TOTAL EXPOSURE
€195.3 BN

NPLS
€-3.55 BN

NPL RATIO
10.6%

COVERAGE RATIO
59.97%

MORTGAGE EXPOSURE
61%

EXPOSURE
TO BUSINESSES
19%

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 the manner decided by the group's governing bodies.

A STRATEGIC PILLAR

Risk management is one of the bank's strategic pillars. Its main objective is to preserve the group's financial and capital strength, driving value creation and business development in accordance with the risk appetite and risk tolerance set by the group's governing bodies. To achieve this, the bank provides tools for the assessment, control and monitoring of requested and authorised risk, the management of non-performing loans and the recovery of defaulted risks.

Within this frame of reference, in 2015 the bank completed a risk function transformation project aimed at improving information quality and providing better tools, so as to bring the function into line with national and international best practices. This project specifies the general principles of the risk function (which include global scope, independence and top management commitment) and creates a comprehensive organisational model encompassing the complete risk life cycle.

In addition, significant steps were taken in 2015 to streamline the lending process by setting individual exposure limits and to increase the efficiency of recoveries processes. In recoveries, new tools were introduced, the level of specialisation was increased and certain processes were optimised, all of which contributed to the marked reduction in Bankia's non-performing loans in 2015.

These advances tie in with the Transformation Plan 2016-2018 (see attached information), which will continue to improve risk management.

SIGNIFICANT STEPS WERE TAKEN IN 2015 TO STREAMLINE THE LENDING PROCESS BY SETTING INDIVIDUAL EXPOSURE LIMITS AND TO INCREASE THE EFFICIENCY OF RECOVERIES PROCESSES

TEN PRINCIPLES OF RISK MANAGEMENT

1. INDEPENDENT, GROUP-WIDE RISK FUNCTION THAT PROVIDES THE NECESSARY INFORMATION FOR DECISION MAKING AT ALL LEVELS.
2. OBJECTIVE DECISION MAKING, TAKING ACCOUNT OF ALL THE RELEVANT RISK FACTORS (BOTH QUANTITATIVE AND QUALITATIVE).
3. ACTIVE RISK MANAGEMENT AT EVERY STAGE OF THE RISK LIFE CYCLE, FROM PRE-APPROVAL CREDIT ANALYSIS UNTIL THE DEBT IS EXTINGUISHED.
4. CLEAR PROCESSES AND PROCEDURES SUBJECT TO REGULARLY REVIEW IN LIGHT OF CHANGING NEEDS, WITH CLEARLY DEFINED LINES OF RESPONSIBILITY.
5. INTEGRATED MANAGEMENT OF ALL RISKS THROUGH RISK IDENTIFICATION AND QUANTIFICATION, AND HOMOGENEOUS RISK MANAGEMENT BASED ON A COMMON MEASURE (ECONOMIC CAPITAL).
6. DIFFERENTIATED RISK TREATMENT, APPROVAL PROCESS AND MANAGEMENT PROCEDURES, BASED ON RISK CHARACTERISTICS.
7. DEVELOPMENT, IMPLEMENTATION AND DIFFUSION OF ADVANCED DECISION SUPPORT TOOLS THAT WILL FACILITATE RISK MANAGEMENT, MAKING EFFECTIVE USE OF NEW TECHNOLOGIES.
8. DECENTRALISED DECISION MAKING, USING THE AVAILABLE METHODOLOGIES AND TOOLS.
9. RISK VARIABLE TO BE INCLUDED IN BUSINESS DECISIONS IN ALL AREAS: STRATEGIC, TACTICAL AND OPERATIONAL.
10. THE OBJECTIVES OF THE RISK FUNCTION AND RISK MANAGEMENT STAFF MUST BE ALIGNED WITH THE OBJECTIVES OF THE BANK AS A WHOLE, SO AS TO MAXIMISE VALUE CREATION.

CAPITAL PLANNING AND RECOVERY PLAN

Following the recommendations of the main international regulatory and supervisory bodies and in line with the European Banking Union project, in February 2015 the Board of Directors approved the Capital Planning Framework. Together with the Risk Appetite Framework (approved in 2014, setting maximum risk levels and establishing monitoring and responsibility mechanisms), the Capital Planning Framework defines the group's strategic lines of action in normal business conditions.

As a complementary measure, in February 2015 the Board approved the Recovery Plan, which determines the measures that may be taken in a hypothetical crisis situation. The plan would be activated if any of the selected indicators (which coincide in their definition with the indicators used to set tolerance levels in the Risk Appetite Framework) exceeded the level set in the plan.

