BANKIA, S.A. AND SUBSIDIARIES COMPOSING THE BANKIA GROUP

INTERIM MANAGEMENT REPORT

JUNE 2016

CONTENTS

This report was prepared following the recommendations of the "Guidelines for the preparation of management reports of listed companies" issued by the CNMV in September 2013.

1.- KEY EVENTS OF THE FIRST HALF OF 2016

The key highlights of the Bankia Group performance in the first half of 2016 are as follows:

1.1.- Earnings

The Bankia Group reported net attributable profit of EUR 481 million in the first half of 2016, a decrease of 13.4% compared to the same period of 2015. Broadly speaking, earnings were impacted by the same negative factors affecting the banking industry as a whole last year, such as interest rates at historic lows and the ensuing decline in the returns on the mortgage and fixed income portfolios. As for Bankia-specific factors, the period featured the exit from the consolidated group of City National Bank of Florida ("CNBF"), which was sold in October 2015, and the impact of the new commercial policies designed to boost customer loyalty, which affected fee and commission income obtained by the Group in the first half of 2016.

Against this backdrop, the strengths of Bankia's performance were still the policy of reining in costs, which sustained the Group's efficiency ratio at 46.6% (among the best of Spain's large financial institutions), and progress on risk management, which led to lower provisioning and a marked improvement in the Group's cost of risk.

1.2.- Capital strength

The Bankia Group's ability to generate capital make it one of the most solvent entities in Spain's financial system. The Group's CET 1 phased-in ratio at 30 June 2016 was 14.57%, up 61 points (bps) higher than in December 2015. This new improvement was underpinned mainly by capital generation through earnings, gradual balance-sheet deleveraging and improvement in the quality of the loan book and enabled the Group to maintain a high surplus of capital above the minimum regulatory requirement established by the ECB.

1.3.- Growth in new lending and the most profitable retail customer funds

On the investment front, the period featured further growth in the Group's new lending to strategic segments, such as business, SMEs and consumer lending. This, coupled with the slowdown of the private sector deleveraging in Spain, resulted in a smaller decrease in Group lending than in previous halves.

In customer funds, the period featured positive trends by strict customer deposits and off-balance sheet funds (mainly investment funds). Combined, these were up 1.6% (EUR 1,951 million) from December 2015. Meanwhile, customers continued the shift out of savings to demand deposits or investment funds, which are capturing the transfer of customer savings from time deposits.

1.4.- Further improvements in asset quality and risk management

The main risk indicators fared extremely well in the first half of 2016, extending last year's trend. Doubtful balances declined by 9.6% from year-end 2015 thanks to stronger monitoring and recovery efforts and the sale of loan portfolios carried out in the first half this year. All this drove the NPL ratio down by 1 percentage point (pp) from December 2015 to 9.6% at 30 June 2016, and the NPL coverage ratio up by 0.8pp to 60.8%.

By actively managing risk in both loan books and foreclosed property assets, the Group was able to reduce provisions significantly compared to the first half of 2015.

1.5.- Sound funding structure and high liquidity

The Bankia Group's financial soundness is underpinned by the funding of its credit activity, mainly with customer resources. To illustrate, the Bankia Group's LTD ratio at end-June 2016 stood at 100.7%, bearing out the good balance between lending and deposit volumes.

The Group taps capital markets to meet its additional liquidity needs. The low-interest-rates market environment, alongside the support of the Group's management and solvency, enabled Bankia to successfully place two new issues of mortgage-covered bonds in the first half of 2016 for an aggregate amount of EUR 2,000 million.

Also in the first half this year, Bankia availed of EUR 11,316 million in the European Central Bank's new TLTRO II auctions, allowing it to extend maturities from 2016 to 2020 and replace planned wholesale issues that would have been made at a higher cost.

1.6.- Shareholder remuneration

On 31 March 2016, Bankia distributed a EUR 300.72 million dividend (EUR 2.625 cents per share) against 2015 profit, marking a nearly 50% increase on the previous year’s dividend (EUR 201.6 million). Of this amount, EUR 195.3 million were paid to Bankia's majority shareholder, BFA, Tenedora de Acciones, S.A.U.

