

REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE

2013

Bankia

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1. INTRODUCTION

1.1. REGULATORY FRAMEWORK

The creation of Audit Committees is fundamentally set forth in the Stock Market Law 24/1988 of July 28. Additional Provision Eighteen of the Law governs the composition, functioning and responsibilities of Audit Committees of entities that issue securities traded on organised secondary securities markets. Law 12/2010 of June 30 amended the Audit Act (Law 19/1988 of July 12), the Stock Market Law and the consolidated text of the Public Limited Companies Act. Its Final Provision Four, paragraph two, amended the Stock Market Law, specifically with a new wording of paragraphs 2 and 4 of Additional Provision Eighteen of the Stock Market Law, broadening the powers of Audit Committees and setting forth the minimum content of mandatory powers for listed public limited companies (sociedades anónimas).

1.2. FORMATION AND COMPOSITION

The Bankia Audit and Compliance Committee was formed on 16 June 2011 by resolution of the Company's Board of Directors, and its rules of procedure, composition, responsibilities and authority are regulated in article 46 of the Bylaws, as developed in article 14 of the Board of Directors Regulations. The Bylaws and the Board of Directors Regulations were amended in 2013, with the aim of introducing certain technical improvements considered beneficial for the company's organisation and management, and to adapt to the Code of Good Corporate Governance approved by the Spanish securities regulator, the Comisión Nacional del Mercado de Valores (CNMV).

As a result of the changes in its regulation, the Bankia Audit and Compliance Committee went from being composed of *“a minimum of 3 and a maximum of 7 directors, a majority of whom, at least, must be outside or non-executive directors”* to being *“formed exclusively by non-executive directors, the majority independent, with a minimum of 3 and a maximum of 5”* (article 46 of the Bylaws). In any event the number of members of the Committee will be determined directly by express resolution, or indirectly by the filling of vacancies or appointment of new members within the established maximum.

According to the Bylaws and the Board of Directors Regulations, the members of the Audit and Compliance Committee will be appointed by the Board of Directors based on the knowledge, abilities and experience in accounting, auditing or risk management of the directors and on the responsibilities of the Committee, and it will be chaired by an independent director who, moreover, must have knowledge, abilities and experience in accounting, auditing or risk management matters.

At 1 January 2013 the Bankia Audit and Compliance Committee was composed of three directors: Mr. Alfredo Lafita Pardo (chairman), Mr. Jorge Cosmen Menéndez-Castañedo (member) and Mr. José Luis Feito Higuera (member). All three are independent directors with the requisite knowledge, abilities and experience in accounting, auditing or risk management matters.

On 24 July 2013, the company's Board of Directors approved the appointment of Mr. Joaquín Ayuso García to the Audit and Compliance Committee. Consequently, the Committee was thenceforth composed of the persons specified below, who continued to hold the positions shown below at the close of 2013:

AUDIT AND COMPLIANCE COMMITTEE ⁽¹⁾			
DIRECTOR	OFFICE	STATUS	APPOINTMENT DATE
Mr. Alfredo Lafita Pardo	Chairman	Independent	08-06-2012
Mr. José Luis Feito Higuera	Member	Independent	01-06-2012
Mr. Jorge Cosmen Menéndez-Castañedo	Member	Independent	01-06-2012
Mr. Joaquín Ayuso García	Member	Independent	24-07-2013

Non-Director Secretary: Mr. Miguel Crespo Rodríguez.

No member of the Audit and Compliance Committee performs executive duties in the company and all of them are classified as independent Directors, so the requirement that the Committee have at least two independent directors is met. Furthermore, all members of the Committee are professionals with the requisite knowledge, abilities and experience in accounting, auditing and risk management.

1.3. POWERS

The responsibilities of the Audit and Compliance Committee are set out in article 46 of the Bylaws and further developed in article 14 of the Regulations of the Board of Directors.