Subsequently, in July 2015 the Board of Directors approved certain amendments to the statement of the Risk Appetite Framework, specifying its relationship with the Strategic Plan, the business model, capital planning, the Recovery Plan and the budget. The Board also approved a statement of risk appetite and tolerance in terms of recurring and extraordinary return and a set of additional qualitative benchmarks that serve to determine more precisely and in more detail the level of risk the bank is willing to assume.

At the same time, in 2015 the bank set about preparing the internal capital adequacy assessment (ICAAP) and internal liquidity adequacy assessment (ILAAP) processes, in accordance with the new ECB criteria. Both processes are also very relevant within the framework of the Banking Union project.

CORPORATE GOVERNANCE IS KEY

One of the most significant aspects of the European banking supervision system is the introduction of corporate governance as a key element in risk management. Under the new regulations, banks must establish sound corporate governance procedures; effective systems of risk identification, management, control and reporting; appropriate internal control mechanisms; and remuneration policies and practices that are compatible with appropriate and effective risk management.

BFA-Bankia fully adheres to the spirit of the new regulation. In 2014 it developed a clear organisational structure to ensure effective functioning of risk supervision and control; and in 2015 it reinforced the role and status of the Executive Director of Risk Management, whose expertise and independence of judgment are fundamental to the proper performance of the system of responsibilities.

The structure of the governing bodies is as follows:

BOARD OF DIRECTORS

The Board of Directors is the highest governing body. It determines and approves the overall internal control strategies and procedures and the policies for the approval, management, control and reduction of risk. Reporting to the Board are various committees with authority over risk control and risk monitoring.

AUDIT AND COMPLIANCE COMMITTEE

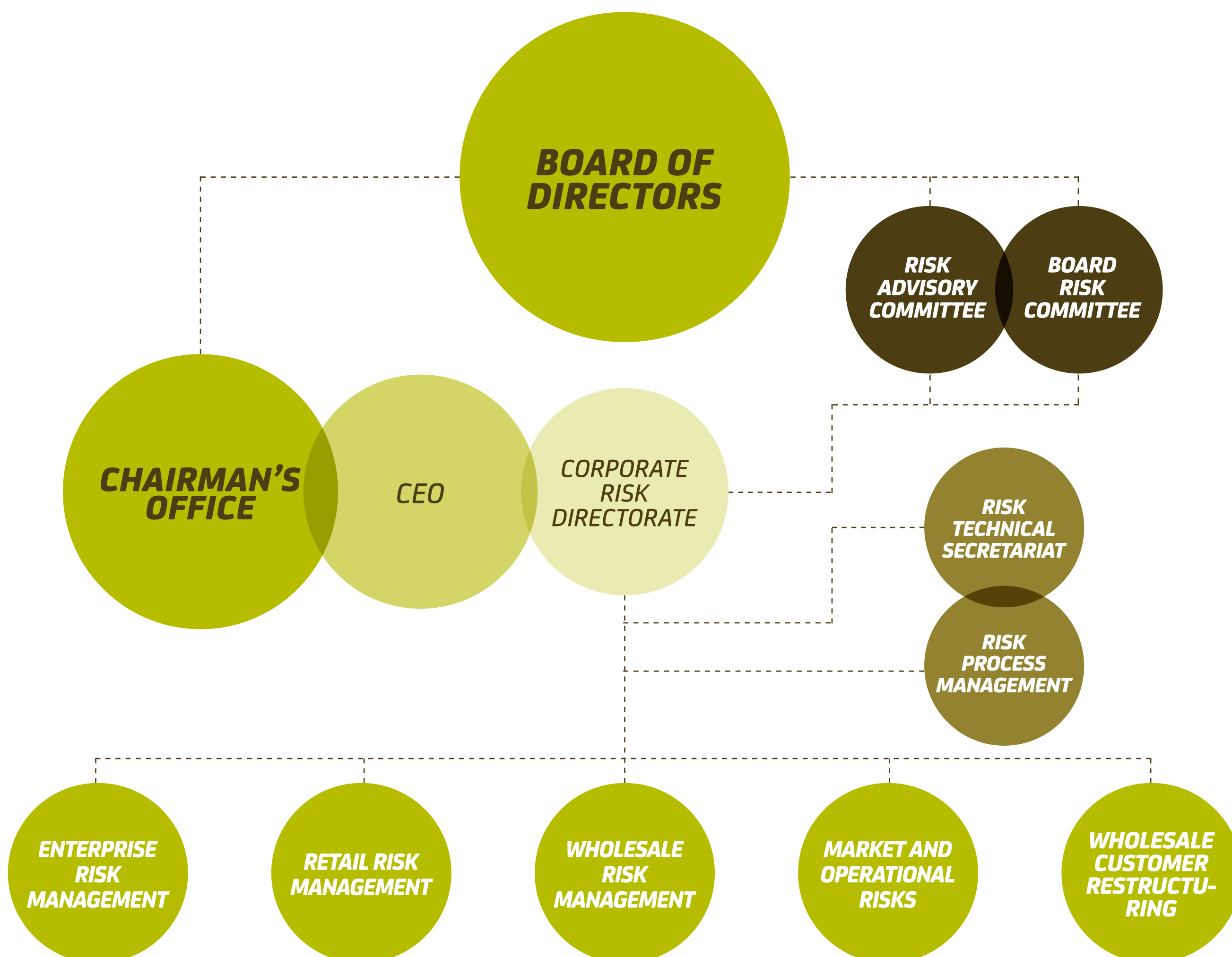
One of the basic responsibilities of this committee is to supervise the effectiveness of the bank's internal control, internal audit and, where appropriate, risk management systems.