Positive results, coupled with the good performance of the balance sheet and main solvency metrics, have enabled Bankia to remunerate shareholders with more the EUR 500 million out of profits for the past two years. This is one of the Group's main achievements since its incorporation.

1.7.- Reimbursement to retail shareholders of investment in Bankia's IPO

On 17 February 2016, Bankia initiated a voluntary restitution process to refund the investments made by investors subscribing for Bankia shares in the 2011 IPO, paying compensatory interest of 1% per annum for the period until the investment is refunded.

The process targeted exclusively investors who subscribed shares in the 2011 IPO primary market under the retail tranche. For shareholders who have since sold their shares, the process entailed payment of the difference between the amount they invested and the amount they obtained from the sale of the shares plus the 1% annual interest on that difference until final restitution of the investment.

This process allow retail investors in the Bankia IPO to recoup, easily and quickly, their entire investment, without the need to meet any other condition, and at no cost and without the time involved in legal and out-of-court proceedings.

The period to apply for the refund began on 18 February 2016 and ran for three months; i.e. until 18 May 2016.

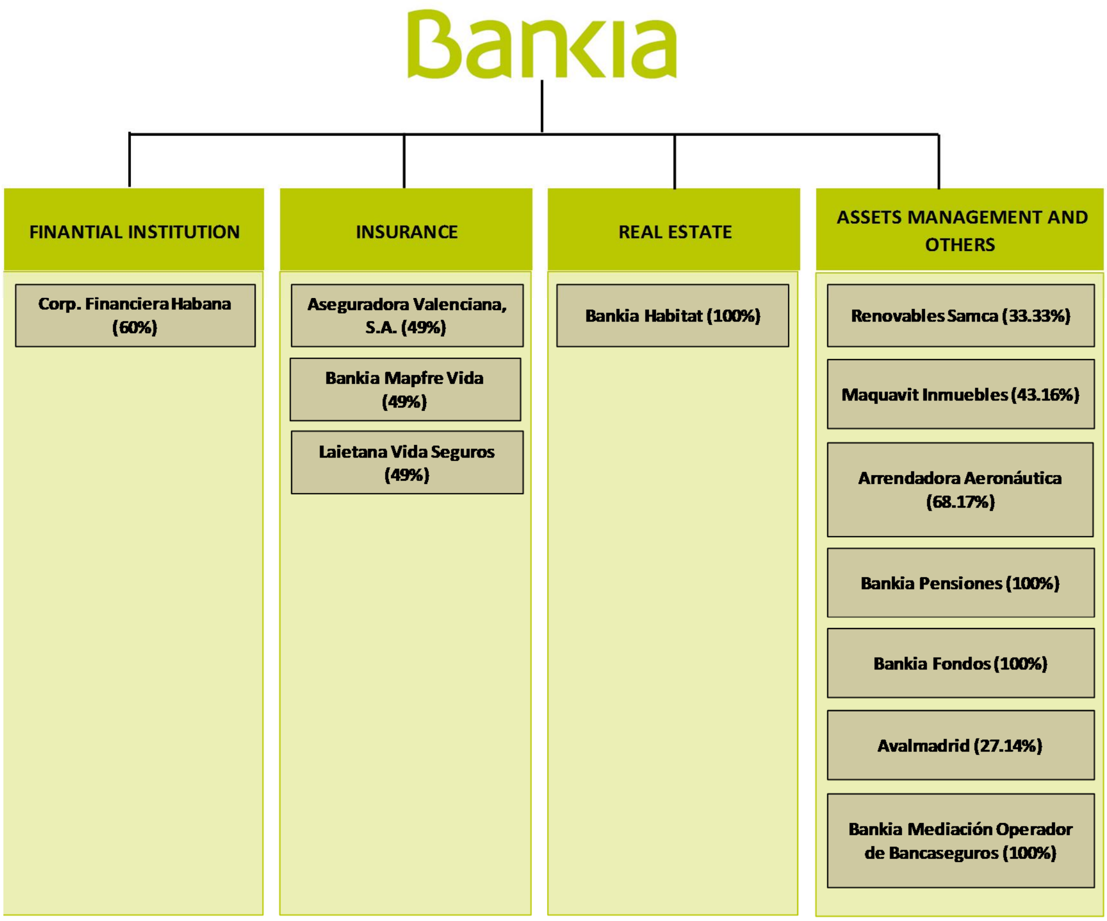
2.- ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