⁽¹⁾ A professional profile of the members of the Audit and Compliance Committee may be consulted on the Bankia website: www.bankia.com

According to article 14 of the Board of Directors Regulations, without prejudice to other tasks assigned to it by the Board of Directors, the Audit and Compliance Committee will have all functions that are conferred upon it by the applicable legislation (in particular banking regulations), specifically including, without implying limitation, the following basic responsibilities:

- a) Reporting through its Chairman and/or secretary to the General Meeting of Shareholders on such matters within its area of responsibility as may be raised by the shareholders.
- b) Monitoring the effectiveness of the internal control of the Company, the internal audit, if any, 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. In particular, in relation to internal reporting and control systems:
 - verifying the appropriateness and integrity of internal control systems and reviewing the appointment and replacement of those responsible therefor;
 - reviewing and supervising the preparation and the integrity of the financial information regarding the Company and, where appropriate, the Group, reviewing compliance with regulatory requirements and the proper application of accounting principles;
 - periodically reviewing the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed;
 - seeing to the independence and effectiveness of the internal audit and regulatory compliance functions; selecting, appointing and removing the head of internal audit functions; reviewing the annual work plan; proposing the budget for those departments; receiving periodic financial information on their activities; and verifying that senior management is acting on the findings and recommendations in its reports. In particular, the internal audit function will respond to information requests received from the audit and compliance committee in the exercise of its duties; and
 - establishing and supervising a mechanism whereby staff can confidentially report any irregularities that they detect within the Company with potentially serious implications, in particular financial or accounting irregularities.
- c) Overseeing the process for preparing and submitting regulated financial information, in particular:
 - reviewing the company's accounts, to see to compliance with legal requirements and proper application of generally accepted accounting principles, and reporting on proposed changes of accounting standards and principles suggested by management, and

- reviewing the issue prospectuses and the periodic financial information, if any, that the Board of Directors is required to provide to the markets and market supervisory bodies.
- d) Proposing to the Board of Directors, for submission by it to the General Meeting of shareholders, the appointment of the statutory auditors, referring proposals for selection, appointment, re-election and replacement thereof to the Board, as well as the terms of their engagement.
- e) 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. In particular:
- acting as a communications channel between the Board of Directors and the auditors, evaluating the results of each audit and the responses of the management team to its recommendations and mediating in the event of disputes between the former and the latter regarding the principles and criteria applicable to the preparation of the financial statements;
 - receiving regular information from the outside auditor on the progress and findings of the audit programme, and verifying that senior management is acting on its recommendations;
 - supervising compliance with the audit contract, seeking to ensure that the opinion on the annual accounts and the principal content of the auditor's report are drafted clearly and accurately;
 - assuring the independence of the external auditor, and to that end:
 - maintaining relationships with the statutory auditor in order to gather information on matters that may call its independence into question, as well as any other matters relating to the audit process, and engaging in such other communications with the statutory auditor as are contemplated in the audit legislation and technical standards for audits;
 - ensuring that the Company and the auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence; and
 - in the event of resignation of the external auditor, reviewing the underlying reasons.

In any event, annually it must receive written confirmation from the auditors of their independence as regards the entity or directly or indirectly related entities, and information on additional services of any kind provided to these entities by the aforesaid auditors, or by the persons or entities related thereto in accordance with the provisions of Legislative Royal Decree 1/2011 of 1 July, which approved the consolidated text of the Spanish Audit Act.

- f) Annually issuing, prior to the issue of the audit report, a report stating an opinion regarding the independence of the auditors or audit firms. This report must address the provision of any additional services referred to in the preceding section.
- g) Reviewing compliance with the Board of Directors Regulations, with the manuals and procedures for prevention of money laundering and terrorist financing, and, in general, the Company's governance and compliance rules, and making the necessary proposals for improvement thereof.

In particular the Committee is to receive information and, if applicable, issue reports regarding measures disciplining members of the Board of Directors or senior managers of the Company.

- h) Supervising compliance with the Company's Internal Code of Conduct for securities markets, the manuals and procedures for prevention of money laundering and, in general, the Company's governance and compliance rules, and making the necessary proposals for improvement thereof. In particular, it is the Committee's responsibility to receive information and, if applicable, issue reports regarding measures disciplining members of senior management.
- i) Reporting to the Board of Directors on the creation or acquisition of holdings in special purpose vehicles or entities domiciled in countries or territories considered tax havens, and any other transactions or operations of a comparable nature the complexity of which could impair the transparency of the Group.

