

# Bankia

**REPORT ON THE AUDIT AND  
COMPLIANCE COMMITTEE  
2011**

## CONTENTS

<b>1. Introduction.....</b>	<b>2</b>
1.1. Formation and Composition .....	2
1.2. Regulatory Framework and Responsibilities.....	2
1.3. Functioning and Attendance.....	3
<b>2. Report on activities .....</b>	<b>4</b>
2.1. Financial Reporting .....	5
2.2. External Audit Activity.....	5
2.3. Internal Audit Activity .....	6
2.4. Regulatory Compliance .....	7
2.5. Related Party Transactions .....	7
2.6. Corporate governance .....	8
<b>3. Conclusion .....</b>	<b>9</b>

## 1. Introduction

### 1.1. Formation and Composition

The Audit and Compliance Committee was formed on 16 June 2011 by the Board of Directors of Bankia. The Board appointed the following persons as members of the Audit and Compliance Committee:

- Mr. Alberto Ibáñez González, Chairman
- Ms. Carmen Cavero Mestre, Director
- Ms. Araceli Mora Enguídanos, Director
- Mr. Miguel Crespo Rodríguez, Secretary

The Secretary of the Board of Directors (General Secretary of Bankia) acts as Secretary of the Audit and Compliance Committee.

At 31 December 2011 the Committee had the same composition as at its formation.

### 1.2. Regulatory Framework and Responsibilities

The regulation of the Audit and Compliance Committee is fundamentally derived from the Spanish Securities Market Law and Bank of Spain Circular 3/2008, as well as from the recommendations of best practices issued by the national regulators (CNMV).

The responsibilities of the Audit and Compliance Committee are set out in article 46 of the Bylaws and article 15 of the Regulations of the Board of Directors.

The principal functions of the Audit and Compliance Committee are listed below:

- Reporting through its Chairman and/or secretary to the General Meeting of shareholders regarding such matters within its competence as may be posed to it by the shareholders.
- Monitoring the effectiveness of the internal control of the Company, the internal audit, if applicable, and the risk management systems, and discussing significant weaknesses in the internal control system detected in the course of the audit with the auditors or audit firms.
- Overseeing the process for preparing and submitting regulated financial information.
- Proposing to the Board of Directors, for submission by it to the General Meeting, the appointment of the statutory auditors.

- Establishing the appropriate relationships with the auditors to receive information regarding such questions as may compromise their independence, for review by the committee, and any others related to the process of auditing accounts, and such other communications as may be contemplated in the legislation regarding auditing of accounts and audit standards.
- Annually receiving written confirmation from the auditors of their independence as regards the entity or directly or indirectly related entities, and information on any additional services of any kind provided by them.
- Annually issuing a report stating an opinion regarding the independence of the auditors or audit firms.
- Reviewing compliance with the regulations of the Board of Directors, of the manuals and procedures for prevention of money laundering, of the internal rules of conduct and, in general, of the Company's governance and compliance rules, and making the necessary proposals for improvement thereof.

### 1.3. Functioning and Attendance

According to article 15 of the Regulations of the Board of Directors, the Committee:

- Will meet as often as called by resolution of the committee itself or its chairman, at least four times per year.
- There will be a quorum with the attendance, in person or by proxy, of at least half of its members; and it will adopt its resolutions by majority of those in attendance at the meeting, in person or by proxy. In the event of a tie, the Chairman will have a casting vote.
- The members of the committee may extend proxies to other members.
- The resolutions adopted will be maintained in a minutes book, each entry in which will be signed by the chairman and the secretary.

The Committee held six meetings over the course of the year, the first on 26 July 2011.

The Committee members did not issue any proxies to one another for any of the meetings and recorded 100% attendance for all of the meetings as shown in the following table:

<b>Attendance at 2011 meetings (%)</b>	
Mr. Alberto Ibáñez González	100%
Ms. Carmen Cavero Mestre	100%
Ms. Araceli Mora Enguídanos	100%

---

Mr. Miguel Crespo Rodríguez	100%
-----------------------------	------

---

In addition to the Committee members, the Assistant General Director of Auditing attended 83% of the meetings and the Chief Compliance Officer on a quarterly basis. As part of their work of reporting to the Committee, the statutory auditors attended meetings whenever requested, and were thus present at 67% of the meetings, either to report on their activity or to know the financial information presented to the Committee.

Article 15 of the Board Regulations specifies that the Committee may require the presence of any employee of the company; in 2011 the Committee meetings, in addition to the regular guests cited above, were also occasionally attended by:

- Comptroller
- Chief Financial Officer
- Director of Recoveries and Management of Real Estate Assets
- General Director of Banco Financiero y de Ahorros
- Director of the Department of Management of Committees and Powers (Risk Directorate)
- Director of the Market Risk Area (Risk Directorate)

In addition, the statutory auditor gave technical instruction to the Committee members, featuring updates on accounting standards and solvency. These sessions had a total duration of six hours.