2.1.- Overview of Bankia Group and its organisational structure

Bankia is a financial group with operations throughout Spain, focusing mainly on the traditional retail banking, corporate banking, asset management and private banking businesses. Its corporate objects include all manner of activities, operations, acts, contracts and services related to the banking sector in general or directly or indirectly related thereto, permitted to it by current legislation, including the provision of investment services and ancillary services and performance of the activities of an insurance agency.

Bankia mainly does business in Spain. The Group had total assets at 30 June 2016 of around EUR 203,501 million, of which Bankia, S.A. held EUR 204,761 million. Section 2.4 below provides a breakdown of the branch office network by region.

Investments in companies included in the scope of consolidation are held directly in Bankia's portfolio, or indirectly through different holding companies. The main ones are as follows:



Organisationally, Bankia is the Group's parent. At 30 June 2016, the consolidation scope comprised 60 companies between subsidiaries, associates and jointly-controlled entities engaging in a range of activities, including the provision of finance, insurance, asset management, services, and real estate development and management. Of these, 33 are Group companies, 2 are jointly-controlled entities and 25 are associates.

2.2.- Corporate governance

Bankia's governing bodies are the General Shareholders Meeting and the Board of Directors.

- The General Shareholders Meeting is the highest decision-making authority within the scope attributed to it by law or by the bylaws; e.g. the appointment and removal of Directors, the approval of the annual financial statements, the distribution of dividends or the approval of the Director remuneration policy.

- The Board of Directors is responsible for representation of the Company and has the broadest authority to administer the Company except for matters reserved for the General Shareholders Meeting. Its responsibilities include, inter alia, approving the strategic or business plan, management objectives and annual budgets, and the investment and financing, corporate governance and dividend policies. There are five Board committees, whose members are appointed in accordance with their suitability based on their knowledge, aptitudes, experience and the duties of each committee.

Board of directors The Board of Directors held 12 meetings in the first half of 2016
(8 independent directors and 3 executive directors) · Mr. José Ignacio Goirigolzarri Tellaeche. Executive Chairman · Mr. José Sevilla Álvarez. Chief Executive Officer · Mr. Antonio Ortega Parra. Executive Director · Mr. Joaquín Ayuso García. Consejero Lead Independent Director (*) · Mr. Francisco Javier Campo García. Independent Director · Mrs. Eva Castillo Sanz. Independent Director · Mr. Jorge Cosmen Menéndez-Castañedo. Independent Director · Mr. José Luis Feito Higueruela. Independent Director · Mr. Fernando Fernández Méndez de Andés. Independent Director · Mr. Antonio Greño Hidalgo. Independent Director · Mr. Álvaro Rengifo Abbad. Independent Director

(*) The effectiveness of this appointment is governed by Article 29 et seq of the Royal Decree 84/2015 of 13 February, which enacts the Law 10/2014 of 26 June on the Organisation, Supervision and Solvency of Credit Institutions.