RISK ADVISORY COMMITTEE

The main function of this committee is to advise the Board of Directors on the bank's overall risk propensity, both current and future, and its risk strategy. Other functions of the Risk Advisory Committee are to oversee the pricing policy, assist in preparing a rational remuneration policy and periodically monitor the loan portfolio.

BOARD RISK COMMITTEE

The Board Risk Committee is the executive body responsible for approving risks within the scope of its authority and for overseeing and administering the exercise of delegated authority by lower-ranking bodies, without prejudice to the oversight authority vested by law in the Audit and Compliance Committee.



NEW TRANSFORMATION PLAN

As regards the challenges to be met in the immediate future, the main themes of the New Transformation Plan 2016-2018 are as follows:

OPTIMISED RECOVERIES MODEL

Efforts to develop a highly automated, specialised and optimised recoveries model must continue. This will be done by making more intensive use of collection agencies and by centralising loan processing and systematising the sale of small portfolios.

PROMOTION OF SOUND LENDING

One of the tasks of the Corporate Risk Directorate is to promote good quality lending. With that goal in mind, a plan is in place to stimulate the use of models for analysing the available information on customers and non-customers and to improve the credit rating system.

EARLY WARNING SYSTEM

The goal is to build the necessary infrastructure to detect potential impairments before they materialise and so be able to take early management measures. This will require developing specific tools.

ASSET ALLOCATION

The business must be oriented to maximising economic value, while respecting the levels established in the Risk Appetite Framework. The aim of this project is to extend the concept of efficient allocation of scarce resources.

CULTURE AND TRAINING

To extend the risk culture, the bank will promote a training plan that will have an impact on the risk profile (better knowledge of policies and tools) and data quality (aiming to make the approvals process more efficient).

TOOLS

Risk management is implemented through a series of tools. These tools are as follows:

CLASSIFICATION

Rating and scoring tools are used to classify borrowers and transactions by risk level. Practically all portfolio segments are subject to classification, based mainly on statistical models. Classifying risk not only assists risk decision making but also helps to incorporate the risk appetite and risk tolerance set by the bank's governing bodies into decision making. The risk classification framework also includes the so-called monitoring levels system, which classifies risks in four categories: Level I or high risk (risks to be extinguished in an orderly manner); Level II or medium-high risk (risks to be reduced); Level III or average risk (risks to be maintained); and all other exposures.

QUANTIFICATION

Credit risk is quantified using two measures: the expected loss of the portfolios, which reflects the average amount of losses and is associated with the determination of provisioning requirements; and the unexpected loss, which is the likelihood that the actual loss in a given period will substantially exceed the expected loss, thus affecting the level of capital considered necessary to meet objectives. The parameters for measuring credit risk, which are derived from internal models, are exposure at default, probability of default based on rating grade and loss given default, or severity.

PROJECTION

Stress tests are another key element of credit risk management, as they can be used to assess portfolio risk profiles

and capital adequacy in adverse scenarios. The purpose of stress testing is to assess the systemic component of risk, while also taking portfolio-specific vulnerabilities into account. It involves analysing the impact of macroeconomic stress scenarios on the risk parameters and migration matrices.

