this item, **loans and advances from credit institutions** down EUR 981 millions (-27.4%), due to the fewer provided collateral and reverse repurchase agreements over December 2016

- **Debt securities**

Debt securities at 30 June 2017, recognised under available-for-sale financial assets, held-to-maturity investments, financial assets held for trading and loans and receivables amounted to EUR 47,715 million compared to EUR 53,482 million at December 2016. SAREB bonds received make up a large portion of this amount (EUR 16,431 million), coming from the transfers of assets by the Bank to the SAREB in 2012. The remainder comprises sovereign debt, mainly Spanish, and debt from other public and private issuers.

The debt securities held by Bankia Group in the “Available-for-sale financial assets”, “Loans and receivables”, and “financial investment held to maturity” by type of instrument at 30 June 2017 and December 2016 are as follows:

DEBT SECURITIES - BANKIA GROUP

(Millions of euros) (*)	Available for sale financial assets	Loans and receivables	Held to maturity investments
Spanish goverment debt securities	12,915		9,955
Foreign goverment debt securities	4,306		1,248
Financials institutions	1,583		9
Other straight fixed income securities (**)	612	398	16,689
Impairment losses and other fair value adjustments	(6)	8	(5)
Total portfolio at 31 December 2016	**19,411**	**406**	**27,895**
Spanish goverment debt securities	15,911		9,643
Foreign goverment debt securities	4,388		1,271
Financials institutions	3,386		3
Other straight fixed income securities (**)	1,546	505	16,781
Impairment losses and other fair value adjustments	(8)	58	(6)
Total portfolio at 31 December 2015	**25,223**	**563**	**27,691**

(*) Financial Statement amounts rounded to millions of euros
(**) Held to maturity investments includes, interalia, securities issues by SAREB on December, 2013.

The main movements in the first half 2017 were in available-for-sale financial assets and held-to-maturity investments. At 30 June 2017 available-for-sale financial assets stood at EUR 19,411 million, down EUR 5,812 million or (-23%) from December 2016, arising from sales and the different maturities of the public and private debt held by the Group in the portfolio. Meanwhile, held-to-maturity investments amounted to EUR 27,895 million at first half year of year 2017.

- **Financial liabilities at amortised cost**

Financial liabilities at amortised cost stood at EUR 157,982 million, down EUR 6,653 million (-4%) from December 2016. This development was the result of the decrease of needs of group's financing, due to liquidity obtained by asset disinvestment mainly fixed income.

FINANCIAL LIABILITIES AT AMORTISED COST - BANKIA GROUP

(Millions of euros) (*)	Jun-17	Dec-16	Change Dec -16 Amount	%
Deposits from central banks	**12,816**	**14,969**	**(2,153)**	**(14.4%)**
Deposits from credit institutions	**22,268**	**23,993**	**(1,725)**	**(7.2%)**
Customer deposits	**103,038**	**105,155**	**(2,117)**	**(2.0%)**
Government agencies	4,801	5,029	(228)	(4.5%)
Other financial companies	8,554	9,974	(1,420)	(14.2%)
Non-financial companies	11,527	12,065	(538)	(4.5%)
Households	73,203	71,671	1,532	2.1%
Reserve repurchase agreement	71	1,209	(1,138)	(94.1%)
Single mortgage bonds	4,882	5,207	(325)	(6.2%)
Debt securities issued	**18,662**	**19,846**	**(1,184)**	**(6.0%)**
Others financial liabilities	**1,198**	**673**	525	**78.1%**
Total financial liabilities measured at amortised cc	**157,982**	**164,636**	**(6,653)**	**(4.0%)**

(*) Financial Statement amounts rounded to millions of euros

Deposits from central banks and deposits from credit institutions

ECB financing decreased in first half of year to EUR 12,816 million at 30 June 2017, causing a drop in **deposits from central banks** of EUR 12,816 million (-14.4%) in the first half of the year. This decrease came on the back of maturities and early redemptions of the TLTRO I program raised from the ECB in the first half of 2017. At the end of June 2017, 88.3% of ECB financing (EUR 11,316 million) comprised amounts taken in TLTRO II auctions the rest in TLTRO I (EUR 1,500 million).

Meanwhile, **deposits from credit institutions** have closed the semester at in EUR 22,268 million euros, recording a decrease of 7.2% from last year. This variation is due to the lesser volume of assets sold under repurchase agreements with other banks, collateral received and other funds received with agreed maturity.

Customer deposits

Customer deposits ended June 2017 at EUR 103,038 million, down EUR 2,117 million or 2% from December 2016. This was due mostly to the decline in the period in repos (EUR -1,138 million) and, to a lesser extent, strict customer deposits (EUR -654 million), mainly with agreed maturities, and one-off non-marketable mortgage-backed securities (EUR -325 million).

Within customer deposits, strict customer deposits excluding repurchase agreements and one-off non-marketable mortgage-back securities ended June 2017 at EUR 98,085 million, down slightly (-0.7%) from December 2016 due to the lower volume of deposits with agreed maturity. Conversely, the first half featured a generalised increase of most liquids resources and lower cost (Current accounts) of retail network (households), financial and non-financial corporations (companies) attracting part of the balances that customers are transferring out of term deposits, whose yields are falling as market interest rates decline.

In this respect, with interest rates persistently lows, the Bankia Group opted for a commercial policy aimed at offering customers higher-yielding off-balance sheet products, implying growth in off-balance sheet funds managed by 5.1% since 2016. Investment funds delivered the best performance of any product. Thanks to healthy subscription, the balance of investment funds managed by the Group increased by 7%, extending the upward trend seen in the first half of 2017.

As a result, the total balance of strict customer deposits and off-balance sheet funds has continued stable, recording in the first half of 2017 an increase of 380 million (+0.3%) from December 2016.

CUSTOMER DEPOSITS- BANKIA GROUP

			Change Dec -16	
(Millions of euros) (*)	Jun-17	Dec-16	Importe	%
Strict customer deposit	**98,085**	**98,739**	**(654)**	**(0.7%)**
Public sector	4,801	5,029	(228)	(4.5%)
Other financial companies	8,554	9,974	(1,420)	(14.2%)
Current accounts	5,730	4,936	793	16.1%
Term deposits (1)	2,824	5,038	(2,214)	(43.9%)
Non-financial companies	11,527	12,065	(538)	(4.5%)
Current accounts	9,362	8,548	814	9.5%
Term deposits	2,164	3,517	(1,352)	(38.5%)
Households	73,203	71,671	1,532	2.1%
Current accounts	41,240	37,874	3,366	8.9%
Term deposits	31,963	33,797	(1,834)	(5.4%)
Single mortgage bonds	**4,882**	**5,207**	**(325)**	**(6.2%)**
Reserve repurchase agreement	**71**	**1,209**	**(1,138)**	**(94.1%)**
Total customer deposits	**103,038**	**105,155**	**(2,117)**	**(2.0%)**
Investment funds	14,565	13,617	947	7.0%
Pension funds	6,565	6,478	87	1.3%
Total off balance funds resources	**21,130**	**20,096**	**1,034**	**5.1%**

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

(1) Excluded single mortgage bonds, showed in a separate epigraph.

Debt securities issued

Bankia has selective policy in fixed-income markets with issues, which purpose is to maintain the Group financial soundness, to adapt deal sizes to its structural liquidity needs and maintaining an appropriate funding structure. In the first half of 2017, Bankia successfully placed EUR 500 million of Tier 2 subordinated debts, bolstering the Group's solvency and helping meet the Tier 2 capital requirement of 2%, increase its base of instruments with loss-absorbing capacity ahead of the future regulatory requirement of the MREL.

Despite the new issue, the total balance of debt securities issued at June 2017 stood at EUR 18,662 million, EUR 1,184 million less than December 31, 2016, due to the different wholesale issuance maturities that have occurred during the year.

Provisions

Provisions recognised on the Group's balance sheet in the first half of June 2017 amounted to EUR 1,124 million, a reduction of EUR 281 million (-20%) from December 31, 2016. This decrease was due mainly to the use of a large part of the funds set aside in previous years to cover the potential cost of reimbursing amounts unduly charged in application of the clauses declared null. And to cover the contingencies derived from civil lawsuits in relation to Bankia's 2011 IPO (EUR 48 million use in first half 2017)

The changes in the provisions described above, coupled with new allowances for other reasons and provisions released in the year, mainly for commitments and guarantees given, resulted in a total decrease of EUR 281 million in “Provisions” in the balance sheet in June 2017.

- **Total equity**

The Group’s total equity at June 2017 amounted to EUR 12,902 million, without significant variations from December 2016. In equity, “Other accumulated comprehensive income” decreased by EUR 113 million from year-end 2016, due to the decrease of unrealised gains on fixed income assets classified as available for sale.

The main transactions with an impact on equity in the first six months of 2017 were the capital reduction and the reverse split (see section 1.6) carried out to adapt the Group’s equity structure and reduce volatility. These moves had no impact on the value of the Group's equity or the economic value of the shareholders’ interests in Bankia.

3.5.- Highlights of the income statement

INCOME STATEMENT - BANKIA GROUP

(Millions of euros) (*)	Jun-17	Jun-16	Change on Jun-16 Amount	%
Net interest income	**995**	**1,124**	**(129)**	**(11.4%)**
Dividend income	7	4	3	85.6%
Share of profit/(loss) of companies accounted for using the equity method	18	21	(2)	(10.7%)
Total net fees and commissions	425	406	19	4.7%
Gain and losses on financial assets and liabilities	262	119	143	120.6%
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	217	143	74	51.6%
Gains or losses on financial assets and liabilities held for trading, (net)	60	5	56	-
Gains or losses from hedge accounting, (net)	(15)	(29)	14	(47.1%)
Exchange differences	4	15	(11)	(72.2%)
Other operating income and other operating expenses (net)	(65)	(3)	(62)	-
Gross income	**1,648**	**1,686**	**(38)**	**(2.3%)**
Operating expenses	(764)	(786)	22	(2.8%)
Administrative expenses	(681)	(711)	30	(4.2%)
Staff costs	(461)	(465)	4	(1.0%)
Other administrative expenses	(220)	(245)	26	(10.4%)
Amortisation	(83)	(76)	(8)	10.3%
Pre impairment income	**884**	**900**	**(16)**	**(1.8%)**
Provisions or reversal of provisions	3	(52)	55	-
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(174)	(151)	(23)	15.2%
Total operating income	**712**	**696**	**16**	**2.3%**
Impairment or reversal of impairment in investment in joint-controlled or associates	(3)	0	(3)	-
Impairment or reversal of impairment on non-financial assets	(6)	(8)	2	(22.3%)
Other gains and losses	(10)	(49)	39	(80.1%)
Profit or Loss before tax from continuing operations	**693**	**639**	**54**	**8.4%**
Tax expense or income related to Profit or Loss from continuing operations	(179)	(158)	(21)	13.2%
Profit or Loss after tax from continuing operations	**514**	**481**	**33**	**6.8%**
Profit or Loss after tax from discontinued operations	0	0	-	-
Profit or Loss	**514**	**481**	**33**	**6.8%**
Profit or Loss attributable to minority interest	0.6	0.1	0.5	352.2%
Profit or Loss attributable to owners of the parent	**514**	**481**	**32**	**6.7%**

Main ratios				
Efficiency ratio (1)	46.4%	46.6%	(0.2) pp	(0.6%)
ROA (2)	0.6%	0.5%	+0.1 pp	19.0%
ROE (3)	8.6%	8.2%	+0.4 pp	3.9%

(*) Financial Statement amounts rounded to millions of euros.
(1) (Administration expenses + Depreciation and Amortizations) / Gross margin.
(2) Profit/Loss / Average total net assets.
(3) Profit or Loss attributable to owners of the parent / Average own funds .

INCOME STATEMENT BANKIA, GROUP - QUARTERLY TREND

(Millions of euros) (*)	2T 17	1T 17	4T 16	3T 16	2T 16	1T 16
Net interest income	**491**	**504**	**517**	**507**	**546**	**577**
Dividend income	2	6	0	0	3	0
Share of profit/(loss) of companies accounted for using the equity me	10	9	9	8	13	8
Total net fees and commissions	218	207	213	204	207	200
Gain and losses on financial assets and liabilities	101	161	57	65	58	61
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	71	146	35	75	71	73
Gains or losses on financial assets and liabilities held for trading, (net)	36	24	29	8	(2)	7
Gains or losses from hedge accounting, (net)	(6)	(9)	(7)	(18)	(10)	(19)
Exchange differences	2	2	(1)	(2)	8	7
Other operating income and other operating expenses (net)	(61)	(3)	(90)	(10)	(2)	(1)
Gross income	**762**	**886**	**706**	**774**	**833**	**853**
Operating expenses	(378)	(386)	(376)	(386)	(387)	(399)
Administrative expenses	(336)	(345)	(330)	(346)	(349)	(362)
Staff costs	(226)	(235)	(218)	(223)	(227)	(239)
Other administrative expenses	(110)	(110)	(112)	(123)	(122)	(124)
Amortisation	(42)	(41)	(46)	(40)	(38)	(37)
Pre impairment income	**384**	**500**	**331**	**388**	**446**	**454**
Provisions or reversal of provisions	(5)	8	(98)	53	(24)	(28)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(67)	(107)	35	(105)	(64)	(87)
Total operating income	**312**	**401**	**268**	**336**	**359**	**338**
Impairment or reversal of impairment in investment in joint-controlled or associates	0	(3)	0	0	0	0
Impairment or reversal of impairment on non-financial assets	(1)	(6)	(3)	3	(6)	(2)
Other gains and losses	(22)	12	(215)	(38)	(28)	(21)
Profit or Loss before tax from continuing operations	**289**	**404**	**50**	**302**	**324**	**315**
Tax expense or income related to Profit or Loss from continuing oper	(78)	(100)	20	(51)	(79)	(78)
Profit or Loss after tax from continuing operations	**210**	**304**	**70**	**251**	**245**	**237**
Profit or Loss after tax from discontinued operations	0	0	0	0	0	0
Profit or Loss	**210**	**304**	**70**	**251**	**245**	**237**
Profit or Loss attributable to minority interest	0	0	(3)	1	0	0
Profit or Loss attributable to owners of the parent	**210**	**304**	**73**	**250**	**245**	**237**

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

INCOME STATEMENT BANKIA GROUP - HIGHLIGHTS

(Millions of euros) (*)	June 2017			June 2016		
	Amount	% of gross income	% of average total net assets	Amount	% of gross income	% of average total net assets
Net income interest	**995**	**60.4%**	**1.1%**	**1,124**	**66.7%**	**1.1%**
Gross income	**1,648**	-	**1.8%**	**1,686**	-	**1.7%**
Operating expenses	(764)	(46.4%)	(0.8%)	(786)	(46.6%)	(0.8%)
Administrative expenses	(681)	(41.3%)	(0.7%)	(711)	(42.2%)	(0.7%)
Depreciation and amortization charge	(83)	(5.1%)	(0.1%)	(76)	(4.5%)	(0.1%)
Provisions or reversal of provisions	3	0.2%	0.0%	(52)	(3.1%)	(0.1%)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(174)	(10.6%)	(0.2%)	(151)	(9.0%)	(0.1%)
Total operating income	**712**	**43.2%**	**0.8%**	**696**	**41.3%**	**0.7%**
Impairment or reversal of impairment on non-financial assets Investments in joint ventures and associates	(3)	(0.2%)	(0.0%)	0	0.0%	0.0%
Impairment or reversal of impairment on non-financial assets	(6)	(0.4%)	(0.0%)	(8)	(0.5%)	(0.0%)
Other gains and losses	(10)	(0.6%)	(0.0%)	(49)	(2.9%)	(0.0%)
Profit or Loss before tax from continuing operations	**693**	**42.1%**	**0.8%**	**639**	**37.9%**	**0.6%**
Tax expense or income related to profit or Loss from continuing operations	(179)	(10.8%)	(0.2%)	(158)	(9.4%)	(0.2%)
Profit or Loss after tax from continuing operations	**514**	**31.2%**	**0.6%**	**481**	**28.6%**	**0.5%**
Profit or Loss after tax from discontinued operations	-	-	-	-	-	-
Profit or Loss	**514**	**31.2%**	**0.6%**	**481**	**28.6%**	**0.5%**
Profit or Loss attributable to minority interest (non-controlling interests)	1	0.0%	0.0%	0	0.0%	0.0%
Profit or Loss attributable to owners of the parent	**514**	**31.2%**	**0.6%**	**481**	**28.6%**	**0.5%**

(*) Financial Statement amounts rounded to millions of euros

- **Overview of Group earnings**

The Bankia Group reported profit attributable to owners of the parent of EUR 514 million in the first half of 2017, 6.7% more than the same period in 2016.