Audit and Compliance Committee	
The Audit and Compliance Committee monitors the effectiveness of internal control, the internal audit, compliance and the risk management systems, and the preparation of regulated financial information. Its responsibilities also includes, among others, proposing the appointment, reappointment and removal of, and establishing the appropriate relationships with, the external auditors, and reviewing compliance with the Company's governance and compliance rules.	Four external independent directors: - Mr. Antonio Greño Hidalgo (Chairman) - Mr. Joaquín Ayuso García (Director) - Mr. Jorge Cosmen Menéndez-Castañedo (Director) - Mr. José Luis Feito Higueruela (Director) The Audit and Compliance Committee held 11 meetings between 1 January and 30 June 2016.
Appointments Committee and Responsible Management	
The Appointments Committee has general authority to propose and report on appointments and removals of directors and senior managers. It is also responsible for assessing the ability, diversity and experience required for the Board of Directors, and the necessary time and dedication to carry out their duties in an effective manner. It defines the necessary functions and abilities for candidates wishing to cover vacancies. It examines and organises the succession plan for governance bodies. Other responsibilities include the review of the Company's corporate social responsibility policy, ensuring that it is geared towards value creation, and monitoring of the corporate social responsibility strategy and practices and assessing their degree of compliance.	Four external independent directors: - Mr. Joaquín Ayuso García (Chairman) - Mr. Francisco Javier Campo García (Director) - Mr. Fernando Fernández Méndez de Andés (Director) - Mr. Álvaro Rengifo Abbad (Director) The Appointments Committee held 7 meetings between 1 January and 30 June 2016.
Remuneration Committee	
The Remuneration Committee has general authority to propose and report on remuneration and other contractual terms and conditions of directors and senior managers, and must periodically review the remuneration programmes, considering their appropriateness and utility, and ensuring transparency of remuneration and compliance with the remuneration policy set by the Company.	Four external independent directors: - Mrs. Eva Castillo Sanz (Chairwoman) - Mr. Joaquín Ayuso García (Director) - Mr. Jorge Cosmen Menéndez-Castañedo (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Remuneration Committee held 6 meetings between 1 January and 30 June 2016.
Risk Advisory Committee	
The Risk Advisory Committee advises on the overall propensity of risk and the risk strategy, overseeing the pricing policy, presenting risk policies and proposing to the Board the company's and group's risk control and management policy through the Internal Capital Adequacy Assessment Process (ICAAP). Supervise the internal control and risk management function and propose the system of credit risk authorities to the Board of Directors.	Three external independent directors: - Mr. Francisco Javier Campo García (Chairman) - Mrs. Eva Castillo Sanz (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Risk Advisory Committee held 19 meetings between 1 January and 30 June 2016.
Board Risk Committee	
The Board Risk Committee adopts decisions regarding risks within the authority delegated to it by the Board of Directors. The Board Risk Committee is responsible for establishing and overseeing compliance with the Bank's risk control mechanisms, approving the most important operations and establishing overall limits. It is also responsible for reporting to the Board of Directors on risks that may affect the Company's capital adequacy, recurring results, operations or reputation.	An Executive director and three external independent directors: - Mr. José Sevilla Álvarez (Chairman) - Mr. Francisco Javier Campo García (Director) - Mrs. Eva Castillo Sanz (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Board Risk Committee held 23 meetings between 1 January and 30 June 2016.

The Board's policy is to delegate ordinary Company management to the management bodies and management team and to concentrate its work on the general supervisory function and consideration of those matters that are of particular importance to the Company.

In relation to the above, the Board of Directors has defined a corporate governance system that ensures healthy, prudent management of the Company and that provides for an appropriate distribution of functions within the organization and the prevention of conflicts of interest. The Board oversees the application of this system and regularly monitors and assesses its effectiveness, taking whatever measures are necessary to resolve possible deficiencies.

Bankia also has a Management Committee, composed of the Chairman of the Board of Directors, Mr. José Ignacio Goirigolzarri, CEO Mr. José Sevilla, Executive Director and General Manager of People, Resources and Technology Mr. Antonio Ortega, General Secretary and Deputy General Director of the General Secretariat Mr. Miguel Crespo, Deputy General Director of Communication and External Relations Mrs. Amalia Blanco, the Deputy General Director of Retail Banking Mr. Fernando Sobrini and the Deputy General Director of Business Banking Mr. Gonzalo Alcubilla.

As for appointments, approval was given at the General Meeting of Shareholders held on 15 March 2016 to appoint as director, in the category of independent director, Mr. Antonio Greño Hidalgo, for the bylaw mandated term of four years, to replace Mr. Alfredo Lafita Pardo, who tendered his resignation effective as from the conclusion of that General Meeting. Mr. Antonio Greño Hidalgo was placed on file in the Bank of Spain's Register of Senior Officers (*Registro de Altos Cargos*) on 23 May 2016.

Also approved at the General Meeting of Shareholders was the reelection as directors, in their respective categories and for the bylaw mandated four-year term, of Mr. José Sevilla Álvarez, Mr. Joaquín Ayuso García, Mr. Francisco Javier Campo García and Mrs.Eva Castillo Sanz.

