Risk control has become a matter of prime importance in the banking business in recent years, driven by regulatory pressure and market dynamics. It is a strategic pillar for Bankia that must be applied at all levels of the organisation.
Risk management is a strategic pillar of the organisation. Its main objective is to preserve the Group’s financial and capital strength by driving value creation and business development in line with the risk appetite and risk tolerance levels set by the governing bodies. To that end it provides tools that allow effective assessment, control and monitoring of requested and authorised risk, management of non-performing loans and recovery of defaulted risks.

The Board of Directors is responsible for determining the policy for the control and management of risks, including tax risks, overseeing the internal information and control systems and ensuring the integrity of the accounting and financial information systems, including financial and operational control and compliance with applicable law.
Active risk management, with clear processes, procedures and objectives, is crucial.

**GENERAL PRINCIPLES**

The main pillars of risk management are as follows:

1. Independence and enterprise-wide scope, so as to ensure availability of the information required 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 through identification, quantification and homogenisation of all risks 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 management support tools.

8. Decentralisation of decision making, based on the methodologies and tools available.

9. Inclusion of the risk variable at all levels of business decision-making (strategic, tactical and operational).

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

**RISK APPETITE FRAMEWORK**

The entity has a Risk Appetite and Risk Tolerance Framework which is 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 existing commitments. Within the Risk Appetite Framework, systems are in place that allow management to gain a comprehensive view of risk appetite levels, risk tolerance levels and risk-taking capacity in relation to each type of risk and how these levels compare with the bank’s risk profile.

The framework has the following advantages:

- It allows compliance with the risk governance requirements and recommendations specified by the regulator.
07.1
A STRATEGIC PILLAR

The Risk Appetite Framework is an exercise in transparency and makes planning more consistent.

- It improves the awareness of risks at all levels of the organisation, which strengthens the corporate culture.
- It entails an effort of transparency towards stakeholders.
- It facilitates consistency between budgeting and planning processes.

The Risk Appetite Framework and the Capital Planning Framework together define the strategic lines of action in matters of risk and capital under normal business conditions.

The Recovery Plan, in contrast, likewise approved by the Board of Directors, specifies the measures to be taken in a hypothetical crisis situation.

SOUND CORPORATE GOVERNANCE

EU regulations require banks to establish sound corporate governance procedures, including a clear organisational structure, effective procedures for the identification, management, control and communication of risks, and remuneration policies and procedures that are compatible with appropriate and effective risk management.

BFA-Bankia fully complies with the spirit of these regulations and has a clearly defined distribution of roles and responsibilities among its governing bodies:

- Board of Directors. The Board of Directors is the most senior 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. It has a number of internal committees, which have different responsibilities in relation to the control and monitoring of risk.
- 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 applicable, risk management systems.
- Risk Advisory Committee. This committee’s main function is to advise the Board of Directors on the bank’s overall risk propensity, both current and future, and its risk strategy.
- 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.
CONTINUOUS TRANSFORMATION PLAN

In Bankia’s view, continuously transforming and strengthening its risk function is key to preserving its business model, managing its risks more effectively, meeting the supervisor’s expectations and keeping the bank’s corporate governance in line with market best practice.

For that purpose, the Risk Function Transformation Plan sets six goals:

1) Adapt the risk function to the Three Lines of Defence model.

2) Work to strengthen Board of Directors oversight.

3) Meet the supervisor’s expectation even more effectively and strengthen application of the supervisory review (SREP) requirements.

4) Promote a holistic, prospective approach to risk in line with the goal of a sustainable and profitable business model.

5) Implement an effective risk control model by putting in place an internal tool for identifying, measuring and managing the critical risks.

6) Improve credit risk management through a Stimulus Framework that improves the implementation of the new lending strategy and optimises the recoveries model.