THE GROWING COMPLEXITY OF REGULATORY AND SUPERVISORY RULES HAS MADE INTERNAL CONTROL AND COMPLIANCE ACTIVITIES INCREASINGLY IMPORTANT. BANKIA HAS AN EFFECTIVE ORGANISATION TO ENSURE RESPECT FOR THE RULES THAT REGULATE ITS ACTIONS.

CRIMINAL RISK PREVENTION

Bankia’s criminal risk prevention model, which was updated with the Board of Directors’ approval in 2016, identifies the activities in which criminal offences may be committed and must be prevented and the necessary protocols and procedures to avoid any behaviour that could give rise to criminal liability. The model requires the implementation of controls (some general, others more specific, assigned to previously appointed officers) and adopts the rules of conduct contained in the bank’s Code of Ethics and Conduct.

The measures specified by the model include awareness building among senior managers, directors, employees, legal counsel and representatives regarding the importance of compliance with the controls and standards.

In 2016 the directors, the crime prevention officers and the individuals responsible for the implementation and enforcement of the established controls received classroom training on this subject. In 2017 the programme will be extended to all staff, as a continuation of the training already received in 2015.

The area responsible for crime prevention in the bank, by appointment of the Board of Directors, is the Regulatory Compliance Directorate, which must verify and supervise the measures and procedures put in place to palliate the risk of crimes that could give rise to criminal liability for the company.
The Bankia Group collaborates actively with the institutions responsible for supervising and controlling compliance with the Spanish laws and regulations designed to prevent the laundering of the proceeds of criminal activities and the financing of terrorism, which faithfully reflect the EU directives on this matter. For this purpose, Bankia has established mandatory rules and procedures to:

- Ensure compliance with applicable AML/CFT laws and regulations and the recommendations of the national and international authorities.
- Implement the necessary rules of conduct and control and reporting systems to prevent the bank from being used to launder money.
- Establish appropriate customer acceptance and know-your-customer policies, ensuring that all employees are aware of and adhere to them.

The group has general AML/CFT policies that are binding on all its companies, employees and outside contractors. These policies are under continuous review in order to adapt them to changes in the law. To ensure compliance, each subsidiary and unit with significant exposure to money laundering risk has its own AML officer and a specific AML/CFT policies and procedures manual.

Bankia has the necessary systems and controls in place to segment customers, products and transactions appropriately according to their risk profile, detect suspicious transactions and properly identify, accept and know its customers. As required by law, the bank’s AML/CFT procedures are audited annually by an independent expert to detect any incidents and, where necessary, propose improvements. The results of the audit are reported to the Board of Directors.

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The bank is aware that the best form of prevention is employee information and awareness and so gives special importance to training, which is organised through the bank’s annual training plans. In 2016, 10,502 employees of the group received AML/CFT training.

COMMUNICATION AND ADVERTISING

Bankia is firmly committed to compliance with and application of the principles and standards for advertising by banks. Accordingly, all commercial communications issued by the bank respect the values of truthfulness, objectivity, fairness and honesty.

The commitment to respect the abovementioned values is reflected in:

1. The existence of a Policy on Commercial Communications with Customers, approved by the Board of Directors, which sets out the criteria and rules that must be followed in creating and launching the bank’s advertising.

2. Bankia’s membership of Autocontrol, an independent association for advertising self-regulation, and the Asociación Española de Anunciantes, which is a not-for-profit professional association of advertisers that advocates ethics, responsibility and efficiency in companies’ communication and dialogue with society and defends freedom of competition and communication.

INTERNAL CONTROL

The Corporate Internal Audit Directorate is responsible for supervising and evaluating the effectiveness of the bank’s corporate governance, risk management, internal control and information systems and verifying compliance with internal and external standards.

The directorate must report periodically to the Audit and Compliance Committee and to the bank’s senior management on the implementation and results of the Annual Audit Plan and the audit recommendations and their degree of implementation. This reporting obligation is met by submitting the Audit Follow-Up Report at quarterly intervals to the Audit and Compliance Committee and the Management Committee.

The Internal Audit function covers all the activities carried out in the group and has unlimited access to the information it needs for the performance of its tasks and to all the bank’s facilities. In carrying out its work it may communicate with and gather information from any senior manager or employee of the
bank. The Corporate Internal Audit Directorate is also an active member of various committees that control the Group’s activity, including the Regulatory Compliance Committee, the Ethics and Conduct Committee, the Operational Risk Committee and the Regulatory Monitoring Committee. In addition, it attends meetings of the Anti-Money Laundering Committee and the Provisioning Committee, with the right to speak but not to vote.

Internal Audit is responsible for seven processes, which describe the activity it carries out:

- Preparation of the Audit Plan.
- Execution of business centre audits.
- Execution of process, centre and system audits.
- Follow-up of recommendations.
- Audit system development.
- Internal audit communication and reporting.
- Collaboration with and coordination of external audit.

The tax principles governing Bankia’s activity are as follows:

- **Transparency.** Bankia adheres to a transparent policy on tax management and the payment of its taxes, thus complying with regulatory requirements regarding access to the activity of credit institutions and prudential supervision.

- **Compliance with obligations.** Bankia applies at all times the tax regulations applicable in Spain, which is the tax jurisdiction in which all its activity takes place, as well as the pertinent international guidelines and standards, such as the guidelines and action plans of the Organisation for Economic Co-operation and Development (OECD). Bankia files all the tax returns required by tax regulations, settles its tax liabilities and pays its tax debts in Spain in a timely manner.