The trend in business was customers was one of the main drivers of the increase. Increasing customer satisfaction, highly loyalty ratings and advances in the multi-channel strategy helped the Group boost business volume, increase its market shares and stabilise its recurring income tax amid chronically low interest rates.

At the same time, the Group has continued to focus on managing key issues in the current environment, such as efficiency and control of risk costs. This has helped reinforce the recurring revenue generation and boost operating margins compared to the first half of 2016.

The main movements in the Bankia Group's income statement for the first half of 2017 are discussed below.

- **Net interest income**

Net interest income for the Group totalled EUR 995 million, down EUR 129 million (-11.4%) from the first half year of 2016.

The performance of net interest income was impacted primarily by the decline in returns on fixed-income portfolios and, to a lesser extent, loan portfolios, although in the latter case, the situation is gradually stabilising thanks to the increasingly smaller impact of low interest rates on mortgage repricing.

The following table shows trends in net interest income in the first half of 2017 and 2016, with average balances of income and expenses for the various items comprising total investment and funds, and the impact of changes in volumes and prices on the overall trend in net interest income in the first half of 2017 compared to the same period last year.

STRUCTURE OF INCOME AND EXPENSES - BANKIA GROUP

	June 2017			June 2016			Variation		Effect	
(Millions of euros and %) (*)	Average balance	Income/ Expenses	Type	Average balance	Income/ Expenses	Type	Average balance	Income/ Expenses	Type	Volumne
Finance income										
Credit institutions [1]	6,053	43	1.43%	7,081	11	0.30%	(1,028)	32	39	(7)
Loans and advances to customers (a)	103,725	871	1.69%	109,982	989	1.81%	(6,257)	(117)	(62)	(55)
Debt securities	49,725	250	1.01%	55,286	404	1.47%	(5,562)	(154)	(125)	(29)
Other interest bearing assets	394	2	0.80%	354	3	1.98%	39	(2)	(2)	0
Other non interest bearing assets	23,900	-	-	31,429	-	-	(7,529)	-	-	-
Total assets (b)	**183,796**	**1,166**	**1.28%**	**204,133**	**1,407**	**1.39%**	**(20,337)**	**(241)**	**(109)**	**(133)**
Financial expenses										
Credit institutions [1]	36,926	24	0.13%	40,648	44	0.22%	(3,723)	(20)	(18)	(2)
Customer deposits (c)	103,149	54	0.11%	107,170	152	0.29%	(4,021)	(98)	(96)	(2)
Stric customer deposits	97,522	47	0.10%	95,415	135	0.28%	2,107	(88)	(88)	1
Repos	562	0.0	0.00%	5,694	0.2	0.01%	(5,131)	(0.2)	(0)	0
Singular bonds	5,065	7	0.27%	6,062	17	0.58%	(996)	(11)	(9)	(1)
Debt securities issued	18,978	90	0.96%	24,788	84	0.68%	(5,810)	7	35	(28)
Other interest bearing liabilities	833	3	0.71%	969	4	0.73%	(136)	(1)	(0)	(0)
Other non interest bearing liabilitites	11,152	-	-	17,936	-	-	(6,783)	-	-	-
Equity	12,759	-	-	12,623	-	-	136	-	-	-
Total Liabilities and Equity (d)	**183,796**	**171**	**0.19%**	**204,133**	**284**	**0.28%**	**(20,337)**	**(113)**	**(93)**	**(19)**
Customers margin (a-c)		**817**	**1.59%**		**836**	**1.52%**		**(19)**	**34**	**(53)**
Balance sheet differential (b-d)		**995**	**1.09%**		**1,124**	**1.11%**		**(129)**	**(15)**	**(113)**

(*) Financial Statement amounts rounded to millions of euros

(1) Includes central banks and credit institutions. Loans and advances to credit institutions includes revenues arising from the negative interest rates applicable on deposits from central banks and credit institutions (mainly TLTRO II and repo transactions in 2016), since, according to accounting regulations, income arising from the application of negative interest rates is recognised in accordance with the nature of the item. On the liabilities side, it is the opposite with deposits from central banks and credit institutions.

Finance income was down 17.1% year-on-year (EUR 241 million) from the first half of 2016. The steepest fall was in fixed-income portfolios, which produced EUR 250 million of interest through June this year, EUR 154 million lower than in the same period last year. The fall was due mostly to the impact of interest rates (lower yields of sovereign debt of the ALCO portfolio and, to a lesser extent, the repricing of SAREB bonds). As a result, the profitability of the securities portfolio stood at 1.01% at the end of the first half of 2017, 46bps lower than the average return on fixed income in the first six months of 2016.

Interest on loans and receivables from customers amounted EUR 871 million, decreasing on EUR 117 million from half year of 2016, due to both interest rates and loan repayments. The decline in interest income was the result of further repricing in loan portfolios (mainly mortgages) caused by the fall in the Euribor rate, feeding through to a decline in the average interest rate charged on loans and advances to customers, to 1.69% at the end of June 2017, 12bps lower than in June 2016. Lower income on lending volume was the result of loan deleveraging, as the increasing contribution of new loans was still not enough to offset maturities in the portfolio.

As a result of all these factors, the Group's average return on assets in 2017 was 1.28%, 11bp lower than the same period in 2016.

The lower cost of funding was what enabled the Group to make up for the fall in returns on assets. Finance costs for the Group in 2017 fell by 39.8% (EUR 113 million) from the same period last year. Most of the reduction was in the cost of customer deposits (EUR -98 million), the average rate of which was 0.11% (18bp lower than in the same period in 2016) thanks to the sharp reduction in the average price of new term deposits arranged.

The lower finance cost of retail savings reduced the average cost, along with the lower financial cost and others credit institutions lower the Group’s liabilities by 1.59% from the same period last year to 1.52%.

The Group's net interest margin at 30 June 2017 stood at 1.09%, 2bps lower than in the first half of 2016, since, the positive performance in funding costs did not fully mitigate the pressure caused by low interest rates on returns from loans and lower income from the fixed-income portfolios.

- **Gross income**

Gross income for Bankia Group in amounted to EUR 1.648 million, reaching a similar figure to first half of 2016 which (EUR 1,686 millions) thanks to the gradual stabilisation of recurring income (net interest and fee and commission income) and the year-on-year increase in gains and losses on financial assets and liabilities (net), or trading income.net interest income, and fee and commission income, which combined represented nearly 86% of the Group's gross income in June 2016.

Net fees and commissions totalled EUR 425 million in the first half, 4.7% more than last year. Retail banking featured a sound performance of fees and commissions from cards and payment methods on the back of increased activity and stronger customer loyalty, offset by lower volumes in demand accounts and the impact of the strategy of eliminating fees for customers with direct debit of income. Income from loan structuring and design, securities custody and other fees and commissions, mainly the exchange of foreign currency and bank notes, were the main drivers of the Group's fees and commissions in the first half of 2017.

NET FEES AND COMISSIONS - BANKIA GROUP

(Millions of euros) (*)	Jun-17	Jun-16	Change on Jun-16 Amount	%
Traditional banking	184	184	0	0.1%
Contingent liabilities and commitments	43	44	(1)	(1.6%)
Collection and payment services	142	141	1	0.6%
Banking financial product sales	143	143	1	0.6%
Investment funds	53	52	1	2.6%
Pensions funds	30	29	0	1.3%
Insurance and others	61	61	(1)	(1.4%)
Total fees and commissions and banking sales	**328**	**327**	**1**	**0.3%**
Others commissions income	**136**	**118**	**17**	**14.7%**
Security services	30	27	3	12.7%
Operations design and framing	26	18	9	48.4%
Recovered written off assets	5	8	(3)	(39.2%)
Others	75	66	8	12.7%
Fees and commission income	**464**	**445**	**18**	**4.1%**
Fees and commission expenses	**39**	**39**	**(0)**	**(1.2%)**
Total net commissions	**425**	**406**	**19**	**4.7%**

(*) Financial Statement amounts rounded to millions of euros

Gains and losses on financial assets and liabilities (ROF) contributed strongly to the income statement in the first half of 2017, with EUR 262 million, up 120.6% year-on-year. This increase was underpinned by the gains obtained on the higher volume of fixed-income portfolio sales and the management of interest rate hedging portfolios

Other operating income and expenses showed a net expense of EUR 65 million in through June 2017, an increase of EUR 62 million from the first half of last year, driven by the gain (EUR 58 million) obtained by the Group on the sale of Visa Europe last June. This heading includes mainly rental income, income from non-financial activities, amounts invoiced to group companies, expenses for managing foreclosed assets, state tax expense on deposits and contributions to the Single Resolution Fund (SRF) and the FGDEC.

The **other items** comprising gross income (dividends, share of other recognised income and expense of entities accounted for using the equity method and exchange differences) did not show any significant changes in balances or movements, amounting to EUR 30 million in the first half of 2017, EUR 10 million less than in the same period last year.

Operating expenses

In line with the efficiency improvement targets, operating expenses (administrative expenses and amortisation expenses) were EUR 22 million (-2.8%) lower this first half 2016, at EUR 764 million at 30 June 2017. This decrease was the result of the various streamlining and cost-containment measures implemented in all Group areas upon completion of the restructuring process. Noteworthy was the 10.4% year-on-year fall in other administrative expenses. Meanwhile, staff expenses were 1% lower.

The efficiency ratio (operating expenses/gross income) at first half of 2017 stood at 46.4%, which measures up well with the ratios of the main Spanish and Spanish competitors.

ADMINISTRATIVE EXPENSES - BANKIA GROUP

(Millions of euros) (*)	Jun-17	Jun-16	Changes on Jun-2016 Amount	%
Staff costs	**461**	**465**	**(4)**	**(1.0%)**
Wages and salaries	335	361	(26)	(7.1%)
Social security costs	89	86	3	3.3%
Pension plans	24	8	16	202.1%
Others	13	11	2	22.2%
Other administrative expenses	**220**	**245**	**(26)**	**(10.4%)**
From property fixtures and supplies	50	55	(5)	(9.2%)
IT and communications	79	78	1	1.4%
Advertising and publicity	24	20	4	19.9%
Technical reports	10	12	(2)	(17.2%)
Surveillance and security courier services	7	7	(0)	(1.3%)
Levies and taxes	11	29	(17)	(59.9%)
Insurance and self insurance premiums	3	2	1	33.0%
Other expensives	36	43	(7)	(15.9%)
Total administrative expensives	**681**	**711**	**(30)**	**(4.2%)**
Efficiency ratio	**46.4%**	**46.6%**	**(0.2) p.p.**	**(0.6%)**

(*) Financial Statement amounts rounded to millions of euros

- **Pre-provision operating income**

The evolution of operating income and expenses placed pre-provision profit´s margin in EUR 884 million in the first half of 2017, in the same line with the EUR 900 million from the same period in 2016.

- **Provisions and write-downs**

Of the total, **impairment on financial assets not measured at fair value through profit or loss**, which includes mainly provisions for credit losses, with a decrease of EUR 23 million euros (+15.2%), amounted to EUR 174 million in June 2017, this was the result of the higher level of provisions reversed in the first half last year due to adjustments and the loan loss provisions recorded this year to cover single-name exposures.

The provisions, which includes provisions for legal issues, tax litigation, guarantees and commitments extended, registered a positive figure of EUR 3 million due to the reversals of provision for issuer risk and other contingent liabilities in the first half this year. The figure was a negative EUR 52 million in the same period last year and included higher charges for contingent risks related to transactions with certain customers.

Meanwhile, the **Impairment of non-financial assets**, mainly goodwill, tangible assets, investment properties and inventories, was EUR 6 million very similar to amount in this epigraph in the first half of 2016 (EUR 8 millions). The impairment in investment in joint-venture business and associates amounted to EUR 3 millions at 30 June 2017.

Other gains and other losses

This item mainly includes impairment of the non-current assets held for sale (mainly, foreclosed real estate assets) of the Group and the extraordinary results of the sale of share stakes. At the first half year of 2017, shows negative figure, EUR 10 million includes impairments and gains on disposals of foreclosed assets in the period net of the EUR 47 million income arising from the deferred payment on last year's sale of Globalvia. The balance for the first half last year was a negative EUR 49 million as it included only proceeds from disposals and impairment of foreclosed assets in the period since there were no significant sales of investees.

Profit before tax and attributable profit

The Bankia Group reported profit before tax from continuing operations of EUR 693 million in the first half of 2017, an increase of 8.4% from the same period of 2016. After income tax and profit attributed to minority interest, profit attributable to owners of the parent rose 6.7% to EUR 514 million in the first half of 2017.