## 2. Report on activities

The Audit and Compliance Committee primarily acted in six main areas, namely the oversight of the following activities:

- Group financial reporting
- External audit
- Internal audit
- Regulatory compliance
- Related party transactions
- Corporate governance

## **2.1. Financial Reporting**

The Committee exercised its responsibilities for oversight of financial reporting by having the Comptroller attend its meetings for the purposes of explaining the quarterly closings before they were presented to the Board of Directors and subsequent disclosure to the market and submission to the competent supervisory bodies.

The Comptroller reported and gave a detailed explanation of the preparation and adaptation of the Bankia individual and consolidated financial statements, as well as the fundamental business, non-performing loan and coverage indicators. The Committee was also informed about the correct application of the relevant accounting policies to the figures presented, with the information being clear, material and reliable in accordance with the accounting circular of the Bank of Spain.

Furthermore, as indicated in the following section, the individual and consolidated half-year accounts at 30 June 2011 and annual accounts for 2011, were audited by Deloitte, and annual accounts and directors' report for 2011 are expected to be formulated within the legally stipulated periods (prior to 31 March) and to be first presented to the Committee.

## **2.2. External Audit Activity**

The General Meeting of Shareholders of the Bank held on 6 April 2011 reappointed Deloitte as statutory auditor. Deloitte accepted its appointment on 4 May 2011.

The outside auditor is one of the nexuses between the corporate governance bodies and executive functions. The outside auditor attended the Audit and Compliance Committee meetings whenever the agenda included matters relating to the auditor's functions, as indicated in section 1.3 of this report. The relation with the outside auditor has been a recurring activity of the Office of the Assistant General Director of Auditing; this permanent and ongoing dialogue allowed the establishment of an appropriate relationship that has fostered the external auditor's independence in the performance of the audit work.

In this regard, the outside auditor's presence in Committee meetings was for the purposes of:

- Presenting the planning, scope and conclusions of the half-yearly accounts.
- Monitoring the financial evolution in the third quarter.
- Presenting the planning and scope of the 2011 annual financial statements.

For these purposes, the outside auditor delivered detailed information to the Committee on the schedule and progress of the work performed, highlighting the main aspects and phases involved in examining the accounts, the projected calendar and the specific material questions for the year. The Committee made a detailed analysis of all of the information delivered to it in its meetings.

The Audit and Compliance Committee checked the fees paid by the different Bankia Group companies to Deloitte in 2011. Those fees are itemised below:

- For auditing the annual financial statements of Bankia, S.A., the consolidated half-yearly and annual accounts of the Bankia Group for 2011: 1,663 thousand euros.
- For auditing and reviewing the 2011 financial statements of the 150 entities in the Bankia Group: 1,416 thousand euros.
- For performing other reviews similar to audits that were required by law or by the supervisors of the member entities of the Group: 427 thousand euros.
- For other professional services provided to the different Group entities: 674 thousand euros, of which 172 thousand euros were in respect of tax advise services.

In addition, the fees paid to the auditor for the audit and review work done in relation to the initial public offering of Bankia, S.A. shares carried out in 2011 and to other non-recurring services rendered in the same year amounted to 2,295 thousand euros.

The services contracted with the statutory auditor comply with the independence requirements contained in the applicable laws (Accounting Audit Act 19/1988 of 12 July 1988) and internal rules (Regulations of the Board of Directors).

The Committee received from the statutory auditor written confirmation of its independence vis-à-vis the Bankia Group and its directly and indirectly related entities in accordance with the Accounting Audit Act provisions on independence. It is the Committee's view that there are no objective reasons to question the independence of the outside auditor. Consequently, in accordance with the Securities Market Law the Committee will issue a report to this effect before the audit report is issued on the financial statements for the year.

### **2.3. Internal Audit Activity**

The Committee approved the "Audit Function Statute" (Estatuto de la Función de Auditoría) at its second meeting and then submitted it to the Board of Directors. That document formally sets out the purpose of the audit function and establishes the position and its authority within the organisation, as well as defining the responsibility and area of action, all with the aim of providing a basis on which to evaluate the activities to be carried out.

The Audit Function (as set out in the Statute) is an independent and objective activity involving evaluation and consultation and intended to add value to the Bank, helping it to achieve its objectives by bringing a systematic and disciplined approach to the assessment of the financial and risk management processes, monitoring of internal control, reporting systems and corporate governance of the Bank.

The Committee also approved the Audit Plan for 2011. The Plan was initially drawn up by the seven savings banks (Cajas) that formed Bankia in the fourth quarter of 2010, although the spin-offs carried out in the first half of the year between the Cajas, BFA and Bankia led to a refocus of the approach at the beginning of the second half.