In addition, in the first half of 2016, Mr. Antonio Greño Hidalgo was appointed member and Chairman of the Audit and Compliance Committee, replacing Mr. Alfredo Lafita Pardo, and Mr. Fernando Fernández Méndez was appointed member of the Appointments and Responsible Management Committee and of the Remuneration Committee, replacing Mr. Alfredo Lafita Pardo.

· Advances in corporate governance

One of Bankia's main priorities is to align its corporate governance with Spanish and international best practice.

In particular, in compliance with requirements in domestic and European banking regulations and the recommendations and principles of good governance contained in the Code of Best Practices of supervisors and regulators, Bankia has the Corporate Governance System as a general framework for internal organization affecting the bank and all the companies that make up the Bankia Group.

The system of corporate governance covers and guarantees the proper functioning of internal governance, thereby assuring healthy, prudent management of the Entity and its Group, the core objective being to satisfy the corporate interest, understood as the common interest of all shareholders of an independent, public limited company (sociedad anónima) focused on the profitable and sustainable pursuit of its objects and the creation of long-term value. The main priorities are:

- To ensure a correct distribution of functions within the organisation
- To prevent and resolve conflicts of interest
- To establish a transparent framework for relations between Bankia and its shareholders

The system embodies the Group's corporate values with respect to business ethics and corporate social responsibility, and is backed by the principles of good governance developed by the Company based on the recommendations of the Good Governance Code.

A key part of the system of corporate governance is the set of rules and regulations, which provides a Group-wide internal control framework. They comprise a set of internal rules that regulate the Entity's corporate governance and operational functioning, basically made up of corporate texts and policies, as well as internal procedures or rules of conduct. Specifically, the body of work includes:

- Bylaws and regulations. These include the Corporate Bylaws, which set out the general lines of governance, the regulations of the governing bodies (General Meeting Shareholder Regulations and Board of Directors Regulations) and other rules and codes, such as the Code of Ethics or the Customer Ombudsman regulations, the Rules of Conduct in Securities Markets and the Regulations of the Confidential Whistleblowing Channel.

  The General Meeting of Shareholders of 15 March 2016 passed a resolution to amend the Company bylaws and General Meeting Regulations and was informed about the amendment to the Board of Directors Regulations to adapt to the Good Governance Code of Listed Companies approved by the Board of the Spanish National Securities Commission (Comisión Nacional del Mercado de Valores or "CNMV") on 18 February 2015, and to the amendments made to the Corporations Act through Act 22/2015, of 20 July, on accounts auditing, and Law 5/2015, of 27 April, on the promotion of business financing.

The amendments to the Bylaws and Board of Directors Regulations designed to improve the Company's corporate governance include:

- The Appointments Committee has been assigned responsibility for reviewing the Company's corporate social responsibility policy, seeing that it is aimed at the creation of value, and monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance thereof. It has also been assigned responsibility for monitoring the processes of relationships with the various stakeholder groups, coordinating the process of reporting non-financial and diversity information and evaluating everything relating to the social, environmental, political and reputational risks of the Company. Following the change in responsibilities, the Appointments Committee changed its name to the Appointments and Responsible Management Committee.

- The corporate texts for the Audit and Compliance Committee now include, in addition to the requirement set out in the Corporations Act that committee members should be appointed with regard to their knowledge, aptitude and experience in accounting, auditing or both, the requirement that the members of the Committee, as a whole, must possess the relevant technical knowledge of the banking sector, to which the Company belongs.

- Regarding the corporate website, the Company's corporate texts now state that the Company will disclose and publish on the corporate website the conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and the requirement to publish the reports and information provided for in the Good Governance Code of Listed Companies approved by the CNMV.

- The powers and responsibilities attributed to the Lead Independent Director have been expanded, particularly with respect to the Company's corporate governance, whereby in addition to the other functions that legally correspond to this position, the Lead Independent Director shall chair the Board of Directors in the absence of the Chairman; voice the concerns of non-executive directors; maintain contact with investors and shareholders to know their points of view and in order to form an opinion on their concerns on the terms set out in the Corporate Policy on information, communication and contact with shareholders, institutional investors and voting advisors approved by the Entity, in particular, in relation to the corporate governance of the Company; coordinate the chairman succession plan; and oversee the evaluation of the Chairman's performance.