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	CONCILIATION CALCULATION AND ACCOUNTING DATA	SECTION OF MANAGEMENT REPORT
Customers resources	Sum of customer deposits, wholesale issued, off-balance sheet customer resources	Balance sheet items: - Customer deposits - Marketable debt securities Third-party resources managed and marketed by the 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 - cumtomers - 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

PERFORMANCE MEASURE	DEFINITION	CONCILIATION CALCULATION AND ACCOUNTING DATA	SECTION OF MANAGEMENT REPORT
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.	1.4 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.	7.1
LTD ratio (%)	Relationship between loans granted to customers and deposits taken from customers	Loans and advances to customers divided by customer deposits plus funds raised through second-floor loans received from the EIB and ICO. - Loans and advances to customers less reverse repos and balances with BFA. - Customer deposits less repos.	1.5 5
Financial operations result	Sum of the profit/ (loss) from management of the trading portfolios, financial assets available for sale, assets and liabilities at amortized cost and accounting hedges	Sum of the flowing items of the income statement: - Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net. - Gains or (-) losses on financial assets and liabilities held for trading, net. - Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net. - Gains or (-) losses from hedge accounting, net.	3.3 3.5
Operating income before provisions	Gross margin less administrative expenses and depreciation	Sum of the flowing items of the income statement: - Gross Margin - Administration fees - Amortization	3.3 3.5
Customers margin (%)	Difference between the average interest rate charged on loans and advances to customers and the average interest rate paid on customer deposits	Average interest rate on loans and advances to customers: - Interest income on loans and advances to customers recognised in the year divided by the average month-end balance of loans and advances to customers in the year. Average interest rate paid on customer deposits: - Interest expenses on customer deposits recognised in the year divided by the average month-end balance of customer deposits in the year.	3.5
Differences on the balance sheet (%)	Difference between the average return on assets and the average cost of liabilities and equity	Average return on assets: - Interest income in the year divided by average month-end balances of recognised assets. Average cost of liabilities and equity: - Interest expenses in the year divided by average month-end balances of total equity and liabilities in the year.	3.5
ROA (%)	Measures the return on assets	Profit/(loss) for the year divided by average recognised assets at the end of the 12-month period.	3.3
ROE (%)	Measures the return obtained from own funds	Profit/(loss) for the year attributable to owners of the Parent divided by average equity at the end of the 12-month period.	3.3
RORWA (%)	Measures the return obtained from the risk-weighted average assets	Profit/(loss) for the year attributable to owners of the Parent divided by regulatory risk-weighted assets at the end of the year.	3.3
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	3.3
Efficiency ratio (%)	Measures operating costs as a percentage of gross income	Administrative + depreciation expenses divided by gross income.	1.1 3.3 3.5

CALCULATION OF ALTERNATIVE PERFORMANCE MEASURES AND ACCOUNTING RECONCILIATIONS (EUR million and %)	June-17	June-16
Resources managed by customers	**142,830**	**145,097**
- Customer deposits	103,038	105,155
- Marketable debt securities	18,662	19,846
- Investment companies and funds	14,565	13,617
- Pension funds	6,565	6,478
Total turnover	**246,974**	**249,773**
- Loans and advances - cumtomers	104,144	104,677
- customer deposits	103,038	105,155
- Debt securities issued	18,662	19,846
- Investment companies and funds	14,565	13,617
- Pension funds	6,565	6,478
NPL ratio (%)	**9.1%**	**9.8%**
- Doubtful risks of loans and advances to customers and contingent risks	10,554	11,476
- Total risks of loans and advances to customers and contingent risks	116,188	117,330

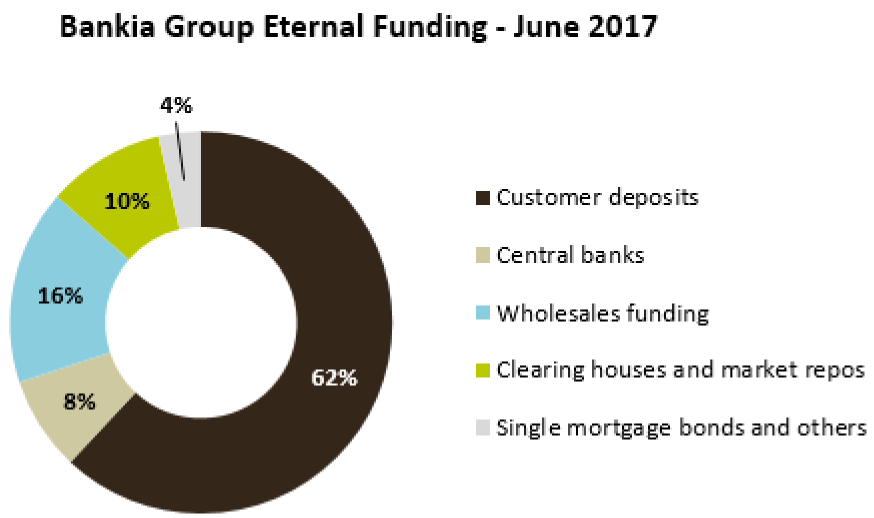
NPL coverage ratio (%)	**53.8%**	**55.1%**
- Loan impairment and customer advances and contingent risks	5.683	6.323
- Doubtful risks of loans and advances to customers and contingent risks.	10.554	11.476
LTD ratio (%)	**98.3%**	**97.3%**
- Loans and advances to customers	104,144	104,677
- Temporary Acquisitions of Assets	73	469
- Deposits of the clientele	103,038	105,155
- Temporary Assignment of Assets	71	1,209
- Unique mortgage notes	4,882	5,207
- Funds for mediation appropriations received from the EIB and ICO	2,890	3,117
Gains or losses on financial assets and liabilities (net)	**262**	**119**
- Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	217	143
- Gains or losses on financial assets and liabilities held for trading, net.	60	5
- Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
- Gains or losses from hedge accounting, net	(15)	(29)
Operating income before provisions	**884**	**900**
- Gross income	1,648	1,686
- Administrative expenses	(681)	(711)
- Depreciation	(83)	(76)
Average interest rate on loans and advances to customers (%):	**1.69%**	**1.81%**
- Interest income on loans and advances to customers in period	871	989
- Interest income on loans and advances to customers annualised	1,757	1,988
- Average month-end balances of loans and advances to customers	103,725	109,982
Average interest rate paid on customer deposits (%):	**0.11%**	**0.29%**
- Interest expenses on customer deposits in the period	54	152
- Interest expenses on customer deposits annualised	109	306
- Average month-end balances of customer deposits	103,149	107,170
Average return on assets:	1.28%	**1.39%**
- Interest income in the period	1,166	1,407
- Interest income in the period annualised	2,351	2,830
- Average month-end balances of recognised assets in the period	183,796	204,133
Average cost of liabilities and equity (%):	**0.19%**	**0.28%**
- Interest expenses in the period	171	284
- Interest expenses in the period annualised	345	570
- Average month-end balances of total equity and liabilities in the period	183,796	204,133
ROA (%)	**0.6%**	**0.5%**
- Profit/(loss) for the period	514	481
- Profit/(loss) for the period annualised	1,037	968
- Average value of recognised assets at the end of the first half of the year	183,796	204,133
RORWA (%)	**1.4%**	**1.2%**
- Profit/(loss) for the period	514	481
- Profit/(loss) for the period annualised	1,037	968
- Regulatory risk-weighted assets at the period end	74,628	77,587
ROE (%)	**8.6%**	**8.2%**
- Profit/(loss) attributable to owners of the Parent for the period	514	481
- Profit/(loss) attributable to owners of the Parent for the period annualised	1,036	968
- Average value of equity of the 12 months preceding the period end adjusted for expected dividends	12,113	11,761
ROTE (%)	**8.7%**	**8.4%**
- Profit/(loss) attributable to owners of the Parent for the period	514	481
- Profit/(loss) attributable to owners of the Parent for the period annualised	1,036	968
- Average value of tangible equity of the 12 months preceding the period end adjusted for expected dividends	11,888	11,553
Efficiency ratio (%)	**46.4%**	**46.6%**
- Administrative expenses	681	711
- Depreciation for the period	83	76
- Gross income	1,648	1,686

5.- FUNDING STRUCTURE AND LIQUIDITY

In the note 3.2 of interim financial statement ended at 30 June of 2017 describes Bankia Group's liquidity management policies and provide details on maturities of financial assets and financial liabilities used to project its liquidity balance at different maturities. Accordingly, this section deals with trends in the Group's main liquidity indicators and funding sources in first half year of 2017.

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 2017 the Group achieved improvement in both its liquidity metrics and liability structure.

According to the retail business model underpinning the banking activity, the Group's funding structure places priority on attracting retail liabilities, which represented 98.9% of net liabilities at 30 June and lend stability to the Group's funding structure. These arise mainly from business with retail customers (80.4% of customer deposits come from retail banking). Funds obtained through customer deposits are complemented by wholesale financing gearing towards the medium and long term (issuances) with a small percentage in the short term (interbank market), repos arranged in the market, balances with the ECB and (non-marketable) single mortgage bonds.



The Bankia Group's external funding requirement decreased by EUR 6,653 million in the first half of 2017, thanks mostly to the liquidity raised on disposals and maturities of fixed-income portfolios. The following table presents in the Group's funding in the first half of year.

FUNDING SOURCES - BANKIA GROUP

(Millions of euros) (*)	Jun-17	Dec-16	Change Dec-16 Amount	Change Dec-16 %	Percentage Jun-17	Percentage Dec-16
Strict customer deposit	**98,085**	**98,739**	**(654)**	**(0.7%)**	**62.1%**	**60.0%**
Public sector	4,801	5,029	(228)	(4.5%)	3.0%	3.1%
Other financial companies	8,554	9,974	(1,420)	(14.2%)	5.4%	6.1%
Current accounts	5,730	4,936	793	16.1%	3.6%	3.0%
Term deposits	2,824	5,038	(2,214)	(43.9%)	1.8%	3.1%
Non-financial companies	11,527	12,065	(538)	(4.5%)	7.3%	7.3%
Current accounts	9,362	8,548	814	9.5%	5.9%	5.2%
Term deposits	2,164	3,517	(1,352)	(38.5%)	1.4%	2.1%
Households	73,203	71,671	1,532	2.1%	46.3%	43.5%
Current accounts	41,240	37,874	3,366	8.9%	26.1%	23.0%
Term deposits	31,963	33,797	(1,834)	(5.4%)	20.2%	20.5%
Financiación mayorista	**25,354**	**27,161**	**(1,807)**	**(6.7%)**	**16.0%**	**16.5%**
Deposits and credit institutions [(1)]	6,692	7,315	(623)	(8.5%)	4.2%	4.4%
Debt securities issued	18,662	19,846	(1,184)	(6.0%)	11.8%	12.1%
Retail issues (single mortgage bonds)	**4,882**	**5,207**	**(325)**	**(6.2%)**	**3.1%**	**3.2%**
Purchase agreement (Clearing houses and credit institution)	**15,648**	**17,887**	**(2,240)**	**(12.5%)**	**9.9%**	**10.9%**
Central banks	**12,816**	**14,969**	**(2,153)**	**(14.4%)**	**8.1%**	**9.1%**
Others	**1,198**	**673**	**525**	**78.1%**	**0.8%**	**0.4%**
Total external funding sources	**157,982**	**164,636**	**(6,653)**	**(4.0%)**	**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 amounted EUR 98,085 million, increasing the weight on the balance sheet funding mix, reaching 62.1% of the Group's external funding sources, compared to 60% in December 2016, broken down as follows: (i) 46.3% households, (ii) 7.3% non-financial corporations, (iii) 5.4% other financial corporations and (iv) 3% public sector. In the first half year of customers continued to transfer savings from long-term deposits to current accounts and short-term deposits.

Wholesale funding stood at EUR 25,354 million at 30 June 2017, representing 16% of external funding, down from 16.5% at 31 December 2016, comprising mainly mortgage-backed securities and deposits from credit institutions. This marked a decrease of EUR 1,807 million in the period, owing to maturities, and to higher redemption and repurchase of debt than the new issues; i.e. the EUR 500 million issue of 10-year Tier 2 bonds in March, which was more than 10 times oversubscribed.

The bank collateralized financing and other market assignments decreased by EUR 2,240 million compared to December 2016, representing 9.9% of the Bankia Group's external funding at June 2017 compared to 10.9% in 2016. This activity forms part of the Group's strategy to diversify its funding sources and reduce costs, maintining the sources of liquidity resources secured by liquid assets other than those of the ECB.

Funding from the ECB has been reduced by 14.4% to EUR 12,816 million at first half year. As a result, the weight of central banks on the Bankia Group's funding structure has been placed to 8.1% of borrowings compared to 9.1% in December 2016. EUR 11,316 million of the total funding from central banks held by the Bankia Group at end-December 2016 were obtained in the ECB TLTRO II programme the rest were TLTRO I (EUR 1,500 million).

Lastly, non-marketable mortgage-backed securities included in loans and advances to customers and other funding sources increased by a combined EUR 200 million in the first half of the year are a residual component of the Group's funding structure, representing 3.1% and 0.8%, respectively, of the Bankia Group’s borrowings.

Core liquidity metrics remain and 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 for the grant of second-floor loans, stood at EUR 3,096 million at 30 June 2017 compared to EUR 2,352 million at 31 December 2016. The “Loan to deposits” or LTD ratio (net loans less reverse repos/strict customer deposits plus funds raised through second-floor loans and one-off non-marketable mortgage-backed securities) ended the first half at 98.3%, reflecting the balance achieved between the Group's loans and deposits.

Lastly the Group has a comfortable maturity profile, with EUR 604 million of debt issues falling due in 2017 and EUR 2,683 million in 2018, of which EUR 2,436 million are bonds and mortgage-backed securities. To meet these maturities and scheduled redemptions in the coming years, the Group had EUR 28,608 million of available liquid assets at June 2017, equivalent volume to 15.8% of the Group's assets and sufficient to cover its entire wholesale debt maturities.

Accordingly, the Group is in good shape to face the low volume of debt maturities in the coming quarters which should take placing a favourable capital markets environment. The Bankia Group has a great deal of flexibility to meet its short- or medium-term funding needs, which should allow the entity maintain balance structure.

LIQUIDITY RESERVE - BANKIA GROUP

(Millions of euros) (*)	Jun-17	Dec-16
Highly liquid available assets (1)	13,390	27,004
Undrawn amount on the facility	13,654	1,881
Cash (2)	1,564	950
TOTAL	**28,608**	**29,835**

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

(1) Market value haircut by ECB.

(2) Bills, coins and Central Banks accounts reduced minimal reserves.

6.- CAPITAL MANAGEMENT, SOLVENCY AND LEVERAGE RATIO

Capital management geared at all times to complying with minimum regulatory requirements and with the risk appetite target or level established by the Group is a key cornerstone of the Group's Corporate Risk Appetite and Tolerance Framework.

The entry into force of the solvency requirements known as BIS III on 1 January 2014, which then marked a change and entailed tougher quality and minimum capital requirements, has led to a raft of regulatory changes impacting the solvency of financial institutions. By adequately managing its capital, the Bankia Group has been able to bolster its solvency and minimise the impact of these regulatory changes.

A main cornerstone of capital management is the Capital Planning process, both the short and the medium and long term, designed to assess the sufficiency of present and future capital, even in adverse economic scenarios, in relation to the minimum capital requirements (Pillar I and Pillar II) for each level of capital and at in terms of the target level (appetite) and optimal structure of capital determined by the governing bodies. For this, the capital buffer requirements affecting the Group are also taken into consideration, along with their direct impact on the Bank's remuneration policy (including the distribution of dividends).

The capital planning process is a holistic process involving all levels of the Entity. Senior management and the Board of Directors play a key role in designing and monitoring capital planning. The capital planning exercise is based on financial planning (e.g. balance sheet, income statement, planned corporate transactions and restrictions included in the Group's Recapitalisation Plan approved by the European Commission and the Spanish Finance Ministry on 28 November 2012), on the macroeconomic scenarios forecast by the Group and on the impact analysis of potential changes in capital adequacy regulations.

Capital planning is aligned and consistent with the Entity’s strategic planning, and establishes a baseline or expected scenario and at least one adverse scenario resulting from the application of a combination of adverse impacts on the expected situation. It also allows to quantify potential impacts on results and solvency according to an economic crisis scenario. The Group has mitigation plans in place to offset impacts in adverse economic scenarios.

Since 2015, in response to the recommendations issued by the various consultative bodies in the industry and the regulatory changes made with respect to the European Banking Union, the Bankia Group strengthened its capital planning and management framework, formally documenting or updating existing documentation on these processes in a series of reports approved by the Entity's Board of Directors. These documents are:

- **The Corporate Risk Appetite and Tolerance Framework,** which defines the level of risk appetite (internal capital target) based on the risks the Group is willing to assume in carrying out its business. Together with the capital target, the tolerance or maximum levels of deviation from the established target which the Bank considers acceptable are determined.

- **The Corporate Capital Planning Framework,** which sets out a clear governance framework to ensure the involvement and coordinated orientation of the Group's various divisions related to the capital planning process to achieve a common objective and that this objective fits in the Group's Risk Appetite and Tolerance Framework.

- **Capital Planning Policies,** which include Senior Management's guidelines regarding capital preservation and correct risk measurement, as well as the corrective measures for potential deviations included in the Capital Contingency Plan.

- **Recovery Plan**, which sets out the solvency and leverage indicator levels below the Entity's tolerance level which, prior to potential non-compliance with regulations, would trigger the corrective measures in crises situations, as well as the range of measures and execution of each.

