06.1 A STRATEGIC PILLAR

BANKIA HAS A WIDE RANGE OF TOOLS AND AN ORGANISATIONAL STRUCTURE IN LINE WITH REGULATORY REQUIREMENTS TO PUT ITS RISK MANAGEMENT POLICY INTO EFFECT.

The main objective of risk management is to preserve the Bankia Group's financial and capital strength, while driving value creation and business development in accordance with the risk appetite and risk tolerance levels set by the governing bodies. To achieve that objective, it provides management with tools to assess, control and monitor requested and authorised risk, manage non-performing loans and recover defaulted loans.

The bank has an organisational model consistent with the risk function. In December 2017, the structure of the risk function was updated, following the regulatory guidelines of the European Central Bank. Management of the risk function is distributed between two corporate directorates:

- **Corporate Risk Directorate.** Responsible for defining all the bank's risk policies and for creating and validating all the risk methodologies and models. It forms a powerful, structured second line of defence.

- **Corporate Credit Risk Directorate.** Responsible for risk approval, monitoring and recovery and for management of the bank's foreclosed assets.

RISK APPETITE AND CAPITAL PLANNING

At the core of Bankia's risk management is a Risk Appetite and Risk Tolerance Framework, approved by the Board of Directors.

Risk appetite is understood as the amount and type of risk the bank is willing to take in the course of its activity in order to achieve its goals, while respecting regulatory restrictions and any commitments accepted.

Within the framework, a set of elements have been established that allow management to gain a comprehensive view of risk appetite levels, risk tolerance levels and risk-taking capacity in relation to each risk and compare them with the bank's risk profile.

The second strategic element is the Capital Planning Framework, which lays down the action to be taken in matters of risk and capital under normal business conditions.

These two frameworks shape the planning of the bank's activities and businesses.

Supplementing the Risk Appetite and Capital Planning frameworks, the Recovery Plan establishes the measures to be taken in hypothetical crisis situations. The Recovery Plan would be activated if any of the selected indicators (which coincide with the indicators used to set tolerance levels in the Risk Appetite Framework) were ever to exceed the specified level.

THE TEN PRINCIPLES OF RISK MANAGEMENT

1. Independent, group-wide risk function that provides the information needed for decision making at all levels.

2. Objective decision making, taking all the relevant risk factors (both quantitative and qualitative) into account.

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 regular 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 levels and management procedures according to risk characteristics.

7. Development, implementation and diffusion of advanced decision support tools to facilitate risk management through effective use of new technologies.