  - Regarding the qualitative composition of the Board of Directors, the Bylaws now specifically state that the General Meeting will see to it that the number of independent directors represents at least half of all directors.

- Corporate policies. These set out guidelines or principles governing functions, activities and processes, ensuring internal control and providing legal security. They take into consideration both legal requirements and good governance recommendations. They are general guidelines for the long term.

  In particular, the Corporate Governance System of the Company includes, among others, the following:

  - The Group’s structure and corporate governance policy. This policy sets forth the Group's general implementation guidelines and principles through the various subsidiaries and their respective governance bodies, as well as coordination among companies.

  - Bankia, S.A. corporate governance policy. This policy sets forth the principles and core elements of the Company's corporate governance structure.

  - Director selection policy. This policy establishes the requirements and criteria which the Board of Directors and the Appointments Committee must consider when selecting new members of the Board of Directors, as well as in the re-election and ratification of existing directors. This policy seeks a balance of diversity of knowledge, experience and gender in the Board's membership.

  - Senior management selection and appointment policy. This policy defines the requirements and criteria for selecting and appointing Bankia's senior officers.

  - Dividend policy. This policy lays out the basic principles and criteria that should govern proposed resolutions to distribute dividends submitted by the Board of Directors for approval at the General Shareholders Meeting or, where appropriate, resolutions regarding the interim dividends approved by the Board. It also contains the disclosure obligations regarding dividends based on the principle of transparency.

  - Conflicts of interest policy. The policy sets out the procedures for preventing conflicts of interest between shareholders and members of the Board of Directors, as well as employees of Bankia Group companies, with the interests of the Company, its parent, other companies of its group and customers.

- o Policy of communication and contact with shareholders, institutional investors and proxy advisors. This policy encourages discussion and ongoing dialogue with all of the Company's stakeholder groups, particularly shareholders, institutional investors and proxy advisors, in order to forge stable and long-term trust-based relationships and to promote transparency in the framework of corporate interest.

In addition to the aforementioned policies, the Board of Directors may approve other corporate policies to the extent that they are deemed appropriate for establishing strategies and management criteria, and policies for their monitoring and supervision.

- Powers and proxies. These govern the delegation of decision-making abilities over certain activities. They may supplement specific policies and, in some cases, be temporary or tacit.

- Circulars. Circulars provide a simple, easily understandable summary of the regulations that all Bank professionals are required to know. They highlight the issues with the greatest impact on operations and functions.

· Conflicts of interest

Among the top priorities of the corporate governance policy is to detect and manage potential conflicts of interest. In this respect, without prejudice to those set out in applicable legislation, the Entity has a number of information and decision-making tools included, inter alia, in the following rules and regulations: the Corporate Governance Policy, the Conflicts of Interest Policy, the Board of Directors Regulations of Bankia, the Bankia Rules of Conduct for Securities Markets Activities, the Framework Agreement, and any other internal protocols or procedures in place at any time. These mechanisms include the following:

- Directors must disclose to the Board of Directors any direct or indirect conflict either they or persons related thereto have with the interest of Bankia and must refrain from attending meetings and participating in deliberations on matters which affect, directly or indirectly, them or persons related to them.
- Directors must adopt the necessary measures to avoid situations in which their interests, on their own behalf or on behalf of another, can be in conflict with the Company's interests and their duties to it. In addition, they must perform their functions in accordance with the principle of personal responsibility, exercising their own judgement, independently of any instructions from or ties to third parties.
- All directors must make a first declaration of potential conflicts at the time of taking office. This declaration must be updated immediately in the event of a change in any of the circumstances declared or if new circumstances appear.

- Compliance and control systems

Bankia Group has numerous internal controls in place, set up to mitigate specific risks related to the business and/or to comply with various financial and internal control regulations (Crime Prevention and Detection Model, Policies and Procedures regarding Anti-money Laundering, Market Abuse, MiFID, personal data protection, IT security, etc.).