Capital planning is a dynamic and ongoing process. Therefore, these documents define a series of regulatory and financial indicators and metrics, with related minimum thresholds, calibrated and graded in accordance with the various levels of admission (risk appetite and tolerance levels, early warning levels and Recovery Plan levels). The objective is to facilitate appropriate monitoring and control of the established targets and identify in advance future capital requirements and the corrective measures to be adopted.

Except for the Recovery Plan, the review of which is scheduled for the second half of 2017, the Group reviewed and updated all these reports in the first half of 2017. Noteworthy was the update of the calibration of the appetite, tolerance and recovery indicators on a phased-in basis to factor in the results obtained in the Internal Capital Adequacy Assessment Report presented to the Supervisor in April this year.

With a monthly base, real capital adequacy ratios are measured against these metrics and indicators and their various thresholds periodically. Potential deviations are analysed to determine whether the causes relate to one-off or structural events. The measures required to adapt the level of capital so it complies with the established targets is analysed and decided. In the case of default, this could ultimately trigger the Capital Contingency Plan or even the Recovery Plan. Actual performances of these metrics and indicators are presented to the Group's governing bodies at least quarterly.

The Capital Committee is mainly in change of projecting and controlling the evolution of the Entity's solvency ratios on a monthly basis, allowing the Entity to perform an active and agile capital management. It also monitors the solvency regulatory framework to ensure that the Group continuously adapts to any changes that may occur.

Solvency levels

In November 2016, the ECB notified the Bankia Group of the minimum capital requirements of its SREP applicable to 2017 on a phased-in basis (scheduled applied to capital buffers) of a Common Equity Tier 1 ratio of 7.875% of its risk-weighted assets, comprising a Pillar 1 capital ratio of 4.5%, plus a Pillar 2 requirement of 2% and a combined buffer requirement of 1.375%, and a Total Capital ratio of 11.375% of risk-weighted assets, comprising a Pillar 1 ratio of 8%, a Pillar 2 requirement of 2% and a combined buffer requirement of 1.375%. The minimum CET 1 phase-in ratio at 31 December 2016 was 10.3125% (with no minimum requirement for total capital).

Regarding the combined buffer requirements, in addition to the capital conservation buffer common to all banks, Bankia Group was identified by the Bank of Spain as another systemically important institution (O-SII). Therefore, a Common Equity Tier I capital buffer was established at 0.25% of its total risk exposure on a consolidated basis. However, considering the phase-in period provided for in Law 10/2014, it will only be required to maintain 50% of this buffer in 2017 (25% in December 2016); i.e. 0.125% (0.0625% in December 2016). Lastly, set the counter-cyclical buffer own of the group, calculated according to the geographical location of exposures.

In June 2017, the Bankia Group achieved a Common Equity Tier 1 (BIS III Phase In) ratio of 15.68% (15.08 % at 31 December 2016) y and a Total Capital (BIS III Phase) ratio of 17.71% (16.42% at 31 December 2016). These capital levels imply surpluses above the 7.875% minimum Common Equity Tier 1 capital ratio requirement for 2017 of EUR 5,826 million and above the 11.375% minimum Total Capital ratio requirement of EUR 4,726 million.

The following table provides a detail of capital levels, as well as risk-weighted assets calculated in accordance with the CRR and CRD IV at 30 June 2017 and 31 December 2016 applying the phase-in schedule for each period.

BANKIA GROUP Solvency Basilea III

(Millions of euros and %)

Eligible capital	**June. 2017 (*) (**)**		**Dec. 2016 (*)**	
Common Equity Tier I	11,703	15.68%	11,606	15.08%
Equity tier I	11,703	15.68%	11,606	15.08%
Equity tier II	1,512	2.03%	1,030	1.34%
Total Equity BIS III	**13,215**	**17.71%**	**12,636**	**16.42%**
Risk weighted assets BIS III	**June 2017 (**)**		**Dec. 2016**	
Credit risk (include CVA)	65,163		67,383	
Operational risk	6,414		6,414	
Market risk	3,050		3,162	
Total weighed assets BIS III	**74,628**		**76,960**	
Excess/(Minimal regulatory defects)	**Jun. 2017 (*) (**)**	***minimum***	**Dec. 2016 (*)**	***minimum***
Excess Common equity Tier I BIS III	**5,826**	**7.875%**	**3,670**	**10.31%**
Total Equity Bis III	**4,726**	**11.375%**	**4,700**	**10.31%**

(*) Including the amount of net profit for 2016 earmarketed for reserves.
(**) Estimated at 30/06/2017.

In the first half of 2017, the Bankia Group increased its Common Equity Tier 1 capital ratio by +60bps and its total capital ratio by +129bps following the March issuance of subordinated bonds ("Bankia 2017-1 Tier 2 subordinated bonds") for a nominal amount of EUR 500 million, which the Supervisor authorised as eligible for calculation as Tier 2 capital, with an estimated impact on the total capital ratio of +66bps. In addition, in July 2017, the Bankia Group EUR 750 million worth of contingent convertible bonds, for which it requested authorisation by the Supervisor to include as additional Tier 1 capital. The expected impact on this issue on the total capital ratio, of 100bps, is not included in the solvency ratios at 30 June 2017.

These two issuances of capital instruments are both part of the Group's strategy of optimising its capital structure and strengthening its total capital levels ahead of the figure regulatory requirements, such as the MREL (minimum own funds and eligible liabilities needed to absorb losses).

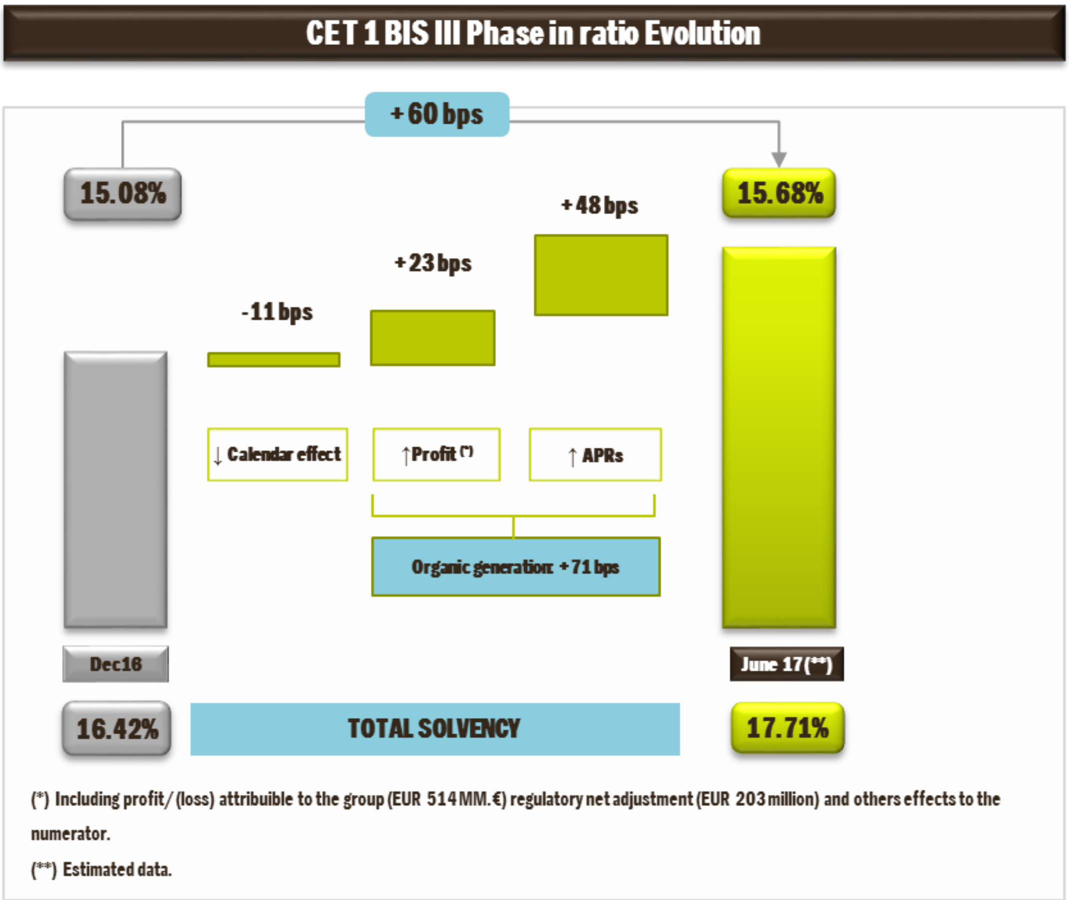
The Group is also keeping with its CET1 organic generation model, complying with its stated objective of reinforcing its CET1 ratio due to its permanent, available and loss absorbing capacity nature as required by BIS III capital regulation The levers moving the capital evolution in the first of year 2017 are the following:

- The calendar effect has had an impact of **-11 bps on CET1 as well as total capital**.

- Annual net profit of the Group for the period (EUR 514 million) less the deduction for the regulatory dividend (EUR -203 million) and other impacts on the numerator (prudent valuation adjustment, unrealised gains or losses on the available-for-sale portfolio, tax credits and other) of **+23bps in CET1 and in total capita**l.

- Reduction in risk-weighted assets of EUR -2,332 million, **generating +48 bps of CET1 and +54bps in terms of total solvency**. The decline in RWAs was centred on credit risk associated with balance-sheet deleveraging and the sale of non-strategic assets under the framework of the commitments assumed in the Recapitalisation Plan of the BFA Group (parent) approved by the European Commission in November 2012, and the active management of the composition of, and the improved quality of, the Group's loan portfolio.

The trend is as follows:



The reconciliation of equity in the balance sheet to regulatory capital, including profit for the period earmarked for reserves, is shown below. Data at December 2016 are included for comparison purposes.

BANKIA GROUP reconciliation between Equity and Eligible Capital BIS III

(Millions of euros and %)

Eligible elements	June. 2017 (**)	Dec. 2016 (*)	Variation	% Variation
Own funds	12,481	12,303	178	1%
Other comprehensive accumulated income	376	489	(113)	(23%)
Non controlling interests	45	45	(0)	(0%)
Total Equity (Public Balance)	**12,902**	**12,837**	**65**	**1%**
Adjustment between public and regulatory balance	(8)	(8)	1	-
Total Equity (Regulatory balance)	**12,894**	**12,829**	**64**	**1%**
Non controlling ineligible equity elements	**(139)**	**(242)**	**104**	**(43%)**
Ineligible valuation adjustments as CE T-1	(109)	(219)	110	(50%)
Non controlling interests	(30)	(23)	(7)	0%
Regulatory capital deductions	**(1,052)**	**(981)**	**(71)**	**7%**
Intangible assets and other deductions (regulatory balance)	(315)	(273)	(42)	15%
Deferred tax assets	(491)	(324)	(167)	52%
Valuation adjustments due to prudent requirements (AVA)	(44)	(67)	23	-
Dividends	(203)	(317)	115	(36%)
Common Equity Tier I	**11,703**	**11,606**	**97**	**1%**
Additional Equity Tier I	**0**	**0**	**0**	**0%**
Equity Tier II	**1,512**	**1,030**	**482**	**47%**
TOTAL REGULATORY EQUITY (*)	**13,215**	**12,636**	**580**	**5%**

(*) Including the amount of net profit earmarketed for reserves.
(**) Estimated at 30/06/2017.

The minimum capital requirements cover credit, foreign currency, market and operational risks.

The requirements for credit risk, including equity portfolio risk, amounted to EUR 5,213 million at 30 June 2017 (EUR 5,391 million at 31 December 2016). This requirement is calculated using both the standardised approach (34% of the portfolio) and the internal rating-based (IRB) approach (66% of the portfolio). In 2014, after receiving authorisation from the Bank of Spain, the Entity began to apply the IRB approach to all its exposures to corporates. Both calculation methods still coexist for exposures to institutions and retail exposures. The remaining on-balance-sheet exposures are calculated using the standard method.

Currency and market risk exposures, and CVA 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 2017 in this connection at amounted to EUR 244 million (EUR 253 million at 31 December 2016).

Finally, the Bankia Group used the standardised approach to calculate the capital requirements for operational risk, ended EUR 513 million at June 2017, same amount than 2016.

Leverage ratio

The leverage ratio arose in the December 2010 Capital Framework of the Basel Committee on Banking Supervision (BCBS), which introduced this new metric as a supplementary ratio to solvency requirements but unrelated to risk measurement. The aim is to include the leverage ratio as a binding Pillar I requirement from 1 January 2018, after conclusion of the review and calibration period that started on 1 January 2013.

At 30 June 2017, the Bankia Group's (phase-in) leverage ratio was 6.52% (6.12% at 31 December 2016), including the amount of profit earmarked for reserves in Tier 1 capital, above the 3% minimum reference level set by the BCBS.

The leverage ratio performed positively in 2017, increasing thanks mainly to the decrease in exposure, due above all to the reduction in total assets on the Bankia Group's balance sheet.

The following table provides a breakdown of the leverage ratio at 30 June 2017, along with a reconciliation of total assets on the balance sheet and leverage exposure measure. The composition of the leverage ratio at 31 December 2016 is showed for comparison purposes:

BANKIA GROUP leverage ratio

Items (Millions of euros and %)	June. 2017 (*)	Dec. 2016 (*)
Tier 1 Capital	11,703	11,606
Exposure	179,608	189,492
Leverage ratio	**6.52%**	**6.12%**
Reconciliation between Public Balance sheet and exposure for leverage ratio		
Total Assets Public Balance	**180,884**	**190,167**
(+/-) Adjustments difference between Public and Regulatory Balance	249	199
(-) Items already deducted from Tier 1 capital	(819)	(663)
(-) On-balance sheet derivatives assets	(9,792)	(11,887)
(+) Derivative exposure	677	818
(+) Add-ons for counterparty risk in securities financing transactions (SFTs)	2,060	1,398
(+) Off-balance sheet items (including use of CCFs)	6,349	9,460
Total exposure leverage ratio	**179,608**	**189,492**

(*) The data has been estimated based on Delegated Regulation 2015/62.
Including the amount of net profit earmarketed for reserves.

During the first half of 2017, the BCBS, in conjunction with the European Banking Authority (EBA), carried out several QIS (Quantitative Impact Study). The BFA Group, to which the Bankia Group belongs, was one of the financial institutions invited to participate actively in the leverage ratio monitoring process.

7.- RISK MANAGEMENT

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

Under this framework, in 2015, the project to transform the risk function in order to enhance the quality of reporting and provide better risk management tools with the objective of aligning it with best practices in Spain and abroad, was completed. The plan concluded in 2015, with establishment of the general principles guiding the risk function (group-wide function, independence and commitment of senior management, etc.) and created a comprehensive organisational model throughout the risk life cycle.

These advances are associated with the Transformation Plan 2016-2018, which focuses more on improving risk management in key areas, such as optimisation of the Bank's recoveries model, the promotion of sound lending, an early warning system to detect potential impairments before they materialise, the orientation of the business towards maximising economic value, and training on risks.

Note 3 to Bankia Group's interim financial statements for the period ended 30 June 2017 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 first half of 2017.

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.