RISK-ADJUSTED RETURN

The return on a transaction must be adjusted for the cost of the various risks it entails, not only credit risk. It must also be compared with the volume of capital that must be allocated to cover unexpected losses (economic capital) and meet regulatory capital requirements (regulatory capital).

BUSINESS DEVELOPMENT

One of the functions of risk management is to create value and develop the business in accordance with the risk appetite framework established by the governing bodies. The Risk Directorate therefore has shared responsibility for developing the lending business by providing tools and criteria for identifying potential customers, simplifying decision processes and allocating lines of risk, always within the set tolerance levels.

RECOVERY MANAGEMENT

Recovery management is an end-to-end process that starts even before the first non-payment occurs and covers all phases of the recovery cycle until a settlement is reached, whether friendly or otherwise. At the retail level, early warning models are used to identify potential problems and provide solutions, which may involve adjusting the terms of the borrowing. In relation to business borrowing, the system of levels, described earlier, is also designed to allow early management of arrears.

RISK MANAGEMENT INVOLVES CLASSIFICATION, PROJECTION, RISK-ADJUSTED RETURN, BUSINESS DEVELOPMENT, RECOVERY MANAGEMENT AND CONCENTRATION RISK MANAGEMENT

CONCENTRATION RISK MANAGEMENT

In Bankia, various tools are used to analyse and monitor concentration risk. Among other things, a methodology similar to that used by rating agencies is applied, assessing the main exposures as a percentage of capital and in terms of income-generating capacity.

RISK PROFILE

Based on the distribution of risk-weighted assets (RWAs), Bankia's risk profile shows a clear predominance of credit risk, as can be observed in the figure:

CREDIT RISK

The main characteristics of the credit risk profile and its development during 2015 are as follows:

- Some 61% of the total loan book is accounted for by the mortgage portfolio. The second largest portfolio is businesses, with 19%.
- The distribution of loans to customers between the wholesale and retail segments remains similar to 2014, with 31% wholesale and 69% retail. The portfolio of real estate development-related assets fell 34% in 2015 and represents only 1% of the total.
- The bond portfolio decreased by 13.15 billion euros, mainly as a result of debt maturities.
- The Bankia Group ended 2015 with non-performing assets (NPAs) down 3.55 billion euros, easily outperforming the budget. A substantial part of the reduction of exposure came through the process of selection and sale of non-performing portfolios, which started in 2013 and culminated in six sales during 2015, with the disposal of 1.91 billion euros of non-performing exposures. Excluding that amount, the change in NPAs attributable to management's handling of risk monitoring and recoveries was 1.64 billion euros. Thanks to all this, the NPL ratio reached 10.6%, 2.3 points less than at the end of 2014.

RISK PROFILE

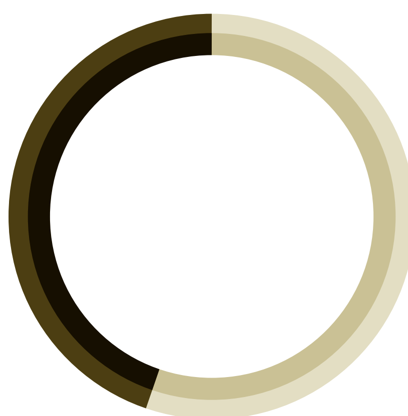
CREDIT RISK **89%**
MARKET RISK **1%**
OPERATIONAL RISK **10%**

BUSINESSES **19%**
PUBLIC SECTOR **6%**
SPECIAL FIN. **4%**
DEVELOPERS **1%**
FINANCIAL INTERMEDIARIES **1%**
MORTGAGE **61%**
CONSUMER AND CREDIT CARDS **3%**
MICRO-ENTERPRISES AND SELF-EMPLOYED **5%**

- By component, 55% of the doubtful assets are doubtful for objective reasons, including default, insolvency and litigation. 33% is doubtful for "subjective" reasons (reasons other than default), based on the impairment assessment applied to borrowers. The remaining 11% consists of refinanced or restructured exposures in a cure period. In these cases, a solution has been reached with the customer and the bank is waiting to see whether the solution has been effective. This result has been achieved while at the same time increasing the NPL coverage ratio, which went from 57.6% at year-end 2014 to 59.97% at the end of 2015.

- The portfolio distribution of credit risk at the close of 2015, measured using exposure at default (EAD), expected loss, economic capital and regulatory capital, would be as shown in the accompanying chart.