Bankia also has an Internal Audit unit, whose activity is overseen by the Audit and Compliance Committee. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, corporate governance and information systems. It also works together with external auditors in audit service engagements and with supervisory bodies to ensure compliance with regulations.

In addition, Bankia Group has a Code of Ethics and Conduct, approved by the Board of Directors in August 2013, which sets forth the rules and guidelines of conduct all Bankia employees must assume and guides their behaviour and professional conduct. The Code of Ethics and Conduct is mandatory for anyone with a professional relationship with Bankia Group.

To help enforce the Code and facilitate the internal flow of information, the Audit and Compliance Committee approved the launch of the Confidential Whistleblowing Channel, through which any breaches of the Code can be reported through an inhouse digital platform or by email. In line with the latest best practices, Bankia has outsourced management of this channel to a specialist firm outside the Group (currently PwC), which is overseen by the Ethics and Conduct Committee, guaranteeing anonymity, that all reports are evaluated independently and treated confidentially, and that only those people who are strictly necessary to the investigation and resolution are notified.

The Code of Ethics and Conduct and the Confidential Whistleblowing Channel not only set high standards of ethical conduct by employees and directors, but they also allow for the detection and management of situations that infringe on the rules and criteria of professional conduct and help prevent criminal activity.

2.3.- Responsible management

Following the approval by the Board of Directors of the Responsible Management Policy in early 2015, work has been carried out on drawing up the 2016-2018 Responsible Management Plan. The Plan revolves around the Entity's values (professionalism, integrity, commitment, closeness and achievement orientation) and is underpinned by two key cornerstones. The first entails listening to and maintaining dialogue with stakeholders; the second entails ongoing supervision and performance assessment of the planned actions. The plan was approved by the Board of Directors on 26 February 2016. The Board is response for ensuring the management, monitoring and control of the plan, through the Appointments and Responsible Management Committee, in accordance with the recommendations of the CMNV's Good Governance Code of Listed Companies.

The objectives of the Bankia Group's Responsible Management Plan are aligned with the 10 principles of the UN Global Compact and the Sustainable Development Goals approved by UN members in September 2015.

The following table summarizes the objectives and strategic lines of Responsible Management Plan 2016-2018:

STRATEGIC LINE	OBJECTIVES
Corporate governance	Integrate and encourage responsible management to help foster a culture of transparency and integrity that safeguards the interests of all stakeholders
Customers	Maintain respectful relationships tailored to the customer's needs so Bankia stands out for the service received and the trust built as a respectful and transparent entity
Employees	Consolidate the corporate identity through a project in which Bankia's success is everyone's success and the responsible management culture is present in every area of the business
Society	Be recognised as a driver of social and economic development in the areas near the business, pro-actively addressing the main concerns of society and seeking to maximise the positive impact
Shareholders and investors	Reinforce transparency with analysts and investors regarding the Entity's non-financial performance, disclosing transparent and clear extra-financial information

STRATEGIC LINE	OBJECTIVES
Suppliers	Promote responsible management in the supply chain, assessing counterparty risks and encouraging improvement plans to help spread responsible committment and drive economic development in other sectors of production
Environment	Minimise impact and reduce costs through more efficient use of resources and correct environmental management in all processes

2.4. - Business model

Bankia Group is a national company, with a stronger presence in its natural markets, focused on customers and businesses that can provide the bank the greatest returns and enable it to better leverage its competitive advantages.

Bankia Group's business lines are as follows:

- Retail Banking
- Business Banking
- Corporate Centre

Note 1.12 to the Bankia Group's interim financial statements provides a breakdown of the results of each business line in the six months ended 30 June 2016 and 2015, as well as the key balance sheet items of each at 30 June 2016 and 31 December 2015.

The Bankia Group carries out its business through a network of 1,906 branches, distributed geographically as follows:

Region	Number of Offices
Andalucía	67
Aragón	12
Asturias	11
Baleares	22
Canarias	115
Cantabria	21
Castilla - La Mancha	114
Castilla - León	134
Cataluña	153
Ceuta	5
Extremadura	10
Galicia	23
La Rioja	55
Madrid	734
Murcia	7
Navarra	4
País Vasco	19
Valencia	400
TOTAL OFFICES	1,906

Retail Banking

Retail Banking includes retail banking with legal and natural persons with annual income of less than EUR 6 million, distributed through a large multi-channel network in Spain and operating a customer- satisfaction and asset management profitability business model.