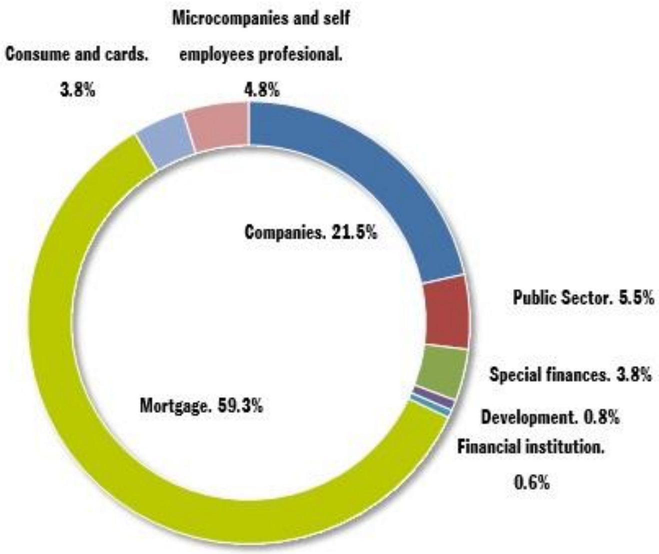
The main characteristics of the Group's credit risk profile and its trends in the first half of 2017 according to data from the audited portfolio (does not include positions in financial investees) are as follows:

- Loans and advances to customer remains similar to 2016 year-end structure, with a 32% - 68% distribution between the corporate segment, including public sector, and retail.

- The weight of the real estate portfolio over total loans is below 0.8%.

- The mortgage portfolio accounts for 59.3% of total loans and receivables. The second largest portfolio corresponds to companies representing 21.5% of the total, followed by loans to public institutions and bodies (5.5% of the total portfolio).

- 47% of assets at 30 June 2017 were classified in the doubtful category for subjective criteria or are in the "curing" period. Accordingly, no loans in this portfolio are past-due that imply subjective arrears, or refinancing agreements have been reached with the customers and, therefore, there is an apparent willingness to pay. This must be verified over a period of at least six months, but can be extended to the entire grace period where applicable.



The following table shows the distribution by portfolio of expected loss and regulatory capital for credit risk of Bankia Group at 30 June 2017:

MM€	Jun-17	
Segment name	Regulatory Equity	Expected Loss
Public sector	63.7	144.3
Banks and financial intermediaries	204.5	15.8
Companies	1,675.2	2,517.9
Property	78.6	589.1
Retail	2,238.0	2,492.4
Mortgage	1,798.3	1,885.0
Consume	*160.9*	*102.2*
Cards	*77.9*	*38.0*
Micro-companies and self-employed profesional	*200.9*	*467.1*
Equity	11.2	0.5
TOTAL	**4,271.3**	**5,760.0**

The maturity profile of credit exposure is detailed in Note 3.2 to the condensed interim financial statements for year ended 30 June 2017 (table on residual maturities). A significant portion of loans and advances to customers (61.8%) 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 keep high NPL coverage. Management has enabled the key variables related to credit quality of assets to continue to fare well in first half year of 2017.

NPL and Coverage - BANKIA GROUP

(Millions of euros and %) (*)	jun-17	Dec-16	Change Dec -16 Amount	Change Dec -16 %
NPLs	10,554	11,476	(922)	(8.0%)
Total risk	116,188	117,330	(1,142)	(1.0%)
Total NPL Ratio [(1)]	**9.1%**	**9.8%**	**(0.7) p.p.**	**(7.1%)**
Total provisions	**5,683**	**6,323**	**(639)**	**(10.1%)**
Watchlist	467	388	79	20.5%
Standard	268	265	3	1.2%
Specific	4,925	5,639	(714)	(12.7%)
Country risk	13	17	(4)	(24.9%)
Fixed income	11	15	(4)	(24.7%)
Hedging ratio	**53.8%**	**55.1%**	**(1.3) p.p.**	**(2.3%)**

(*) 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 ar to customers and contingent liabilities.

Doubtful exposures continued to perform a new reduction, falling by 8% from EUR 922 million at June 2017 to EUR 10,554 million at December 2016. This improvement is explained by the gradual decrease in inflows of NPLs, stronger efforts in monitoring and recovery management, and the sale of portfolios of doubtful and extremely doubtful assets in 2017. As a result, the NPL ratio maintain further in the period, to 9.1% at 30 June 2017, 0.7 percentage point lower than at 31 December 2016.

The Group follows a prudent provisioning policy, which allows it to achieve high NPL coverage ratios. In this way, to cover these doubtful exposures, appropriate to the risk profile of its balance sheet. The Group's total allowance for insolvency in first half of 2017 amounted to EUR 5,683 million, leaving an NPL coverage ratio of 53.8%.

At 30 June 2017, Bankia Group had counted a portfolio of refinanced operation of EUR 10,766 million in gross terms. The 61.9% of the refinancied credits had been clasified as doubtful with a NPL ratio of 46.5%.

The improvement in the portfolio risk profile and satisfactory levels of provision coverage leave the Group in a good position to achieve one of the main objectives in the Strategic Plan: to increase profitability and curtail risk in the coming years. Maintaining the cost of risk under control.

- **Credit risk of trading in derivatives**

The 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 2017, there were 1,525 netting and 227 guarantee agreements (137 derivatives, 79 repos and 11 securities loans). The main figures regarding quantification of the derivatives activity at that date are as follows:

- Original or maximum exposure: EUR 22,000 million.
- Exposure applying mitigation techniques through netting: EUR 6,439 million.
- Net exposure after applying all mitigation techniques: EUR 1,425 million.

As shown, counterparty risk in derivatives trading is reduced by 93.52% 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.

In the note 3.2 Bankia Group's 2017 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 2017 and 2016.

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

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 2017, the regulatory LCR ended within the entity's risk limits and above the level of the RAF (130%) (Bankia ended at 153% on December 2016) As the net stable funding ratio (NSFR) is currently undergoing a review by the European Union and, once the definition is complete, this ratio will form part of the minimum standards on 1 January 2018, with a requirement of at least 100%. At present, this ratio is monitored internally (perimeter BFA Group), both now and in the financial plan proyections, expected fulfilling with requirements due on January 1, 2018.

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 reflects the probability of incurring losses because of changes in the benchmark interest rates for asset and liability positions (or certain off-balance sheet items) that could have an impact on the stability of the Entity's results. Rate fluctuations affect both 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. The market scenarios arising from these factors are managed by the Assets and Liabilities Committee (ALCO), which aims to maximize the economic value of the banking book and support net interest income, thereby ensuring recurring profit generation for the Group.

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

- **Other market risks**

Other market risks arise from the possibility of incurring losses in value of positions in financial assets and liabilities caused by changes in market risk factors other than interest rate risk (equity prices, foreign exchange rates or credit spreads). These risks arise from cash and capital markets positions and can be managed by arranging other financial instruments.

- **Market risk measurement and monitoring**

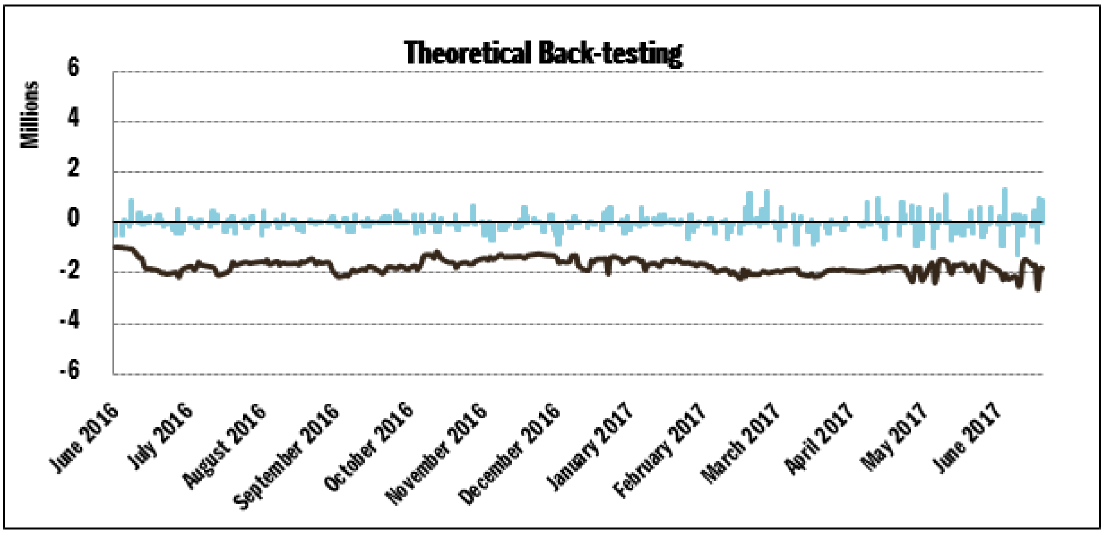
For market risk measurement used two metrics: VaR (value at risk), which provides a prediction of the maximum loss that can suffer in a time interval with a certain level of confidence and sensitivity, which expresses the impact on the valuation of financial instruments to the changes in various risk factors. These metrics are complemented by an analysis of scenarios, which consists of evaluating the economic impact of extreme movements in market factors on trading activity.

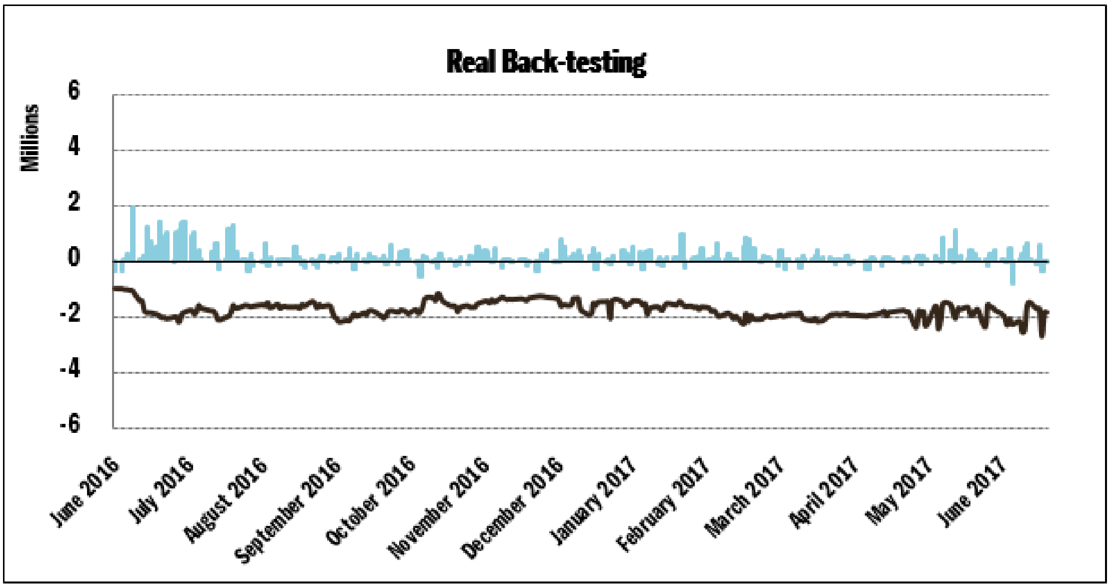
Control of market risk is based on a system of fixed limits in terms of maximum exposure to market risk, which are approved annually by senior management and distributed across the various business areas and centres.

a) Value at Risk (VaR) and back-testing

VaR is measured by the historical simulation method using a 1-day time horizon and a 99% confidence level. It takes at least one year of observations of market data.

The accuracy of the model is verified daily through subsequent controls (backtesting), which compare actual losses with the estimated loss measured using VaR. As required by regulations, two tests are conducted, one applying hypothetical changes in the value of the portfolio by comparing the daily VaR with the results obtained, without considering changes in the positions of the portfolio, and one applying actual changes comparing daily VaR with net daily results excluding commissions.





The checks carried out in 2017 confirm the effective operation of the model used by the Bankia Group to measure VaR in accordance with the assumptions used, with no breaches in first half year.

b) Sensitivity

Sensitivity quantifies changes in the economic value of a portfolio due to given movements and determinants of the variables affecting this value. In the case of non-linear movements, such as derivatives activities, sensitivity analysis is supported by an evaluation of other risk parameters, such as sensitivity to movements in the price of the underlying (delta and gamma), volatility (vega), time (theta) and interest rate (rho). For share or index options, elasticity to changes in dividend yield is calculated. Sensitivity analysis by tranche is also used to measure the impact of non-parallel movements in the term structures of interest rates or volatilities, and to obtain the distribution of risk in each tranche.

c) *Stress-testing*

Periodically, stress-testing is performed to quantify the economic impact of extreme movements in market factors on the portfolio. Sensitivity, VaR and IRC measures are supported by stress-testing applying different types of scenarios:

- Historical scenario: scenarios built based on movements observed in previous crises (e.g. Asian crisis of 1998, the tech bubble of 2000/2001, the financial crisis of 2007/2008). These scenarios are reviewed annually to reflect the key events occurring in the year.
- Crisis scenario: applies extreme movements in risk factors that may not necessarily have been observed.
- Last-year scenario: maximum expected daily loss over a 1-year observation period with a 100% confidence level.
- Sensitivity analysis: designed to measure the impact on the metric of slight changes in the parameters used to calculate the IRC, the estimate of the metric excluding transitions to default and the impact on the metric of parallel movements in loss rates in the event of default.
- Credit crisis scenario: devised by two separate analysis; 1) based on a matrix of credit margins built using variations observed, and 2) based on a transition matrix related to credit risk stress scenarios.
- Worst case: default by all issuers in the portfolio.

- **Trends and distribution of market risk in first half year 2017.**

Bankia Group maintained an average VaR in 2017 of EUR 1.54 million, with a maximum of EUR 2.17 million and a minimum of EUR 1.02 million.

VaR	Financial assets and liabilities held for trading (Millions of euros)
Average	1.54
Maximum	2.17
Minimum	1.02

Distribution of VaR by risk category *(Millions of euros)*				
Risk category	**Punctual**	**Average**	**Maximum**	**Minimum**
Interest rate	0.93	1.29	2.52	0.78
Equity instrument	0.03	0.04	0.11	0.01
Exchange rate	0.20	0.21	0.64	0.10

- **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. VaR values for first semester are as follows:

VaR of derivatives activity *(Millions of euros)*	**Fixed income**	**Equity**	**Exchange rate**	**Total**
Average	1.52	0.05	0.26	1.84
Maximum	2.44	0.22	0.70	2.67
Minimum	1.02	0.01	0.12	1.31

- **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 2017 was marginal, recognising a provision in this connection of EUR 13 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 de 2017, there were no exposure above the minimum concentration limit imposed by the Bank of Spain.

- **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:

- To foster an operational risk management culture, geared particularly to awareness raising, assuming responsibility, commitment and quality of service.
- To ensure operational risks are identified and measured in order to prevent potential losses affecting results.
- To reduce losses caused by operational risks by implementing continuous improvement systems for processes, a control structure and mitigation plans.
- To encourage the use of risk transfer mechanisms that limit exposure to operational risk.
- To verify that contingency and business continuity plans are in place.

The Operational Risk Department falls within the Market and Operational Risks Department in the Corporate 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 committee met in person two times in first half 2017, once each quarter, at which 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 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.

Operational Risk calculation is executed once a year, following the accounting closure of the period. In 2016, Bankia Group used the standardised approach to measure its operational risk for the fourth 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 2016 amounted to EUR 513.1 million (EUR 531.9 million in 31 December 2015). The same figures was applied in the first half of 2017, since the calculation of the capital charge for operational risk is only made at the end of the year.

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.

Additionally, the configuration of the European Banking Union is based on two key cornerstones: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Both have brought with them additional regulatory developments, such as the Bank Recovery and Resolution Directive (BRRD) and the Directive on Deposit Guarantee Schemes. Regarding the mechanism for internal loss-absorption, a minimum requirement for own funds and eligible liabilities with loss-absorbing capacity (MREL) has been established, which institutions must maintain to prevent relying on public assistance if they are no longer viable. This legislation determines the circumstances for entry into resolution of a financial institution and resolution scheme, designing an internal mechanism where shareholders and creditors absorb losses (bail-in) in order to protect deposits, minimise the costs for taxpayers and avoid as far as possible recourse to the Singe Resolution Fund (SRF). The European Commission is proposing legislative amendments whereby it aims to review the prudential framework of BIS III and the framework for resolution of the BRRD.