In addition, the Audit and Compliance Committee will report to the Board of Directors on related party transactions before the Board adopts decisions on such transactions, unless that prior reporting function has been given to another supervision and control committee.

For better performance of its duties, the Audit and Compliance Committee may seek the advice of outside professionals on matters within its area of responsibility. The Committee will also prepare an annual report of its actions, highlighting the principal incidents, if any, that have arisen in respect of matters that fall within its area of responsibility.

1.4. FUNCTIONING AND ATTENDANCE

Pursuant to Article 14 of Board of Directors Regulations, the Audit and Compliance Committee shall:

- Meet as often as called by resolution of the Committee itself or its Chairman, and at least four times per year.

- Be quorate with the attendance, in person or by proxy, of at least half of its members; and 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.
- Any member of the management team or employee of the Company who is requested to do so must attend the Committee meetings, cooperate with it and provide access to any information they may have. The Committee also may require the attendance of the statutory auditor.
- Committee resolutions shall be recorded in a minutes book, which will be signed for each meeting by the Chairman and the Secretary.

In the period from 1 January to 31 December 2013 the Committee held a total of 18 meetings. There was a 97% attendance level at the meetings by Committee members (present or by proxy).

The meetings are regularly attended by the Head of Internal Audit, the Comptroller and the Chief Compliance Officer of Bankia to report on questions that fall within their functional area of responsibility, provided their presence has been requested. The statutory auditors, as part of their duty to report to the Committee, have attended all meetings at which their presence was requested, attending a total of nine meetings, either to report on their activities or to hear the financial information submitted to the Committee.

Article 14 of the Board Regulations sets forth that the Committee may request the presence of any member of the management team or employee of the Bank. To such end, in 2013, in addition to the regular attendees cited above, Committee meeting attendees included the following officers:

- General Director of the Office of Chairman
- General Director of People, Organisation and Technology
- Deputy General Director of Communication and External Relations
- Head of Organisation and Transformation
- Chief Financial Officer
- Head of Retail Banking
- Head of Business Banking
- Head of Tax Advising
- Chief Legal Officer
- Chief Risk Officer

- Head of Wholesale Risks
- Deputy Director of Comptroller's Office
- Head of Investment Management

Furthermore, during 2013 Bankia Audit and Compliance Committee meetings were also attended, as invited guests, by several members of the Board of Directors, including the Chairman of the Appointments and Remuneration Committee of Bankia and the Chairman of the Audit and Compliance Committee of Banco Financiero y de Ahorros.

2. REPORT ON ACTIVITIES

The Audit and Compliance Committee has primarily worked in six main areas, monitoring:

- The Group's financial reporting
- The activity of the outside auditor
- Internal audit activity
- Regulatory compliance activity
- Related party transactions
- Corporate governance

2.1. FINANCIAL REPORTING

The Committee's responsibilities for supervising the production of financial information have been channelled through attendance by the Comptroller to explain the Bank's accounting and financial statements and the quarterly closings before their submission to the Board of Directors and subsequent disclosure to the market and submission to the competent supervisory bodies.

The Comptroller provided detailed reporting and explanations on the process of drawing up and adapting Bankia's individual and consolidated financial statements as well as the key trading, non-performing assets and provisioning figures. The Committee was also informed of the appropriateness of the figures presented as regards application of accounting criteria to generate information that is clear, relevant and reliable, in conformity with the applicable accounting standards.

At its meeting of 19 March 2013, the Committee agreed to report to the Board of Directors in favour of formulating the 2012 individual and consolidated financial statements. At that meeting there was presented the draft report of the statutory auditors, stating their favourable opinion on Bankia's individual and

consolidated accounts, which gave in all material aspects a true and fair view of the net assets and financial position at 31 December 2012 and included all the necessary and sufficient information for their interpretation and proper comprehension in accordance with the applicable standards.