DISTRBUTION OF DOUNTFUL LOANS BY COMPONENT



OBJECTIVELY DOUBTFUL **55%**
SUBJECTIVELY DOUBTFUL AND RETURNED-TO-PERFORMING **45%**

PORTFOLIO	EAD	REGULATORY CAPITAL		ECONOMIC CAPITAL		EXPECTED LOSS	
MILLIONS OF EUROS							
Public sector	**45,740**	180	0.4%	256	0.6%	179	0.4%
Banks	**26,937**	298	1.1%	134	0.5%	65	0.2%
Businesses	**40,751**	1,760	4.3%	1,715	4.2%	3,268	8.0%
Developers	**1,744**	90	5.1%	161	9.2%	687	39.4%
Mortgage	**67,559**	1,965	2.9%	1,193	1.8%	2,087	3.1%
Consumer	**2,665**	123	4.6%	80	3.0%	90	3.4%
Cards	**3,376**	65	1.9%	48	1.4%	37	1.1%
Micro-ent. & self-empl.	**6,327**	227	3.6%	149	2.3%	617	9.8%
Equity	**241**	39	16.1%	23	9.7%	2	0.9%
Total	**195,341**	**4,746**	**2.4%**	**3,759**	**1.9%**	**7,034**	**3.6%**

From an analysis of these data, it can be concluded that the bank has more than sufficient provisions and capital to face both expected and unexpected losses with a very high level of confidence.

The bank's credit risk policy was approved by the Board of Directors of Bankia and BFA in July 2015. The policy objectives are to maintain responsible, stable lending in line with the bank's strategy; set prices appropriately; limit concentration; ensure quality of information; and align the risk policy with capital needs.

The general criteria for credit risk approval are implemented through five action themes:

1. RESPONSIBLE LENDING

The bank must offer the financing that best meets the customer's needs and ability to pay. At the retail level, the customer must be given the necessary information to understand the risks associated with the financing.

2. RETAIL AND SME BANKING FOCUS

The financing of real estate activities, projects, acquisitions and assets is restricted.

3. KNOWLEDGE OF THE CUSTOMER'S CREDITWORTHINESS

This must be founded on a thorough analysis of the customer's credit history and ability to pay, as well as a knowledge of the customer's sector.

4. APPROPRIATE LENDING

The financing must be consistent with the customer's size and profile, balanced between short and long-term finance and in line with the collateral valuation.

5. CALIBRATION OF ENVIRONMENTAL AND SOCIAL RISKS

The environmental impact of the customer's business activity must be taken into account. The granting of new loans to customers who do not respect human and labour rights is also restricted.

A diversification strategy, setting limits per individual and per sector, is needed. The credit risk policy also introduces specific approval criteria for each portfolio segment. For instance, the rating and coverage guidelines for consumer loans are different from those for mortgage lending and for consumer and credit card finance.

MARKET RISK

Market risk is the risk of losses arising from adverse movements in the prices of the financial instruments in which Bankia trades.

During 2015, as a result of the undertakings given in the Recapitalisation Plan, the bank's activity in financial markets was still limited. Specifically, its proprietary trading activity remained on hold, reducing market risk and the need for capital to cover it.

Nevertheless, during 2014 and 2015 Bankia invested considerable effort in preparing a study on updating its systems for measuring market risk, so as to improve the current metrics, meet the new regulatory challenges and respond appropriately to the need for the group to take part in the various exercises organised by the European Banking Authority (EBA) and the ECB, as it did in various tests during 2015.

The result of this study, together with the study of counterparty risks, gave rise to the presentation and approval of a project to update the bank's market and counterparty risk platforms.

Within the approved project, the market risk challenges for 2016 include integrating all market risk operations, tools and reporting in a single application and taking part in all the exercises proposed by the EBA and the ECB.

COUNTERPARTY RISK IN FINANCIAL MARKETS

Counterparty credit risk is the risk that a counterparty will fail to meet its contractual obligations, giving rise to a loss for the bank in its financial market activity.

In 2015, completing the project launched at the end of 2014, the calculation of the credit valuation adjustment (CVA) and its transmission to accounts was automated. At the request of the ECB, in June 2015 the CVA was modified and since then has been calculated using market data.

Also in 2015, a study was conducted on the systems for measuring counterparty risk and a project was approved to update the platform (see market risk information), which will need to be implemented in 2016.

The calculation of the capital consumption of the non-financial entities' derivatives was modified during the year to reflect the future potential risk of their operations. Bankia also became a member of the London Clearing House for transactions in euros. In addition, the bank took part in various counterparty risk exercises required by the EBA and the ECB.