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 Group, anticipating any adverse effect. It pays particular attention to certain areas, such as the business, accounting, risk management, solvency, liquidity, compliance and internal audit areas. 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.

Meanwhile, in November 2016 the European Banking Authority (EBA) launched an exercise in the context of the implementation of IFRS 9 in the European Union. The aim was to gather information on the process for developing the approaches for implementing the standard. The sample of banks participating in the exercise was approximately 50 institutions, including the BFA-Bankia Group, which submitted the preliminary information available considering the degree of progress of the project.

On 13 July 2017, the EBA published its report, which included some quantitative observations on its assessment, such as the estimated impact of the initial application of IFRS 9. Specifically, from the sample analysed, it estimated that the CET1 ratio will decrease, on average, by 45bps (50bps for 75% of respondents), while the volume of provisions will increase by 13% (and up to 18% for 75% of respondents). With information available to date, and bearing in mind the degree of implementation described in Note 1.3.A) to the accompanying condensed consolidated interim financial statements, the Group's estimates do not differ significantly from these.

- **Reputational risk**

The Basel Committee on Banking Supervision defines reputational risk as "the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding".

Since the end of 2015, and in line with the Good Governance Code of listed companies od CNMV recommendations included in the Responsible Management Plan 2016-2018, the Entity is carrying out a corporate-wide non-financial risk identification, evaluation and control exercise with a view to improving the management of reputational risk and complying with new regulator and supervisor requirements.

Spurred by these requirements, in July 2016, the Board of Directors approved the Reputational Risk Management Policies Manual, the group work to made a reputational risk map was designed which allow Bankia manage actively those events that could result in greatest reputational risk.

During the first half of 2017, the Group worked on updating the Reputational Risk Management Policies Manual and making inroads on the quality of management of this type of risk and on its deployment through a number of initiatives, such as:

- Identification of the reputational risk management centres (RRMC) and providing training to risk officers.
- Identification and response of RRMCs to performance indicators
- Establishment of a work platform to enhance process automation.
- An approach for calculation Bankia’s synthetic reputational risk index.
- Update of the approach for economic impact.
- Coordination of reporting requirements (ICAAP, RAF, Recovery Plan, etc.).

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.

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 2017 at EUR 2,146 million (EUR 3,259 million gross), representing just 1.2% of the Group's assets. Most of the foreclosed properties are held by Bankia, S.A. and entail liquid assets (78% gross terms), mainly existing and newly built homes, which makes the disposal easier.

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.

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 the end period of June 2017 for foreclosed assets from Bankia Group's business in Spain amounted to EUR 1,113 million, implying coverage of 34.1%.

FORECLOSED AND ACQUIRED ASSETS OF BANKIA GROUP- SPAIN BUSINESS

(Millions of euros) (*)	Jun-17			
	Carrying amount	Valuation adjustments	Gross amount	Coverage (%)
Real estate assets from construction and development	354	114	240	32.3%
Of which finished buildings	242	64	178	26.5%
Of which buldings under constructions	30	11	19	36.5%
Of which land	82	39	43	47.9%
Property assets from loan for house purchase	2,294	860	1,435	37.5%
Other real estate assets	611	139	472	22.7%
Total foreclosed assets	**3,259**	**1,113**	**2,146**	**34.1%**

(*) Financial Statement amounts rounded to millions of euros

The Group's strategy of reducing problem assets also includes the stock of foreclosed assets. With the real estate market showing growth in demand and prices, and mortgage lending picking back up, property market showed the first positive signs in relation to prices and sales, at June 2017 Bankia Group has sold EUR 212 million of foreclosed assets.

9.- INFORMATION ON CREDIT RATINGS

At 30 June 2017 the ratings granted to Bankia Group by different rating agencies include the following:

Issuer Rating

	STANDARD & POOR'S	Fitch Ratings	DBRS
Long term	BBB-	BBB-	BBB (high)
Short term	A-3	F3	R-1 (low)
Perspective	Positive	Stable	Stable
Date	28/06/2017	15/02/2017	05/07/2017

Mortgage Covered Bonds Rating

	STANDARD & POOR'S	Fitch Ratings	DBRS	SCOPE
Rating	A+	A	AA (high)	AAA
Perspective	Positive	Stable	---	Stable
Date	03/04/2017	04/11/2016	23/09/2016	08/07/2016

Note: Related to the ratings assigned to Bankia by Moody's in October 2013 Bankia informed that had decided to end the contractual relationship with Moody's. In this sense, the ratings that the agency continues to publish about Bankia have the *status of "not requested" ("Unsolicited") "and" non-equity "(" Non-participating "), ie Bankia does not participate in the review of ratings by the agency, who based their decisions strictly on available public information about the entity. Despite that repeatedly has asked the agency to stop publishing ratings of Bankia, is Moody's unilateral decision to determine the time at which stop publishing ratings on the Bank.*

Key issues regarding credit ratings during 2017 include the following:

- The positive performance of the banking business, the reduction in NPLs and the improvement in capitalisation, have had a positive impact on the Entity's ratings.

- Regarding the sovereign rating, Standard & Poor's Ratings Services (hereinafter "S&P"), Fitch Ratings (hereinafter "Fitch") and DBRS Ratings Limited (hereinafter "DBRS") affirmed their ratings for Spain of "BBB+", "BBB+" and "A low", respectively, all with stable outlooks. The three agencies considered the improved macroeconomic outlook for Spain, which bodes well for the operating environment of banks in Spain. In the wake of the positive trends seen last year, the agencies believe 2017 will be a year of consolidation, in which banks will improve gradually as the economy gathers steam and the real estate market stabilises.

S&P carried out the following rating actions in the first half of 2017:

- On 9 February 2017, the agency revised up Bankia's long-term rating from "BB+" to "BBB", with a positive outlook, bringing it back to investment grade territory. The action was the result of an improvement in the assessment of Economic Risk and Industry Risk of banks operating in Spain, combined with the strengthening of Bankia's capital position throughout 2016.

- Subsequently, in its annual review of Bankia's ratings, S&P affirmed its rating on 24 March 2017. According to the agency, Bankia's financial and credit profile continues to benefit from a solid domestic franchise, improved risk management and an adequate risk-adjusted capital ratio.

- Finally, on 28 June 2017, following the disclosure of the terms of the merger with BMN, S&P re-affirmed its long-term "BBB-", with a positive outlook, saying the deal was likely to have a limited impact on Bankia's creditworthiness.

- The agency affirmed the "A-3" short-term rating, which it upgraded from "B" on 9 February 2017.

- Regarding the rating of Bankia's mortgage covered bonds (cédulas hipotecarias), on 7 April 2017, after the upward revision to its rating outlook on Spain on 31 March, S&P affirmed its rating on Bankia's mortgage covered bonds at "A+", revising its outlook from stable to positive. The outlook for Spanish mortgage covered bonds reflects the outlook for Spain's sovereign rating.

Highlights regarding Fitch's rating include:

- On 15 February 2017, Fitch affirmed Bankia at “BBB-”. stable outlook. In its review, the agency viewed positively Bankia’s capital generation ability, noted the ongoing improvement in asset quality, high NPL coverage, the supportive domestic environment, and the Bank's commitment to actively manage down problem asset.

- On the same date, Fitch affirmed Bankia’s short-term rating at “F3” and its subordinated debt rating at “BB+”.

- Fitch did not take any action on its mortgage covered bonds in the first half of 2017. The latest action was on 4 November, when the agency affirmed Bankia’s mortgage covered bonds at “A”, stable outlook, as part of its implementation of its updated Covered Bonds Rating Criteria published on 26 October 2016.

Regarding the ratings assigned by DBRS, at 30 June 2017 these were unchanged from the ratings assigned at 8 July 2016. Based on an assessment of Bankia’s franchise strength, it assigned a senior unsecured long-term debt & deposit rating of “BBB (high)”, with a stable trend, and a short-term senior debt & deposit rating of “R-1 (low)”.

Regarding Bankia's mortgage covered bonds, the latest action by DBRS was on 23 September 2016, after the review carried out as part of the agency's ongoing monitoring, in which it affirmed Bankia’s “AA (high)” rating.

Lastly, Bankia's mortgage covered bonds are rated “AAA”, stable outlook, by Scope Ratings since 8 July 2016, with no changes in the first half of 2017.

On 5 July 2017, DBRS affirmed its long-term debt and deposit rating at BBB (high), stable outlook. The confirmation of the ratings follows DBRS’s annual review of Bankia's credit profile. It also considers the agency's view on terms of the merger with BMN, which it considers manageable for Bankia and will not materially change Bankia's risk profile.

10.- SHARE PRICE PERFORMANCE AND SHAREHOLDER STRUCTURE

Equity markets notched up gains in the first half of 2017, while the Euro Stoxx Banks index gained 11.46% and the Ibex 11.68%. Bankia's share price ended June at EUR 4.232, up 8.96% from last year's closing price. Average daily trading volume adjusted for the reverse split carried out on 5 June was 9.65 million shares, equivalent to an average cash amount of EUR 39.89 million per trading day.

The main highlights regarding Bankia's share price in the first half of the year were:

- Payment of Bankia's effective dividend of EUR 2.75 cents per share out of 2016 profit, resulting in a total payment of EUR 317.4 million, which was paid on 31 March 2017.

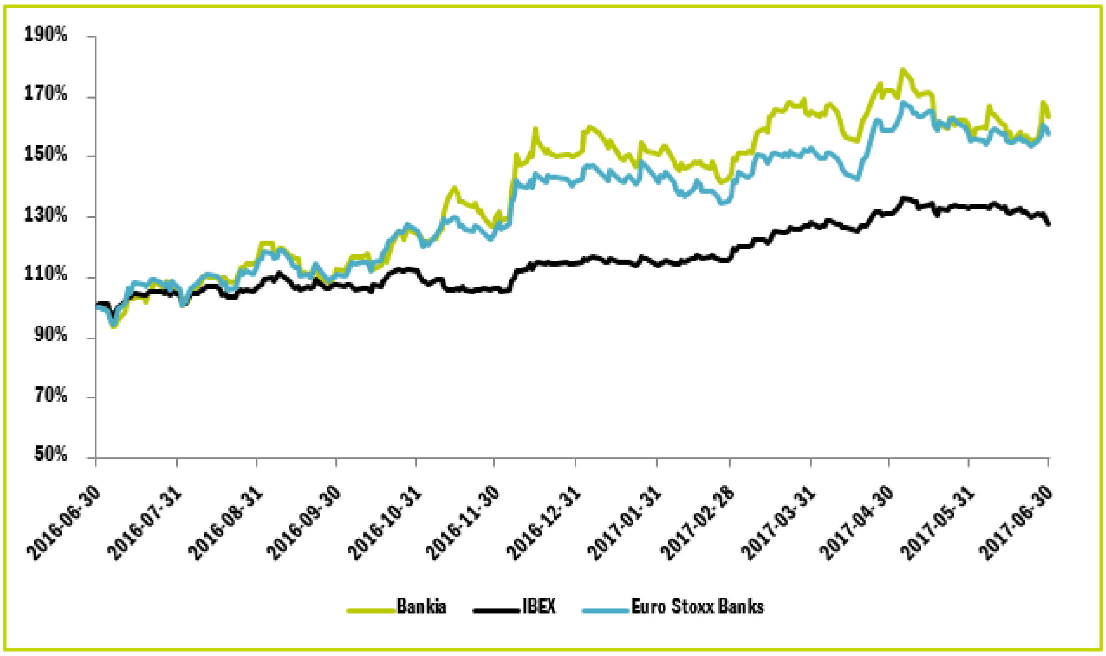
- Approval of the proposed merger with Banco Mare Nostrum (BMN) by Bankia’s Board of Directors, pending ratification by the General Meeting of Shareholders.

Bankia had 204,778 shareholders at 30 June 2017. BFA was its main shareholder, with a 66.97% stake.

Actions affecting Bankia's share capital carried out in the first half of the year pursuant to resolutions adopted at the General Meeting of Shareholders held on 24 March 2017 were as follows:

- Capital reduction to increase the voluntary reserves.
- Reverse split of 4 for 1, leaving the number of shares at 2,879 million.

Those actions have contribuited both to present a more efficient equity structura and to facilitate market trading in Bankia sahres. All of this triggered further increases in analysts' consensus target price for Bankia, from EUR 3.48 to EUR 4.08 share in the period, illustrating the investor community's upbeat view of the franchise.



11.- INFORMATION ON TREASURY SHARES

At 30 June 2017, the Group held EUR 61.5 million in treasury shares.

Bankia held 52,059,789 treasury shares at 31 December 2016 worth EUR 44.8 million. In first half of 2017, it bought 55,501,494 shares, for EUR 52 million, and sold 91,821,068 shares, for EUR 52 million, leaving it with a balance at 30 June 2017 of EUR 61.5 million, as indicated above.

12.- DIVIDEND POLICY

Bankia did not pay shareholders any dividends in 2011, 2012 or 2013. For 2014, at the Ordinary General Shareholders Meeting of Bankia held on 22 April 2015, a resolution was adopted to distribute a gross dividend of EUR 201,6 million (0.0175 euros per share) charged to the Company's 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 (EUR 2.625 cents per share) out of 2015 profit to shares carrying dividend rights at the payment date, marking a nearly 50% increase on the dividend paid out of 2014 profit.

Finally, pursuant to the resolutions adopted at the General Meeting of Shareholders of 24 March 2017, on 31 March 2016, Bankia paid a final dividend out of 2016 profit for a total amount of EUR 317.42 million gross (EUR 2.756 cents per share), 5% higher than the dividend paid last year.

Underpinned by organic capital generation ability and an increasingly strong balance sheet, 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.- ORGANISATION AND PEOPLE

13.1.- People

Bankia Group has a workforce of 13,136 professionals, of which 13,159 work at Bankia S.A. Note 16 to the consolidated interim financial statements for the interim financial statements ended 30 June 2017 provides a breakdown of Group employees by gender and professional category.

People management in the first half of 2017 focused primarily on the Bank's digital transformation and the development of the Group's new distribution models begun last year, highlighted by:

- Ongoing growth of the multichannel management model, with the opening of 19 new centres during the period on four different regional departments and 214 new hires in the period. The Multichannel Business Directors was composed of 491 people at 30 June 2017.

- Development of the system for assigning individual customers to portfolios to be more efficient in our business dealings with customers, putting the focus on the overall relationships (comprehensive advice), and enhancement of the commercial action model.

This new model will be rolled out, in a first stage, in the Madrid, Valencia and Castellon regional head offices, before subsequently being extended to the rest. To better respond to the needs of the business, in the Human Resources Department, the new financial advisors have been reorganised to provide a manager for these new portfolios, with the appointment of more than 50 new advisors and the rotation of more than 360 in Madrid and Valencia.

To promote the new assignation of portfolios, two models are being implemented at the same time to drive management of commercial action:

- CONTACTA YA (Contact Now), as a model for building a closer relationship with customers that leads to more frequent contact and enhances customer experience.

- SERVICIO +VALOR (Service +Value), as a model for approaching multichannel customers with which we have the best relationships, to manage them better and more efficiently. The start-up of Servicio +Valor is scheduled for early July, initially in seven offices (five in Madrid, one in Valencia and one in Castellón) and with a staff of 83 specifically chosen for each project.

Also in the the first half of the year, significant efforts were made to support and provide advice to the Bank's managers in developing their role through leadership talks with their teams, in accordance with the Bankia Management Style.