In addition, as explained in the following section, the semiannual statements (individual and consolidated) at 30 June 2013 were audited by Ernst&Young. The annual financial statements and management report for 2013 (individual and consolidated) will also be audited by the same audit firm and are expected to be ready within the legally prescribed time frame.

The Audit and Compliance Committee is responsible for supervising the efficacy of the company's internal controls, internal audit and the risk management systems and, in particular, it is charged with knowing and supervising the preparation and completeness of the company and Group's financial reporting. In this regard, on 19 March 2013 the Comptroller reported the Conclusions of the Financial Reporting Internal Control System (SCIIF) drawn up by the firm of PricewaterhouseCoopers (PwC), whose representatives explained the key aspects of that report to the Committee.

2.2. ACTIVITY OF THE STATUTORY AUDITOR

With the aim of improving the Bank's corporate governance and aligning it with the international best practices in this area, the General Meeting approved a resolution to rotate the audit firm, in line with the recommendations made by international and Spanish authorities.

At its meeting of 21 May 2013, the Audit and Compliance Committee resolved to propose that the Board of Directors bring a proposal before the General Meeting of Shareholders to name Ernst & Young, S.L. as auditor for Bankia and its consolidated group for 2013, 2014 and 2015, thereby replacing Deloitte, S.L. The Bank's General Meeting of Shareholders held on 25 June 2013 voted to appoint Ernst & Young, S.L. to audit the 2013, 2014 and 2015 financial statements of Bankia and its consolidated group.

The relations and communication with the outside auditor have been a regular activity of the Internal Audit Department and of the Office of the Comptroller. The outside auditors attended all Audit and Compliance Committee meetings when the agenda featured questions relating to their duties, as noted in section 1.4 of this report.

In this regard, the presence of the independent auditor at Committee meetings was primarily for the following purposes:

- Reporting the conclusions of the audit of the individual and consolidated financial statements for 2012 (Deloitte, S.L.).

- Reporting the audit work done on the quarterly financial information for the first quarter of 2013 (Deloitte, S.L.).
- Reporting on the planning, scope and conclusions of the audit work on the semiannual financial statements at 30 June 2013 (Ernst & Young, S.L.).
- Reporting on the planning, scope and monitoring of the audit work on the 2013 financial statements 2013 (Ernst & Young, S.L.).

Toward this end, the independent auditor provided detailed information to the Committee on the planning and progress of the work, highlighting the principal issues and phases of the accounts review work, the projected timetable and the material specific issues for the year. The Committee carefully analysed all information submitted to in its meetings.

The Audit and Compliance Committee examined the fees paid by the various Bankia Group companies to the outside auditor Ernst & Young, S.L. in 2013. A breakdown of those fees follows:

- For auditing Bankia S.A.'s annual accounts and the consolidated semiannual and annual accounts of the Bankia Group for 2013: €1,448,000.
- For auditing and reviewing the 2013 financial statements of the foreign branches and subsidiaries integrated into the Bankia Group: €422,000.
- For other examinations and audit-like services performed pursuant to regulatory requirements or to requests by supervisory bodies: €155,000.
- For other professional services performed: €674,000, of which €151,000 were in respect of tax advice.

The services contracted by the Bankia Group comply with the independence requirements set forth in Legislative Royal Decree 1/2011 of 1 July, which approved the consolidated text of the Audit Act, and do not include the performance of tasks incompatible with the audit function.

The Committee received the auditor's written confirmation of its independence vis-à-vis the Bankia Group and its directly or indirectly related entities in accordance with the requirements set forth in the Audit Act in relation to independence. It is the Committee's view that there are no objective reasons to question the independence of the outside auditor. Therefore, pursuant to the Securities Market Law, the Committee will issue a report to such effect before the audit report on the annual accounts for the year is issued.

2.3. INTERNAL AUDIT ACTIVITY

The Internal Audit function referred to by Bankia's Audit Function Charter is an independent, objective evaluation and consulting activity intended to add value to the Bank, helping it to achieve its purposes by bringing a systematic, disciplined focus to the evaluation of financial and risk management processes, the monitoring of internal controls, the information systems and the Bank's corporate governance.