DURING 2014 AND 2015, BANKIA INVESTED CONSIDERABLE EFFORT IN PREPARING A STUDY ON THE UPDATING OF MARKET RISK MEASUREMENT SYSTEMS

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book is the risk of loss resulting from adverse movements in market interest rates. Changes in interest rates affect both net interest income and the value of assets and liabilities. The intensity of the impact depends to a large extent on the maturity and repricing structure of assets, liabilities and off-balance-sheet positions. At Bankia, the management of interest rate risk in the banking book, as with other risks, is based on a clear separation of roles and responsibilities.

In 2015, Bankia improved the scope of measurement and control of this type of risk. At the end of the year, the sensitivity limits were adapted based on the lowest risk profile consistent with the structure of the bank's balance sheet. At the same time, the perimeter and frequency of calculation at group level was increased.

Additionally, the foundations were laid for the development during 2016 of a broader range of behavioural assumptions, in line with international best practices. Work is under way to develop periodic tests of the banking book, following the guidelines and formats of the EBA and ECB stress tests.

LIQUIDITY AND FUNDING RISK

Bankia wishes to maintain a long-term funding structure in accordance with the liquidity of its assets, seeking maturity profiles that are compatible with the generation of stable, recurring cash flows. The aim is to manage the balance sheet without liquidity strains in the short term.

To that end, the group identifies, controls and monitors its liquidity position daily. In line with the retail business model on which its banking activity is based, the bank's main source of funding is customer deposits. To cover any additional liquidity requirements the bank uses the national and international capital markets and has sizeable funding activity in the repo markets. As a complementary measure, in case of crisis situations, the bank holds various assets as collateral at the ECB, which allow it to obtain immediate liquidity. Moreover, constant asset surveillance identifies the assets that can be used immediately as a liquidity reserve in times of market stress.

As a complement to the monitoring of liquidity risk in normal business conditions, an action framework has been designed that will help prevent and manage liquidity stress events. The cornerstone of this framework is the Contingency Funding Plan (CFP), which defines the committees responsible for plan monitoring and activation and establishes a protocol that sets out responsibilities and internal and external communication flows, as well as the action plans to bring the risk profile back within the bank's tolerance limits. The CFP is accompanied by the establishment of metrics in the form of specific monitoring alerts and the development of metrics complementary to the regulatory liquidity and funding risk indicators.

In 2015, Bankia strengthened the liquidity risk management framework by developing periodic stress testing programmes for different types of crisis and time horizons and by fine-tuning the basic intra-day liquidity indicators. Looking to 2016, the bank has set itself the goal of more fully integrating the regulatory liquidity measures in management and taking measures to improve its long-term funding profile.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. This definition includes legal risk, but excludes reputational risk.

To manage operational risk, Bankia aims to:

- Promote a culture of operational risk management, oriented in particular to awareness building, acceptance of responsibility, commitment and service quality.
- Ensure that operational risk is identified and measured.
- Apply continuous improvement systems in processes, control structure and mitigation plans.
- Find new risk transfer mechanisms that will limit exposure.
- Ensure that contingency and business continuity plans are in place.

In 2015, the group contacted various leading insurance companies and brokers to study the options for covering operational losses, especially cyber risk.

The bank also collaborated in the startup of an online training plan, aimed at branch staff, covering the basics of operational risk and operational risk management in branches.

Additionally, Bankia developed a specific methodology for analysing operational risk in outsourced functions through the management units that oversee the outsourcing arrangements. This methodology has been implemented in a small number of layers and is expected to be extended to all of them in 2016, when the corporate ARO application is also due to be updated.

OPERATIONAL RISK IS THE RISK OF LOSS RESULTING FROM INADEQUATE OR FAILED PROCESSES OR SYSTEMS, HUMAN FACTORS OR EXTERNAL EVENTS

ENVIRONMENTAL RISK

Given the nature of its activity, a bank has only a very limited direct environmental impact. However, it exerts a very significant indirect influence through its decisions to invest in the assets and production activities of its customers. Consequently, the environmental risk inherent in customers' production activity may be transferred to the bank in two ways:

- Credit risk. Credit risk may arise from environmental impacts on the viability of the customer's business, an increase in the business's costs, loss of cash flows, or civil or criminal penalties, among other things.
- Reputational risk. The threat of climate change and society's awareness of environmental issues has prompted closer scrutiny of the environmental repercussions of the activities of banks' customers, thus increasing the reputational risk for banks.