- **Risk exposure.** When analysing transactions involving special tax risk, Bankia takes into account their short and long-term impact on the bank’s reputation, its shareholders and customers, its relationship with governments and tax authorities and other areas of the organisation.
Actions in the following areas require Board approval:

• **Transactions between related parties.**
  All related-party transactions are carried out at arm’s length.

• **Tax havens.**
  Bankia does not operate in tax havens for tax avoidance purposes.

• **Structures.**
  Bankia does not use artificial tax avoidance structures or structures that do not comply with the spirit of Spanish or international regulations.

• **Divestitures of companies.**
  Bankia analyses the tax implications of the divestitures in which it is engaged very carefully in order to clarify any kind of tax risk.

• **Use of tax incentives.**
  Tax incentives are used in accordance with regulations.

• **Relationship with authorities and governments.**
  The bank uses transparent and ethical channels of communication with the tax authorities and other institutions and public bodies. Relations are governed at all times by the principles of transparency, mutual trust, good faith and loyalty between the parties.

• **External tax advisers.**
  Bankia only ever hires the services of reputable independent experts, never of individuals or firms whose integrity is in doubt.

• **Products marketed.**
  All Bankia’s products comply with applicable tax regulations. The tax information provided to customers is transparent.

As an expression of Bankia’s firm intention to collaborate with public agencies, the bank is an active participant in the Large Businesses Forum, aimed at promoting a more cooperative relationship between Spanish companies and the tax authorities. The Forum advocates a tax policy based on the principles of transparency and mutual trust, through the pooling of knowledge and the sharing of any general problems that may arise in putting the tax system into effect.

Furthermore, in March 2016 the Board of Directors of Bankia agreed that the bank should become a member of the Code of Best Tax Practices (CBTP) of the Spanish Tax Agency (Agencia Tributaria). This code contains recommendations – which are followed voluntarily by the Tax Agency and member companies – aimed at improving the application of the tax system through increased legal certainty, reciprocal cooperation between the Tax Agency and companies based on good faith and legitimate trust, and the application of responsible tax policies in companies, with the knowledge of the Board of Directors.

The group considers that proper tax management gives it greater legal certainty in tax matters, which benefits its earnings. Looking to 2017, Bankia, as a CBTP member company, intends to prepare an Annual Tax
Transparency Report. This report will include information on certain aspects of the bank’s economic activity and funding structure, an explanation of the most significant corporate transactions, details of the group tax strategy approved by the governing bodies and a list of transactions referred to the Board of Directors. It will also establish the extent to which the bank’s tax policy is consistent with the principles of the OECD’s BEPS package, which is intended to fight tax fraud, erosion of tax bases and the shifting of profits to low-tax jurisdictions.

In collaborating with the Tax Agency to enhance tax transparency, the bank aims to foster early knowledge of tax policy and facilitate tax risk management. All this will lead to increased legal certainty, lower compliance costs and fewer disputes with the Tax Agency, besides enhancing the Group’s reputation.

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The Bankia Group is currently implementing an Information Governance model. This is a far-reaching, enterprise-wide transformation project encompassing all corporate information in the regulatory, analytical, commercial and risks areas. The aim is to move towards a model that is in line with best market standards and compliant with the risk data aggregation (RDA) requirements introduced by the Basel Committee on Banking Supervision.

The project comprises three lines of action:

• Organise information through a single data repository and a common data dictionary.

• Optimise data provisioning and ensure consistency and flexibility in data use.

• Implement an information quality governance and control model throughout the data life cycle, with the creation of the role of Chief Data Officer.

In 2016 progress was made in the following aspects of the project:

• Completion of the inventory of the various statements and reports required for regulatory and analytical purposes, with the aim of identifying and supplying the set of dimensions and metrics needed to construct those statements and reports through the Corporate Data Repository, introducing the first Finrep reports (consolidated financial reporting) into the repository.

• Start of work on the creation of a Single Glossary of Terms, which will give data users a single definition of the various business concepts, including the dimensions and metrics relating to the financial statements.

• Conceptual definition of the dashboard model that will be used to monitor information quality and perform preliminary analyses on the Corporate Data Repository.

• Start of implementation of the governance model that will allow any type of information request to be handled efficiently and transparently from source to final response.
Bankia has adopted a set of measures to ensure appropriate application of data protection principles and protection of customers’ rights in this regard. The rules include instructions and provisions concerning the information that must be provided when collecting data, the duty of secrecy and custody of data, the need to obtain consent for data processing, and the exercise of the rights of access, rectification and cancellation.

Information is one of Bankia’s most important assets and protecting it is one of the priorities of the Cyber Security Transformation Plan launched in 2016 and backed by the Cyber Security Committee, which was set up specifically to monitor the plan. The plan establishes that the persons who process Bankia’s information must meet certain objectives in 2016, 2017 and 2018. The bank also has a legal and ethical duty to protect information concerning its customers, collaborating institutions and the competent official bodies on the same terms.

As a financial institution at the service of the society that demands its services, Bankia directly assumes a very substantial part of the responsibility for ensuring comprehensive security. It has therefore marked out two broad areas of application:

- Information security. Bankia protects the information it needs in order to achieve its business objectives by applying its body of information security regulations, which are binding on all those who process the bank’s information.

- Security for business continuity. The bank’s policy, approved by the Board of Directors in 2016, establishes the bank’s capacity to respond to interruptions and incidents that affect business processes. The aim is to inspire confidence in customers and comply with legal and regulatory requirements. Last year the bank also approved the governance model for business continuity. The goals for 2017 are to disseminate the new policy to a wider audience and carry out a training plan that will facilitate implementation of the governance model.