At its meeting of 22 January 2013 the Audit and Compliance Committee reviewed the fulfillment of the 2012 Internal Audit Plan; and on 22 February 2013 the Committee was informed by the head of Internal Audit of the content and scope of the 2013 Internal Audit Plan.

The 2013 Internal Audit Plan is the final result of the planning process and lays down the work to be carried out over the course of 2013, taking into account the analysis of risks and alignment with the Bank's strategic objectives: balance sheet, income statement, organisational and integration issues.

The Committee has received regular reports on the fulfilment of the Audit Plan and on the actions carried on by the Internal Audit Department, which it has periodically monitored. In this regard, the Head of Internal Audit gives the Committee quarterly reports on fulfillment of the Audit Plan, featuring details on the work carried out and such recommendations as may be forthcoming.

Internal Audit also periodically reports to the Committee on a series of key operations that have been analysed and supervised by Internal Audit and on its actions on those operations.

2.4. REGULATORY COMPLIANCE ACTIVITY

Bankia's Chief Compliance Officer regularly attends Committee meetings to discuss matters that fall within his ambit. At its meeting of 23 April 2013 the Committee heard a report on the 2013 Regulatory Compliance Plan, which includes all actions, projects and activities to be carried out during the year in connection with legal compliance. The Plan mainly consists of projects in the following areas: investment services (MiFID), anti-money laundering and terrorist financing and the risk of criminal liability.

The Committee was periodically informed on the following compliance monitoring activities:

- Internal Code of Conduct for Securities Markets and its amendment to introduce a "blackout" system in connection with the publication of periodic financial information.

- Implementation of the Model for Prevention of Criminal Risk. The Bankia model approved by the Committee on 23 October 2012 lays down the mandatory controls the Bank must have in place and the periodic reviews to keep the Model up to date and ensure its effectiveness. Pursuant to the Model, the Chief Compliance Officer came before the Committee regularly to discuss the related monitoring activity and the actions carried out, emphasising the appointment of the persons responsible for the prevention of criminal liability by sector of activity, the communication plan and the implementation of the internal policy and rules, communication to the persons involved in managing the relevant controls and the repository of controls.
- Code of Ethics and Conduct. At its 22 July 2013 meeting the Committee resolved to report to the Board of Directors in favour of the new version of the Code of Ethics and Conduct of mandatory compliance for all persons who have any kind of professional relationship with Bankia, and in favour of the proposal to create a Committee of Ethics and Discipline. On 27 August 2013 the Committee approved an amendment to the Regulation of the Confidential Whistle-blower Channel to adapt it to the new rules on the persons covered and to its new management mechanism.
- Modification of the Anti-Money Laundering and Terrorist Financing Manual and monitoring of the related activity. The Legal Compliance Department reported to the Committee on the Global Policies for Prevention of Money Laundering and Terrorist Financing, and on 22 February 2013 brought a modification of said Global Policies Manual before the Committee, which issued a favourable report on the modification to the Board of Directors. The Committee conducts a detailed quarterly examination of the actions carried on in this regard. At its meeting of 24 September 2013, the Committee reported in favour of the proposal to modify the Manual to adapt it to the recommendations issued by the Bank of Spain's Executive Service for the Prevention of Money Laundering (SEPBLAC).
- The Committee also receives monthly reports on the requirements and inspections of supervisory bodies and regional governments.

Other actions on which the Committee has been informed by the Legal Compliance Department include the Report on Assessment of Suitability of Directors and Senior Managers, the Annual Report on Remuneration and the Annual Corporate Governance Report, the 2013 Regulatory Compliance Dissemination Plan and the 2012 Annual Report on the Provision of Investment Services (MiFID).

On 16 December 2013 the Committee analysed and agreed to give a favourable report to the Board of Directors on the proposed Policy for Prevention of Market Abuse.