To manage environmental risk, Bankia has a tool that assigns corporate customers an environmental rating, which provides qualitative information complementary to that provided by the financial rating. The environmental rating can be used to assess the environmental impact of a company's activities, how the environmental impact may affect the viability of the company's businesses and, consequently, its influence on the bank's credit risk.

The bank has established a scale of levels that reflect a company's environmental situation:

TO MANAGE ENVIRONMENTAL RISK, BANKIA HAS A TOOL THAT ASSIGNS CORPORATE CUSTOMERS AN ENVIRONMENTAL RATING, WHICH PROVIDES QUALITATIVE INFORMATION COMPLEMENTARY TO THAT PROVIDED BY THE FINANCIAL RATING

MAS RATING SCALE

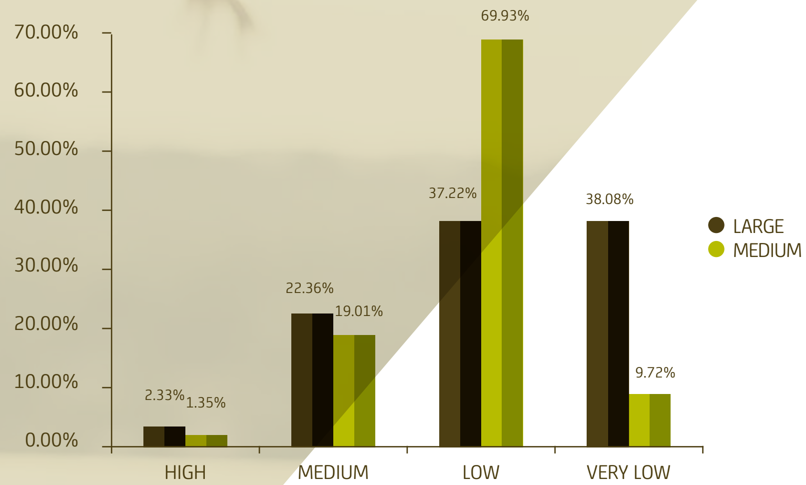
The tool can be used to obtain an overall rating of the portfolios of large and medium-sized companies. The result of the assessment shows that 75% of the obligors or customers and 62% of the drawn exposure is in portfolios rated as having low or very low environmental risk.

ENVIRONMENTAL RISK

RATING BAND	OBLIGORS		DRAWN EXPOSURE	
	NUMBER	%	€	%
Very low	606	15.7%	6,658,533,092	39.5%
Low	2,433	63.0%	5,954,566,590	35.3%
Medium	761	19.7%	3,849,521,979	22.8%
High	60	1.6%	406,615,391	2.4%
Total	**3,860**	**100.0%**	**16,869,237,053**	**100.0%**

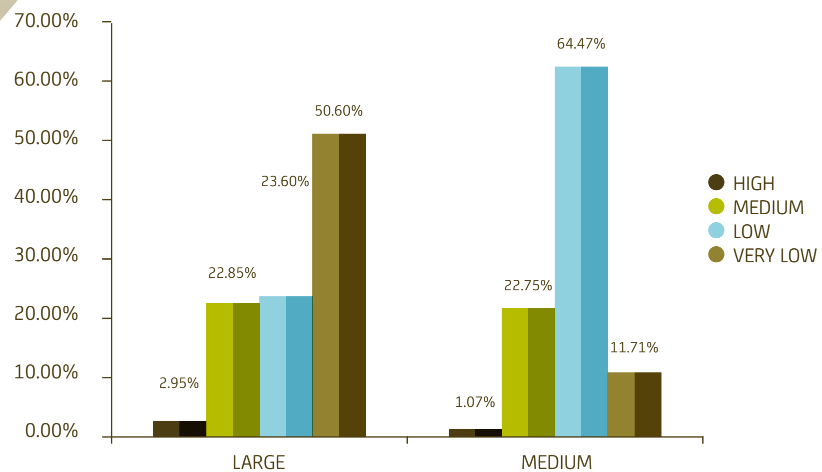
Taking the large and medium-sized businesses separately and looking at the percent distribution of the two portfolios in number of borrowers or customers, the figure is as follows:

BUSINESS BORROWERS BY CREDIT RATING (%)



The percent distribution in drawn exposure is as follows:

BUSINESS BORROWERS BY DRAWN EXPOSURE (%)



NEGOTIATED SOLUTIONS SINCE 2012

173,983

SOCIAL RISK

Last year, in a credit market context characterised by a moderate recovery and the persistence of difficulties in meeting loan obligations, especially under mortgage agreements, Bankia broadened its policy of offering its customers negotiated solutions, both in the early stages of delinquency (forbearance, surrender in satisfaction of debt) and in cases where the asset has already been foreclosed.