Bankia’s development as a bank is dependent on the consolidation of a new corporate culture and an employment policy predicated on promoting talent and providing equal opportunities for all. This “**Talent Model**” sets the goal of identifying, developing and managing the potential of its professionals to ensure that the organisation has talented people to carry out its business, consolidating differential and sustainable competitive advantages in a manner consistent with the Group's values.

The talent model focuses on the individual responsibility of each employee for their own development, offering programmes and actions to help them improve daily in a bid to maximise the development of their abilities and potential. Furthering the trend begun in last year towards promoting the professional and career development of employees, in 2017 a number of initiatives were carried out, highlighted by:

- Merit scholarships for professionals presenting highly specialised and quality training projects, mainly related to the new digital era and the ongoing transformation of Bankia’s business. The first edition kicked off in March 2017, offering 15 scholarships of up to EUR 10,000 each. A total of 102 applications were received.
- Senior Management Program (PAD) for corporate managers, the third edition of which began in February 2017, with 151 of the Bank's managers taking part. Upon completion of this edition, all of Bankia’s top 300 managers will have participated in the management development initiative.

- Career Development Plans (CDP), which help to plan the professional development of Bankia employees showing talent and potential. In the first half of 2017, the actions carried out under the first edition's 51 CDPs were concluded. These began at the end of 2014 and beginning of 2015. Simultaneously, the second edition's 50 CDPs, which began in mid-2016, saw the first of the 150 planned temporary placements.

- Management skills development programmes, designed to speed up the careers of high-potential professionals, with further efforts to promote them in the first half of 2017.

- Development programme for central services managers, the seventh edition of which began in the period. Between the sixth and seventh editions, 30 managers from different functional areas of the bank took part.
- Continuation of development programmes for senior management candidates, of which five editions have already been carried out for senior management candidates in the commercial network and in central services.
- Advances in the Mentoring programme, with following session carried in March 2017 on the second edition begun in June 2016.
- Continuation of “Transformational Leadership” to develop the bank's managers, an annual programme run by the International Center for Leadership Development (ICLD) created by Fundación CDE.
- Bankia Dual Education Programme, with graduation in the first half of 2017 by the 50 students in the first class of this programme, begun in 2015.
- Business Academy, a new project started in 2016 with the aim of preparing professionals for certain posts in the bank that are more difficult to fill because they are so specialised. Participants i this project completed their first placements in the first half of 2017.

Turning to **training**, the focus during 2017 was on honing employees’ key skills, synchronising actions with the Group’s priorities and relating processes for measuring the transfer to results and certification.

In addition, Bankia Group also enhanced employees' knowledge and skills by embarking on the key initiatives in a number of areas to:

- An ambitious training plan is being designed to improve the advice given to customers and to certify the knowledge and capacities of personnel who give such advice, with a Professional Accreditation and a University Accreditation, in compliance with the requirements of the technical standards issued recently by the CNMV in response to MIFID II requirements.

- A training programme was carried out on NEO processes to increase knowledge of the new features of the branch IT platform.

- A training plan is being rolled out based on the Management Style Guide focusing on the fundamentals that all Bankia managers must know and put in practice, cementing a uniform leadership style and knowing all the tools at their disposal to lead their team.

- Efforts continued to promote the Digital Talent School, as a key element of the digital transformation affecting the entire bank. The school includes a range of programmes catering to the various digital roles identified in the bank.

- Corporate Customer Experience is another key training project, which uncovers and explores the “experience map” as a differentiating factor in the relationships with Bankia customers. In tandem with other specific training actions to upgrade the relational quality in a bid to generate unique experiences tailored to each customer, which ultimately lead to the award of a Customer Experience Certificate by a group of managers.

- Specific on-boarding training was given for multi-channel managers related to changes in the Bank's distribution models. In addition, the training of this group of managers was completed through a training itinerary designed to develop their skills in multichannel customer service.

- Specific training actions were conducted to hone skills and increase knowledge in different areas of central services.

In respect of **occupational health and safety**, Bankia Group places special emphasis on occupational risk prevention, through the development of a coherent policy and a coordinated occupational risk prevention. The Risk Prevention Management System encompasses all measures taken to mitigate and control occupational risks. These measures are carried out through an Annual Programme of Preventive Measures, approved by the State Health and Safety Committee.

Several agreements have been signed by the Bank and workers’ representatives to improve working conditions. These include action protocols in situations of external violence and robbery, which are executed immediately and in a coordinated manner to provide support and assistance to employees.

Moreover, preventive campaigns continue to promote good health, along with collaborative actions with several institutions, which seek to raise awareness and inform all members of the organisation. Blood drives were also carried out in collaboration with different public organisations.

13.2.- Suppliers

The Bankia Group is guided by the best practices set out in the UNE 15896 Standard on value-added procurement management, which promotes best corporate practices in purchasing. It was the first bank to achieve this certification, which was renewed in 2017.

The **Bankia Group has consolidated its procurement policy** in 2017, which remains committed to business diversification and bids from a variety of companies to ensure a diversified range of offers from different suppliers.

Transparency in supplier selection is achieved through a system of authorisations and delegated powers governing scaled decision-making with knowledge at all levels involved.

In engaging suppliers, Bankia gives priority to those that show a commitment to, inter alia, their own employees, quality, the environment and human rights. It avoids dealing with suppliers that fail to comply with legal, tax, employment, environmental, health and safety, or human rights requirements. Supplier contracts also include environmental clauses and an annex related to occupational risk prevention if the service is being provided at the Bank's own facilities.

The Bank also establishes its own **criteria for the procurement function** in accordance with the Code of Ethics approved by the Board of Directors and with the provisions of the International Federation of Purchasing and Supply Management (IFPSM). These criteria are based on mutual benefits, loyalty and honestly, objectivity in decision-making, transparency and equal opportunities, confidentiality, integrity and independence in relations and corporate social responsibility, among other factors.

The **supplier certification process** is a pre-requisite for establishing commercial dealings with Bankia Group. Is based on best social responsibility practices has been reviewed, with a special 30% weighting for corporate social responsibility, human resources and environmental criteria, while breaches of various requirements results in exclusion.

The Supplier Portal was reinforced which is an on-line communication channel where suppliers can access all the information required by the Bankia Group to be certified. Certification is mandatory for establishing commercial relations with Bankia. A minimum rating must be achieved in the supplier certification process to obtain certification.

The certification process assesses aspects to detect economic, social and environmental risks. Suppliers must achieve an appropriate economic risk score and provide the compulsory social and environmental information.

At year-end 2017, Bankia had 1,628 approved suppliers in the Portal.

In addition to imposing stricter supplier selection criteria, Bankia Group has undertaken commitments to speed up the process and aid in the fulfilment of the obligations it has assumed, such as implementing **electronic contracts** and invoices. In first half year 2017, 96.1% of contracts entered into were paperless.

Thanks to initiatives to improve relations between Bankia Group and its suppliers, in the first half of 2017, 73.2% of suppliers rated their satisfaction with the Bank at seven or higher (on a scale of 0 to 10). This figure was obtained from the **global satisfaction surveys** sent to Bankia Group service providers or product suppliers seeking their perception on aspects such as friendliness, responsiveness to suggestions, negotiations and compliance with payment commitments. For the first time, perception studies were conducted in the period on suppliers involved in a negotiation process, whether or not they were awarded a contract.

In first half year 2017 Bankia has consolidated two different channels of provider suport:

- Confidential whistleblowing channel: confidential, but not anonymous, communication channel managed by an independent third party, PwC, for reporting potential irregular financial- or accounting-related conduct.

- Supplier Service Department: for filing complaints, claims and suggestions in relation to the payment of invoices and the provision of services associated with supplier contracts, and voicing disagreement with supplier selection processes.

Finally, as part of the initiatives undertaken to strengthen relations with suppliers, in June 2017, Bankia held the Supplier Day, a workshop attended by 300 of its suppliers. Topics discussed included Bankia's development, values, strategy and challenges for the coming years, in which relations with suppliers will play a crucial role in the achievement of its objectives. Bankia has underlined its commitment to include suppliers in these results. Working together on a common project and including suppliers in this commitment is the objective to create value and leverage synergies for both. They also shared the latest advances in procurement: policy, CSR, model, transformation and innovation. With this event, Bankia emphasises the importance it gives to the participation and involvement of suppliers in the Bank's plans.

14.- ENVIRONMENTAL DISCLOSURES

Bankia Group integrates environmental impact in the organisation's decision-making, aligning it with the business strategies and including environmental governance in its overall management. Therefore, it has an environmental policy underpinned by the values defined by the Entity for the stakeholders it engages. These values are:

- Commitment to combatting climate change, eco-efficiency and prevention of waste generation, all under the framework of a certified environmental management system.
- Professionalism, through training and awareness raising among all employees to bring them on board and through competent, objective-based management.
- Achievement orientation, with systems of environmental performance indicators in place to ensure continuous improvement in the Group's environmental management.
- Integrity, based on ethical, responsible and transparent behaviour focused on complying with prevailing legislation.
- Closeness to suppliers in order to encourage responsible environmental conduct.

The Group sees measuring the environmental impact of its activity as fundamental, and works proactively to mitigate any such effect. It focuses efforts on the environmental management of its work centres, boosting eco-efficiency vis-à-vis the use of natural resources, helping to tackle climate change, and fostering environmentally-responsible attitudes among its staff, suppliers and customers.

In line with this commitment to the environment, on 6 April 2017, Bankia's Responsible Management Committee approved the 2017-2010 Eco-efficiency and Climate Change Plan, this plan will cover a 4-year period (2017-2020) and entails ambitious, yet achievable objectives to pave the wave for the Bankia Group to deliver one of the main objectives of the 21st century: CO2 emission neutrality by 2050.

The Bankia Group's **Ecoefficiency and Climate Change Plan** is structured based diferent of strategic action, each of which, in turn, is designed to achieve specific quantitative and qualitative objectives:

- Certified environmental management: increasing up to 7 the number of Bankia's emblematic buildings with certified environmental management systems, according standards of new ISO14001:2015.

- Internal governance of climate change: reducing a 20% the Group's CO2 emissions to offset unavoidable emissions.
- Energy ecoefficiency: using own resources undertaking the necessary actions to slash energy consumption by 19% while also reducing consumption of resources, such as water, paper and toner.

- A 5% reduction in waste generation and the search for alternatives to the main types of waste generated within the context of the circular economy.
- Promoting environmental protection and transition towards a low-carbon economy via purchases and contracts that reduce environmental risk and impact.
- Spreading a culture of environmental commitment across the organisation through environmental training and awareness-raising.

Under the scope of this plan, the Bankia Group carried out a number of initiatives in the first half of 2017, highlighted by:

- Further research was conducted into host of energy-saving measures (which were identified in the 2016 energy audit), of which 18 were selected that will produce an estimated saving in electricity consumption of 1,799 MWh per year. These ESM are currently in the final validation and/or project stage.

- For the fifth straight year, Bankia has renewed its commitment to acquire all of the renewable power from guaranteed sources. Bankia also has a photovoltaic solar energy capture system at its headquarters in Valencia.

- Contracting terms for renting vehicles were negotiated, whereby from 2017, new vehicles added to the fleet will by low CO^2-emission hybrids.

- Projects related to the recycling of writing materials that are not useful and reusage of computer equipment and furniture waste (through donation campaigns) with the objective of giving them a new purposes for reinsertion into the economy.

- The project begun in 2016 to monitor the printers in Bankia's central services entered its last phase. Monitoring allows real-time control of paper and toner consumption, helping to achieve considerable savings in both costs and consumption. Other measures included in the project are programming printers for double-sided printing (by default) and restricting the use of printers in work centres.

- To encourage more active involvement of employees in achieving its environmental targets, the Bankia Group has an internal communication and awareness-raising plan for disseminating environmental information, achievements and initiatives to all staff.

- During the contracting stage, suppliers are explained the principles that must observe in their relationship with the Bankia Group, along with environmental best practices. Moreover, suppliers with the greatest impact are offered the opportunity of participating in workshops that help contribute to continuous improvement, which makes Bankia a more sustainable and committed organisation each day.

In addition, the Group continues to work on developing and creating financial solutions that help protect the environment, such as sustainable loans. These loans are granted with special terms to borrowers to buy low-consumption home appliances and low-emission vehicles (hybrid/electric), or for reforms of residential/commercial property that enhance energy efficiency.

Climate change is one of the greatest challenges faced in the field of environmental management. Inside the strategy to combat climate change, with the 2017-2020 Energy Efficiency Plan provides continuity to Bankia Group commitment with clean energies.

The bank is a member of the RE100 initiative, uniting the world's most committed companies to renewable power. with clearly defined and publicly stated energy use targets.

Sustainable mobility has positive effects to environmental and economic. That´s why efforts to promote the use of video conferencing rather than making trips for meetings to minimise fuel consumption and reduce the emissions of air pollutants associated with transport.

Elsewhere, each year Bankia takes the Global Climate Change Report questionnaire from the Carbon Disclosure Project (CDP), which analyses its climate change strategy and management. In 2016, it received an A- rating, within the leader range (the highest score is A), according to CDP criteria.

In June 2017, Bankia completed the participation process by filling out the CDP Climate Change 2017 questionnaire.

15.- RESEARCH, DEVELOPMENT AND TECHNOLOGY

The financial industry continue undergoing a major business transformation owing to a variety of reasons (changes in customer habits, regulatory requirements stiffer competition due to the arrival of new distributors of financial products and services, as such as pressure on margins due to all-time low interest rates).

Accordingly, technology adquire a key role in the process of evolution of entities in this complex environment. Against this backdrop, the Bankia Group's investments in technology pursue two main objectives:

- To ensure an Operational Model that maximises the Group's efficiency and agilty, (as only those institutions that can operate with an efficient cost base will be able to compete). This efficiency must be compatible with a business model that is robust (in terms of security and ensuring the absence of operating errors), flexible (reconfigurable) and scalable.

- To provide competitive advantages to the business units in their customer relations, enabling them to offer a differentiated customer experience relative to competitors, and to roll out a "hybrid" distribution model, whereby personal manages (at branches as remote) and direct channels (internet, mobile, ATMs) work seamlessly to offer customers the best advice.

Taking into account these objectives, as well as regulatory adaptations, Bankia has established IT investment priorities around major Transformation Projects (initiated in previous years): The Redesign of Processes at Branches, the Multichannel Transformation Plan and the Redesign of Information Systems. In this vein, also considered with the needs for application upgrades, without losing sight of the importance in today's world of issues related cybersecurity.

This strategic line is predicated on three pillars, Closeness, Simplicity and Transparency, known internally as the CST Position. The entire Developments Plan is designed to reinforce these pillars.

The Redesign of Business Processes Plan, has as its main objective to make the commercial network more "efficient" through operational streamlining to make the branches more flexible and decrease administrative red tape, compliance with regulatory requirements regarding the delivery, receipt and filing of customer documentation, and leveraging the possibilities of the multi-channel customer relationship.

In the first half year of 2017 they have been redesigned processes related to asset products (increase and provision of Guarantees, guarantees and guarantee lines, discounting, credit accounts, credit card lines and loan operations) and improving the credential acceptance process through the Bankia Online Empresas channel.

The required work continued to conclude the developments of the redesigns of other processes initiated on 2016 (enhancing commercial processes, commercial contact manager and customer commercial file, The Process Dashboard implementing a new front and engine for the application used by the Bank for opening internal service tickets (Service Requests).

These redesigns continue to yield positive results, simplifying and reducing the number of operational tasks, freeing up time to develop commercial activities.

Multi-channel Transformation Plan the Bank's **“digital transformation”** is being addressed. All existing channels are undergoing a continuous change process, reinforcing the omnichannel approach and gradually adding new features to attract more customers, while driving a change in the behaviour of existing customers towards increasing use of digital channels aware that the transformation is only possible if they form part of it.