The Committee received quarterly reports on the execution of the Plan. The actions carried out by the Office of the Assistant General Director of Auditing are divided into two categories: one consists of those actions relating to the Commercial Network and to the business environment, and the other of the central audit work focused on accounting, financial, risk, resources and technology reviews. The 2011 Audit Plan prioritised the specific audits that accompanied the integration process, focused on implementation of the new policies and procedures and the quality of the data in transitional repositories.

## **2.4. Regulatory Compliance**

The Committee, in its second meeting, approved the Regulatory Compliance Function Policy and Statute, which was then submitted to the Board of Directors. That document sets out the organisational rules, functions and responsibilities of the Function, as well as its position and interrelation with the rest of the Group.

The Committee was also informed on the Regulatory Compliance Action Plan which set out the unit's functions, as well as the more significant projects in progress, highlighted by the following:

- FATCA (Foreign Account Tax Compliance Act)
- Design of the Regulatory Compliance Model
- Criminal risk
- Command panel: Indicators
- Contractual Basis of Regulatory Compliance

The Committee was informed of the establishment of the Bankia Internal Rules of Conduct (Reglamento Interno de Conducta — RIC) in the Securities Market, which were approved by the Board of Directors on 16 June 2011 and revised on 5 September 2011. The Committee also reported favourably on the proposed amendment of the policy on treasury stock, which was then approved by the Board of Directors at its meeting of 19 July 2011.

The policies established on conflicts of interest, prevention of market abuse, data protection, authorisation levels and the employee channel for reporting irregularities were approved over the course of the first half of 2011 by the Audit and Compliance Committee of Banco Financiero y de Ahorros. Insofar as the second spin-off has been executed, Bankia has been substituted into the position of BFA in those policies, so they have not been expressly approved by the Committee.

## **2.5. Related Party Transactions**

Bankia's flotation as a publicly traded company gave rise to the need to establish a Master Agreement regulating the transactions and services provided with its parent company, BFA, in relation to transparency, coordination, documentation, transfer pricing, management of

potential conflicts of interest and protection of minority shareholders. The purpose of establishing said agreement is to ensure that the two entities, insofar as they provide services to each other to generate value and operate efficiently, act independently of each other and safeguard the interests of their minority shareholders.

The Audit and Compliance Committee has been the governance body charged with supervising the Master Agreement, with the following key responsibilities:

- Power to collect information and interview the persons and offices designated by BFA that it deems necessary for performing its supervisory function.
- Evaluating the existing circumstances and issuing a detailed report before an operation is approved by the Board of Directors, except for transactions which do not require such authorisation due to their size, conditions or habitual nature. That report is especially focused on supervising that the transactions be carried out at fair prices, protecting minority interests and ensuring there are no conflicts of interest.
- Overseeing and promoting proper disclosure of related party transactions as established in the Master Agreement or as they are required to be disclosed in the Annual Corporate Governance Report, submitting a prior report thereon to the Board of Directors.

In the meetings held during the year, the Committee prepared the relevant reports on related party transactions and submitted them to the Board of Directors for approval.

The Committee likewise analysed proposed risk operations involving members of the Bank's governing bodies in compliance with the terms of article 37 of the Regulations of the Board of Directors.

## **2.6. Corporate governance**

Article 15.4 of the Regulations of the Board of Directors provides that *"One of its meetings will be used to evaluate the efficiency of and compliance with the Company's governance rules and procedures, and prepare the information the Board must approve and include in the annual public documentation"*.

Pursuant to that article, at its meeting of 1 December the Committee assessed the efficiency of and compliance with the governance rules and procedures. The external and internal regulatory frameworks were explained, along with the rules good governance of in relation to the Company's governing bodies and executive areas, with emphasis on the Board of Directors' oversight function and the Committee's role in that supervisory work.

It should be taken into account that 2011 was a building year for Bankia in every sense, as the Group defined and specified the procedures, policies and processes through which its management and organisation will be carried on and articulated in the pursuit of its financial activity as successor to the activity previously carried on by the Cajas. The Committee's actions in this regard were supported by the work of Internal Audit, by means of collaboration and/or

monitoring the implementation of the new circuits that were established and the policies defined for the Bank, as well as in the supervision of the establishment of effective controls that promote their proper development and compliance. In general terms, the results have been positive and satisfactory and the relevant recommendations have been issued when appropriate.

Pursuant to its function of the evaluating the information that must be submitted for Board approval and included in the annual public documentation, the Committee will supervise that the content of said information is correct and appropriate.

### **3. Conclusion**

During 2011 the Audit and Compliance Committee carried on its activity satisfactorily, discharging its functions and powers as established in article 15 of the Regulations of the Board of Directors, with no material incidents having been detected.

To carry on its activity, the Committee established a dynamic ongoing relationship with the Bank's management, mainly through attendance by the different functional officers at its meetings, where the Committee was able to share the relevant matters needed to pursue its activity.