Bankia continued its policy of mortgage modifications, with the aim of enabling households to adapt their loans to their ability to pay, on the most flexible terms. A total of 12,341 modifications of this kind were carried out during the year.

At the same time, 934 transfers of homes in satisfaction of mortgage debt were accepted and the terms and conditions of 12,341 mortgages were adapted to the obligors' real ability to meet their obligations to Bankia. In all cases, these were negotiated solutions, aimed at avoiding evictions among social groups of proven special vulnerability, while at the same time seeking to minimise the loss to the bank.

NEGOTIATED SOLUTIONS

	YEAR				TOTALS	
CONCEPT	**2012**	**2013**	**2014**	**2015**	**TRANSACTIONS**	**%**
Total no. of homes handed over in lieu of payment	3.356	1.5901	1.497	934	7.377	4,89%
Total no. of foreclosed homes	9.207	4.614	5.570	3.968	23.359	16,06%
Total no. of mortgage moldifications	19.049	23.178	14.079	12.341	68.647	42,68%
Total no. of consumer loan modifications	12.640	23.752	12.821	9.253	58.466	27,00%
Total no. of loans to self-employed/ businesses modified	3.402	5.667	3.477	3.588	16.134	9,37%
Total negotiated solutions	**47.654**	**58.801**	**37.444**	**30.084**	**173.983**	**100,00%**

BANKIA CONTINUED ITS POLICY OF MORTGAGE MODIFICATIONS, WITH THE AIM OF ENABLING HOUSEHOLDS TO ADAPT THEIR LOANS TO THEIR ABILITY TO PAY

Since 2012 Bankia has accepted a total of 7,377 transfers of property in satisfaction of debt and has executed 68,647 mortgage modifications. In doing so it has helped mitigate one of the most dramatic consequences of the economic crisis for households, namely, the loss of their home as a result of the supervening impossibility of servicing the debt that was used to finance it. During 2015 a total of 3,968 homes were foreclosed (that is to say, recovered by the bank as a result of a court decision).

The help that Bankia provides to customers in need is not confined to mortgage customers. Last year the bank also renegotiated the terms of 9,253 consumer loans and 3,588 loans to self-employed individuals and businesses. The cumulative totals since 2012 are 58,466 and 16,134, respectively.

POLICY ON THE FINANCING OF CONTROVERSIAL ACTIVITIES

One of Bankia's commitments is to set criteria that will promote good banking practices. For that purpose the bank defines specific policies for potentially sensitive sectors and activities on account of their social implications, such as investments or financing in certain weapons companies, organisations involved in the violation of human rights or any activity that may entail a violation of the fundamental rights of the individual

In relation to the arms industry, the policy requires that transactions relating to controversial weapons (antipersonnel mines, scatter ammunition and biological or chemical weapons) be rejected. The financing of projects for countries at war or subject to a UN embargo is also prohibited.

BANKIA'S COMMITMENT OBLIGES IT TO REFUSE TO FINANCE COMPANIES THAT HAVE BEEN PROVEN TO VIOLATE HUMAN RIGHTS

Bankia's commitment also obliges it to refuse to finance transactions with companies that have been proven to infringe human rights in areas such as employment conditions, freedom of association, safety at work or equality. Isolated events are not sufficient proof of failure to respect fundamental rights.

Similar restrictions will be adopted in the case of illegal activities such as money laundering, terrorist financing, tax evasion, fraud or corruption.

The Internal Risk Control Directorate is responsible for carrying out quarterly checks to ensure that no transactions are entered into with customers who engage in such activities. In 2015 Bankia detected no transactions that conflict with these policies, which suggests that any potentially compromised project is rejected before it can enter the formal credit decision process.

RENEGOTIATED CONSUMER LOANS AND LOANS TO SMES AND THE SELF-EMPLOYED

12,841

TRANSACTIONS

IN 2015 BANKIA DETECTED NO TRANSACTIONS THAT CONFLICT WITH THESE POLICIES, WHICH SUGGESTS THAT ANY POTENTIALLY COMPROMISED PROJECT IS REJECTED BEFORE IT CAN ENTER THE FORMAL CREDIT DECISION PROCESS