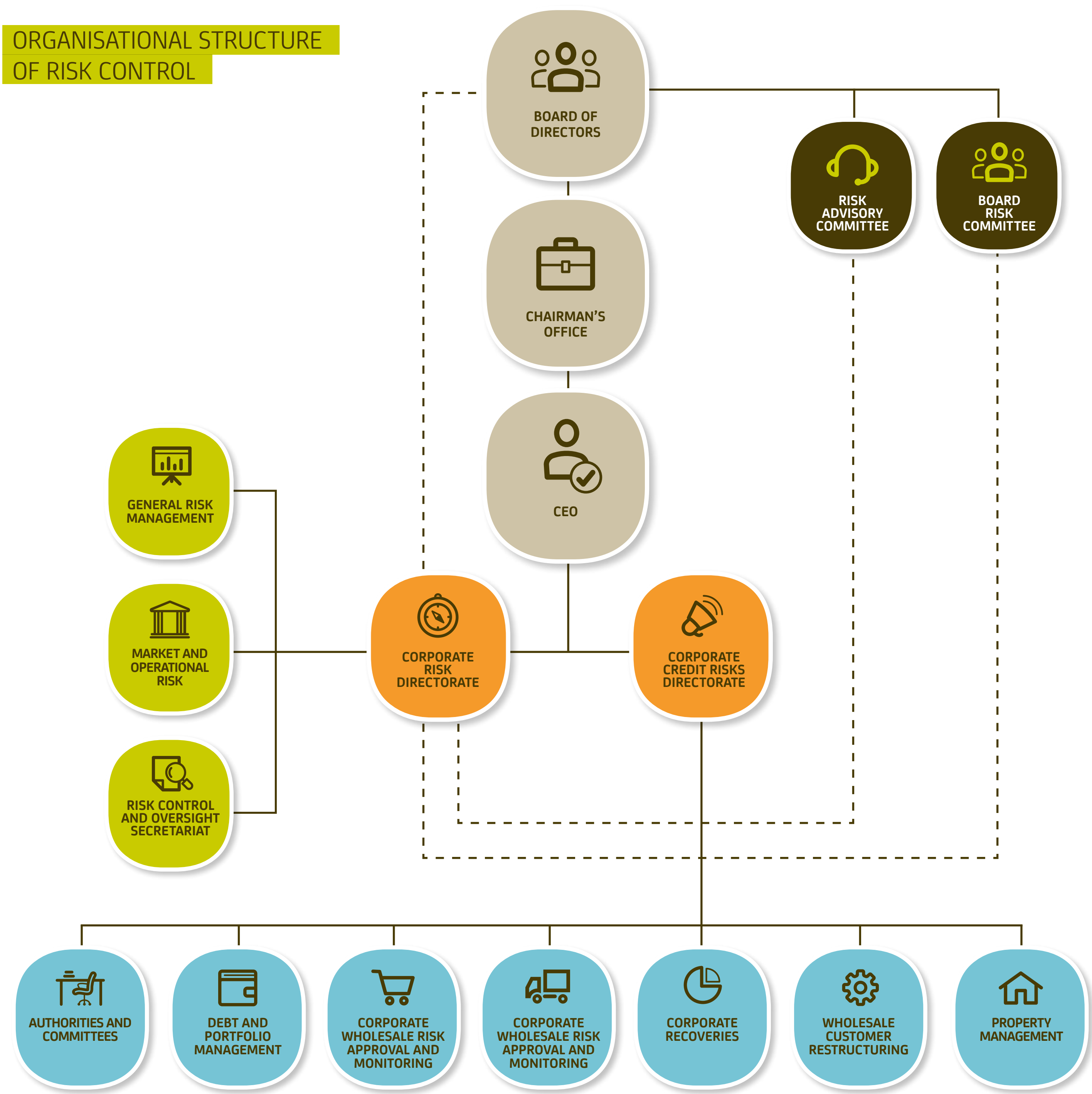
8. Decentralised decision making, using available methodologies and tools.

9. Risk variable taken into consideration in business decision-making in all areas: strategic, tactical and operational.

10 Alignment of the objectives of the risk function and risk management staff with the objectives of the bank as a whole, so as to maximise value creation.

06.1
A STRATEGIC PILLAR

ORGANISATIONAL STRUCTURE OF RISK CONTROL



CORPORATE GOVERNANCE IS KEY

One of the most significant aspects of the European regulations implementing the Basel II capital accords is the introduction of corporate governance as a fundamental aspect of risk management. Under these regulations, institutions must have sound corporate governance procedures, including a clear organisational structure, appropriate internal control mechanisms and effective procedures for identifying, managing, controlling and reporting risks, as well as remuneration policies and practices that are compatible with proper and effective risk management.

To meet these requirements, Bankia has a well-defined risk supervision and control structure, in which roles and responsibilities are assigned to the governing bodies as follows:

- **Board of Directors.** As the most senior governing body, the Board determines and approves the general strategies and procedures of internal control and the policies for the assumption, management, control and reduction of the risks to which the group is exposed. It has various internal committees with different risk control and monitoring responsibilities.

- **Audit and Compliance Committee.** Oversees the effectiveness of the bank's internal control, internal audit (where applicable) and risk management systems, among other responsibilities.

- **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. However, the Board of Directors retains overall responsibility.

- **Board Risk Committee.** This committee is 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 responsibility assigned by law to the Audit and Compliance Committee.

2016-2018 TRANSFORMATION PLAN

Bankia's risk management strategy is governed by the 2016-2018 Transformation Plan, which is guided by five principles:

- An effective recoveries model. Intensifying the use of collection agencies, centralising loan processing and systematising the sale of small portfolios.

- Promotion of sound lending. Encouraging the use of models to analyse the available information (on customers and non-customers alike) and to improve the credit rating system.

- Early warning system. Aiming to build the necessary infrastructure to detect potential impairments before they materialise, which requires developing specific tools.

- Asset allocation. Orienting the business towards maximising economic value, while respecting the risk levels set in the Risk Appetite Framework.

- Culture and training. Promoting a training plan focused on the risk profile (better knowledge of policies and tools) and data quality.