Along this line, **Bankia Online** was set up to allow customers access to all their transactions. The main enhancements to this include:

- Accessibility from any device and interaction between the various channels.
- Easier navigation and fewer processes.
- Interaction between the various channels.
- Full redesign of operations and contracting products and services.
- Enhancements in contactability.

Also in 2017, progress has been made on the lines of actions included in the Multi-channel Transformation Plan begun last year:

- **Business Intelligence**: A new commercial action management engine has been added, and soon a new near-real time and batch event management system.
- **Upgrade of Digital Channels:**
    - New features were added to the app launched in 2016 to give value-added services to customers (cash withdrawals at ATM via mobile phone, cardless withdrawals and payments between Bizum friends through the app).
    - The **Self-Assessment simulator / comparison tools** are gradually being rolled out.
    - Work is under way on creating a **Single Product Catalogue** that will be available at both branches and through the remote network.
- **Digital Marketing:** In this line of action, developments have been made and deployed to provide pre-approved finance (Plan B) to digital customers buying in the online stores of member brands.

The rest of the investment went to implementing a **new platform, BeBankia**, through which customers can shop online (accessing advertisements published in the application) or in person at member stores (via mobile phone), enabling them to buy any article in the shop. Customers are eligible to receive discounts and promotions in both cases.

In keeping with its customer-centric digital strategy, Bankia has developed an architecture capable of processing customer events related to their financial transactions, generated across various channels and contact points (omni-channel) to not only offer them better service, but also personalised commercial offers in real time. Bankia won the **Computing 2017** for this.

In 2017, work has continued on the **Redesign of the Information System** of the Group. The main objectives of this project are:

- To structure the Group's information repositories: construction of an Integrated Corporate Repository (ICR); use this repository as a single information source for the generation of all the Bank's reports and reporting; and create a glossary of terms with definitions of each items of the repository, and the criteria for its preparation where applicable.

- To align information management with industry standards of excellence: regulatory compliance with BCBS239 (Basel Committee on Banking Supervision) on RDA (Risk Data Aggregation) and RRF (Risk Reporting Framework), modelled on Data Point Model (DPM) taxonomy endorsed by the EBA, ECB and Bank of Spain and adapted to Bankia’s glossary of terms.

- Implement corporate information governance.

In the first half of 2017, implementation of the data governance tools underpinning corporate information governance was completed. On the regulatory front, 51 FINREP statements were included in production, of which 42 are ready for reporting to the regulator. Considerable progress was made on building the FI, PI, UEM and I statements and on the development of COREP and CIRBE.

Work also continued on creating an analytical platform with Big Data technology so that various business units can handle huge volumes of daily information from both internal and external sources, of various types and formats, using advanced analytical techniques applied by the Data Scientists.

In other action aimed at **renewing and upgrading the applications and systems** of the Bank, work is being done on the evolution of systems architecture, the renewal of base software, the evolution of environments for the development teams and the deployment of Cloud technology.

Efforts are also being made on the evolution of certain operations through robotic process automation (debits, transfers, pensions, unemployment benefits, registration of POSs and cards). Another key technology project is the inclusion of Roboadvisor technologies in the advisory process.

In the Cybersecurity Plan, improvements are being make, especially in remote channels, for alignment with the digitalisation strategy. Given the short response time required, work is being done on two angles, surveillance and protection. Developments are also being made in terms of IT fraud protection through analysis of vulnerabilities in applications and architectures.

In lines drawn up under the **CST Position** (closeness, simplicity and transparency), projects have begun related to:

- Customer Allocation, whereby the system adapts to trends in customer habits and the branch service models.

- Contact Manager, adapting to the context of the closeness model in customer relations, leading to more frequent contact and an enhanced customer experience (Contacta YA).
-
- Search engine to meet the needs of each internal front Bankia.

Beyond the scope of these two Portfolio Transformation Projects, the rest of investment in first half of 2017 was spread out among projects on a number of fronts: business (individuals and companies), risks and recoveries, regulations, technology, and infrastructure.

On the Business with Individuals and Companies front, the main projects focused to improve insurance contracting operating processes (health, cars, multirisk, companies), and specific assets products (Line Multiproducts that allows to adjust to the maximum the limits granted to the clients).

In Risks and Recoveries, the migration to the market risk platform, previously handled by Kondor, to MUREX continued in the period. In order to have a platform for the Risks and Front Office operation adapted to the needs of the Entity within the activities of the markets. In this line, during the first semester, 2017, the migration has been executed deposits and currency. Elsewhere, developments finalised in relation to the collection agency and lawyer's management project. The implementation and integration of the PFS Recovery tool as a single interface for management of the recovery activity is expected to conclude this year.

Additionally, work in the period was carried out on the extension of the calculation of risk-adjusted return (RAR) to individuals, on the optimisation of time spent by systems in the calculation process and on mechanisation and inclusion of RAR metrics in pricing authorities in asset proposals.

Regulatory Reporting and Compliance. During the fist half year of 2017, it continues with upgrade trend in volumen of requirements in regulators and supervisors. This includes, *inter alia*, investment to develop rules and regulations related to projects begun in previous years, as well as new regulations for 2017. Among these, we would highlight developments made on adaptation to IFRS 9 (International Financial Reporting Standard), MIFID II, Target2 Securities, EMIR, the new Cirbe and Anacredit, new CSR and FATCA standards, the Law on the Promotion of Business Financing, the Anti-Money Laundering Alert Tool, the implementation of the Bank of Spain's FINREP statements, developments related to Basel III and the Transparency Act - Calculation of APR, among others. The EBA and IRRBB Regulations Adaptation Project has also begun, designed to analyse, develop and implement the IRRBB (interest rate risk in the banking book) reporting engine adapted to EBA regulations

In the area of IT infrastructure management, the main investments in the first half of the year went to three main projects.

- "Work'in Bankia", designed to optimise and upgrade spaces in the Bank's head offices. The focus is on collaborative spaces and teamwork, aligned with the lines set out in the CST Position. For the part of the project affecting technology, these objectives are articulated in the full overhaul of the equipment in the headquarters, providing it with modern resources (e.g. computers, printers, telephones). The deployment of Work'in Bankia is also generating considerable savings in overall paper consumption, adding another element of support to the Bank's environmental improvement actions.

- "NEO Móvil", extending the project to provide specialist managers with a mobile platform that allows execution of the financial terminal outside the area of the office and the execution of transactions with biometric signature capture, bringing the Bank closer to customers.

- Improvements in Monitoring: Workstations, "core" business applications, related devices, user experience, etc., for handling data obtained with a view to boosting process and infrastructure efficiency.

Elsewhere, regarding the Bankia-BMN merger, work has begun to achieve a smooth and full integration of the two institutions (in terms of infrastructure, systems and applications) so that they can operate jointly and in a unified manner.

16.- FORECASTS AND BUSINESS OUTLOOK

The outlook for the second half of 2017 for the main developed economies is upbeat. Growth looks set to remain vigorous, above potential and in line with the pace of the year's first half, amid slightly lower inflation thanks mainly to the sharp cumulative fall in crude prices through June (-16%), leaving room for the withdrawal of monetary stimulus measures to be gradual. Nevertheless, uncertainty is likely to remain high, especially due to: (i) the potential impact of US monetary policy tightening and reversals in decisions from the new US government; (ii) the likely announcement by the ECB of the next steps in its monetary policy normalisation process, which would have a negative impact on government debt yields (the yield on the Spanish 10-year bond would reach or surpass 2.0% in 4Q17); (iii) the sharp volatility of oil prices, which could trigger instability in some exporting countries; and (iv) the rapid indebtedness of the Chinese economy.

In Spain, the economy has gathered momentum thus far this year, leading to upward revisions to GDP forecasts. Improvement in export markets, a robust tourism industry and growing investment, against a backdrop of favourable financing conditions and progress in correcting imbalances, especially the increase in competitiveness and private sector deleveraging, underpin our forecast for GDP growth in 2017 of around 3.3%, up slightly from 2016 (3.2%).

In this business environment, considerable challenges lie ahead for the financial sector, as institutions' business margins in 2017 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 2016 already registered significant growth, especially in loans to households and SMEs. Meanwhile, the banking sector in general should continue to cement the foundations for coping with the potential impact on activity of the international political and financial situation.

As regards, in 2017, 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. To do so, it will focus targets on the following:

- A key strategy will be to put of the focus on the customer, understand their needs and offering the best combination of service excellence and competitive pricing in the market. In this respect, one of the Bankia Group's top priorities in 2017 will be to strengthen the loyalty of existing customers and lay foundations for Bankia to bolster their relationship and loyalty.
- Continue making improvements in profitability and maintain efficiency levels that are among the highest in the Spanish financial sector.
- Increase lending to consume, SMEs and self-employed as a means of boosting revenue and improving margins, with the objective of gaining market share while controlling the cost of risk.
- Continue reducing the stock of problem assets organically and through the sale of NPL portfolios in order to free up liquidity and funds so new loans can be granted in strategic segments.

To achieve these objectives, the Bankia Group is working on a second strategic plan 2017-2019 with the objective of maintaining its leadership in efficiency, balance sheet strength and profitability among Spain's large banks. Moreover, over the next two years, the Entity will periodically roll out new initiatives, all of which will be designed to meet customers’ needs and provide excellent services, combining quality with reasonable prices. In this new growth stage, the merger will BMN will be extremely positive, as it will complete the franchise in fast growing regions where Bankia's presence has been limited.

The Bankia Group will embark on this new plan from a solid financial position, strong capitalized and an ability to enhance solvency organically and on a recurring basis, with a healthy efficiency ratio and a considerable level of profitability. These strengths will be crucial for the Group in a period that will still be challenging for the banking sector as interest rates look set to remain low, while competition should remain fierce.

17.- EVENTS AFTER THE REPORTING PERIOD

No other significant events took place between 30 June 2017 and the date of formulation for issue of Bankia Group's interim consolidated financial statements with a significant impact on those financial statements.

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, 2017
(Free translation from the original in Spanish)

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Building a better
working world

Translation of the report and the condensed consolidated interim financial statements originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

INDEPENDENT AUDITOR'S REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the sole shareholder 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, 2017, 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, 2017 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.

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, 2016. Our opinion is not modified in respect of this matter.

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, 2017. 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.

1. *Estimate of credit impairment losses from loans and advances to customers*

As indicated in the explanatory note 7.4 of the attached condensed consolidated interim financial statements, at June 30, 2017, the loans and advances to customers portfolio (hereinafter, the credit portfolio) amounts to EUR 109,463,136 thousand (with credit impairment losses assigned to them of EUR 5,293,418 thousand). The estimate of impairment losses from these assets represents an area of significant judgment for management, the relevant principles and criteria of which are explained in note 2.2 of the explanatory notes of the Group consolidated financial statements for the year ended December 31, 2016. Identifying impaired exposures and determining the recoverable amount of a loan are processes subject to the uncertainty inherent in the use of hypotheses and estimates, such as the debtor's financial situation, the cash-flows which the entity expects to recover or the collateral value. Applying different methods, techniques or hypotheses can lead to significant differences when estimating these losses. As such, we identified the valuation of credit impairment losses from the credit portfolio as a key audit matter.

Among the procedures that we performed in this area, we have evaluated and tested the design and operating effectiveness of the controls implemented by management for valuing impairment losses due to credit risk, determined both collectively and individually. We have focused our procedures on the controls addressing the underlying relevant data, such as exposure, collateral value, accounting classification and days past due.

For the impairment losses determined on an individual basis, we have performed audit procedures addressed to evaluate the hypotheses used by management to identify and quantify credit impairment losses, including the financial situation of the debtor, cash-flow projections, collateral valuation and the use of forbearance measures. For the losses determined collectively, we have evaluated, among others, the parameters used by management based on historic experience of the Spanish banking sector. We have also evaluated the procedures carried out by management for the valuation of credit losses in order to compare credit losses determined using parameters based on historic experience of the Spanish banking sector and those calculated using management's internal credit risk models.

2. *Provisions and contingent liabilities related to the initial public offering*

In note 1.9.1 of the attached condensed consolidated interim financial statements, the Group explains the legal processes related to the initial public offering that took place in 2011, and in note 14 the Group shows the amounts and other information related to these processes, which we have considered a key audit matter, given the amounts involved and the significant subjective component in estimating them. As indicated in note 1.9 of the attached explanatory notes, as of June 30, 2017 the Group must consider all information available as of each balance sheet date in order to evaluate the probability of an outflow of resources embodying economic benefits to settle an obligation arising from past events, and its impact, in the event of provisions, on the condensed consolidated interim financial statements, or, in the event of contingent liabilities, the information that must be disclosed.

As part of our audit, we have obtained an understanding of the processes existing within the Group to evaluate the potential obligations in relation to the initial public offering. Also, we have obtained and analysed, together with our legal specialists, the information prepared by the Group's legal advisors in relation to the on-going procedures for the provisions recognised and the contingent liabilities disclosed. Among others, we have reviewed legal and regulatory documents that support them, with the objective of evaluating the facts and circumstances around each case with a significant potential impact on the condensed consolidated financial statements.

3. *Evaluation of recoverability of deferred tax assets*

According to the Group's accounting policies, explained in note 2.14 of the explanatory notes of the Group consolidated financial statements for the year ended December 31, 2016, deferred tax assets are recognised only if the Group considers probable that the carrying amount will be recovered in the form of future taxable profits. As indicated in note 17 of the attached explanatory notes, at June 30, 2017, the Group has recognised deferred tax assets for a total of EUR 7,837,624 thousand, EUR 5,482,352 thousand of which is guaranteed by the monetisation mechanisms established by the Royal Decree-law 14/2013 and article 130 of the Spanish Corporate Tax Law.

Management's evaluation of the Group's recoverability of deferred tax assets is based on the estimate of future taxable profits, based on projected financial information and the Group's business plan, and considers the tax regulation applicable in each period. As such, we have considered the Group's capability to recover the carrying amounts of deferred tax assets a key audit matter.

We have performed audit procedures to evaluate the hypotheses used by management to estimate the period during which deferred tax assets will be recovered, focusing our analysis on the economic and financial hypotheses used by the Group to estimate future profits, involving our valuation specialists. In addition, we have evaluated the sensitivity of the results to reasonable changes in the assumptions made by management.

4. *Reliability of the information technology systems*

The continuity of the Group's business processes is highly relying on the technological infrastructure. Access rights are granted to the Group's employees in order to ensure they discharge and fulfil their responsibilities. These access rights are relevant, since they are designed to ensure that changes in applications are authorised, monitored and implemented adequately, and are by themselves key controls to mitigate a potential risk of fraud or error as a result of changes in the applications.

During our audit, we have evaluated the security of information technology systems relevant to the preparation of financial information. In this regard, our work has consisted, mainly, of testing, together with our IT specialists, the access controls to the applications and technological infrastructures and the changes made to them, as well as the application controls implemented in the key processes to prepare the financial information.

Other information: consolidated interim management report

Other information refers exclusively to the 2017 consolidated interim management report for the six-month period ended June 30, 2017, 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 2017 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.

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From the matters communicated with the audit committee of the Parent Company, we determine those matters that were of most significance in the audit of the condensed consolidated interim financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Term of engagement

On March 24, 2017 the Ordinary General Shareholders' Meeting appointed us as the Group auditors for the year ended December 31, 2017.

Previously, we were appointed as auditors by the Ordinary General Shareholders' Meeting for 3 years, and we have been carrying out the audit of the financial statements continuously since the year ended December 31, 2013.

Services provided

The services in addition to the statutory audit provided to the Group consisted mainly of other work related to regulatory reporting, due diligence and the issuance of comfort letters.

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 28, 2017