2.5. RELATED PARTY TRANSACTIONS

Article 14.7 of the Bankia Board of Directors Regulations provides that the Audit and Compliance Committee will report to the Board of Directors on related party transactions before the Board makes a decision on such operations. In this connection, article 36 of said regulations provides that the Board must review transactions the Company engages in, directly or indirectly, with directors, with shareholders or with persons related thereto. Engaging in such transactions will require authorisation of the Board, after a favourable report from the Audit and Compliance Committee.

With respect to operations with significant shareholders of the Company, as Bankia's shares are listed on securities markets, it was required to establish a Framework Agreement governing the transactions and services provided with its parent company, Banco Financiero y de Ahorros, S.A.U. (BFA), ensuring transparency, coordination, documentation, transfer pricing, management of potential conflicts of interest and protection of minority shareholders. The reason for the Framework Agreement is to ensure that both entities, when providing services to one another to add value and act according to efficiency criteria, see to it that their actions respect the independence of each of them and protect the interests of their minority shareholders.

The Audit and Compliance Committee is the management body responsible for overseeing the Framework Agreement, with the following authority:

- The power to gather information and interview the persons and agencies designated by BFA that it deems necessary to carry out its oversight function.
- Evaluate the circumstances and issue a detailed report before the Board of Directors approves the transaction, except for transactions which by reason of their amount, terms or customary or recurring nature do not require such authorisation. This report focuses particularly on transactions being executed at fair prices, protecting minority interests and ensuring there are no conflicts of interest.
- Oversee and ensure adequate disclosure of related party transactions as provided in the Framework Agreement or as they must be disclosed in the Annual Corporate Governance Report, with prior disclosure to the Board of Directors.

Throughout its meetings during 2013, the Committee examined the relevant reports on related party transactions and forwarded them to the Board of Directors for approval.

The Committee also analysed proposed risk transactions involving members of the Bank's governing bodies in compliance with the provisions of article 37 of the Board of Directors Regulations.

2.6. CORPORATE GOVERNANCE

The Board of Directors Regulations provide that that one of the meetings of the Audit and Compliance Committee "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, the Committee periodically monitors the efficiency of and compliance with the governance rules and procedures, focusing on the internal and external regulatory framework and good governance related to the relationship between the governance bodies and the executive areas of the Bank, with emphasis on oversight function of the Board of Directors and the Committee's role in such oversight work. In performing the evaluation of the information that the Board must approve and include in the annual public documentation, once such information has been prepared the Committee will check the appropriateness of its content.

In this regard, the Committee gave the Board a favourable report on the content of the 2012 Annual Corporate Governance Report and on the 2012 Annual Report on Remuneration. Both reports were approved by the Board at its meeting of 20 March 2013. The Annual Corporate Governance Report was made available to the shareholders as part of the documentation presented to the General Meeting and the Annual Report on Remuneration was brought to a consultative vote at the General Meeting.

The Audit and Compliance Committee, in collaboration with the Appointments and Remuneration Committee, participated in preparing the report assessing the performance of the Board of Directors and the Board Committees during 2012.

2.7. OTHER ACTIVITIES

In addition to the work and activities outlined above, the Bankia Audit and Compliance Committee also studied and supervised, amongst others, the following areas:

- Treasury stock: each month the Committee hears a report on the activity with the Company's own shares, as well as on fulfilment of the recommendations issued by the Spanish securities regulator, the Comisión Nacional del Mercado de Valores (CNMV), on discretionary trading in own shares of securities issuers and the Treasury Stock Policy to be disclosed to the CNMV and to the market.
- Base Prospectus of Non-equity Securities: on 24 June 2013 the Committee resolved to report favourably on and submit to the Board of Directors the proposed Base Prospectus of Non-equity Securities that was entered in the CNMV registers.

- Information of Prudential Relevance: at its meeting of 23 April 2013 the Committee reviewed the 2012 Report of Prudential Relevance (Pillar III Disclosures) regulated by Bank of Spain Circular 3/2008.
- Non-Performing Loans: the Committee held a special meeting on 11 November 2013 entirely devoted to analysing the trend of non-performing loans in the Bank and the measures adopted in such respect.