Retail customers are a strategic business for Bankia, as one of Spain's largest financial institutions in this area. The Entity focuses on traditional banking products such as salary direct deposit, mortgages, term deposits, credit cards, insurance, investment and pension funds, and other asset management services, which it offers to high net-worth customers who need specialised financial and tax advice.

This area focuses on retail activity following a universal banking model. Its objective is to forge relationships with and retain customers, providing them with added value in products and services, and in advisory, and service quality. To achieve this, it segments customers in accordance with the need for specialised service and the needs of each customer type. This segmentation classifies its customers in 5 big categories. Customer segmentation allows Bankia to assign specific customers to specialist managers, who are in charge of the customer's relationship with the Bank. This approach yields greater customer satisfaction and generates new sources of business.

In 2016, Retail Banking continued to focus on consumer finance, mainly on pre-approved lines of credit, which can be taken out in less than a minute through any of the Bank's channels.

Meanwhile, in January 2016, Bankia embarked on a new customer loyalty strategy with retail customers, eliminating fees for customers whose income is paid directly into their accounts. The Group went a step further in May, extending this commercial strategy to include self-employed professionals with direct debit in Bankia of their social security payments.

Bankia's distribution network is composed of a finely meshed branch network, a complementary agency network (spearheaded by Mapfre) that gives the bank a valuable competitive advantage, and a low-cost multi-channel distribution network (e.g. ATMs, Internet, mobile and telephone banking). Regarding the latter, the bank has a complete array of technological channels (Internet Office, Mobile Office and Telephone Office) that allows customers to carry out their transactions, contract and manage products and use the online broker service.

With the aim of strengthening its competitive positioning, grounded in its relationship with customers, since 2013 Bankia has been driving a new commercial model based on a segmented branch network in which universal branches, business branches, private banking centres and the new 'agile' branches coexist. Agile branches are a new type of branch launched by Bankia in a pioneering move in the Spanish financial system that allow it to deliver quality, fast service to the customers who execute the most transactions. The offices have longer opening hours and are equipped with a large number of ATMs and quick service cashier positions, covering the areas with the largest concentration of transaction-intensive customers.

In addition, Plus+ offices were set up in 2015. These are offices located around the agile branches which, due to their size in terms of customers and business, require greater commercial specialisation. All Plus+ offices customers are segmented and managed by financial advisors. The rollout of the Plus+ offices started in Madrid and Valencia, where new regional divisions have been created with a view to unifying the offices' divisional and management model.

Within Retail Banking, the private banking business is geared towards the high- wealth or high-income individual customers, investment companies or foundations. Bankia offers these customers a comprehensive range of products and services with highly personalised, professional and reliable treatment, providing them with solutions that are tailored to their financial or tax needs. The main private banking business lines are wealth management and advisory, the sale of third-party financial products, intermediation in the trading of securities and advisory regarding the securities market.

Within Retail Banking, the Bancassurance area is responsible for distributing life and general insurance in all of the Group companies. This business line was established in the bank's Strategic Plan to provide specialised support for the network, offering a wide range of products for individuals, businesses and professionals. After the agreement reached in January 2014 with Mapfre, the insurer became Bankia's exclusive insurance provider, for both life and non-life insurance. The only policies excluded were those for companies with annual revenue of over EUR 2 million.

The distribution model is as follows:

- Non-life insurance: distribution agreement with Mapfre

- Life insurance: distribution agreement through the Bankia Mapfre Vida joint venture (51% Mapfre Vida – 49% Bankia), which resulted from the integration of the insurance companies in which Bankia had a shareholding (Mapfre Caja Madrid Vida, Aseval and Laietana Vida).

Net premiums written in June 2016 totaled EUR 244 million. Mathematical provisions for life-savings plans amounted to EUR 5,602 million in June 2016.

Bankia Fondos and Bankia Pensiones are responsible for assets management which provide financial products to the net.

Bankia owns 100% of Bankia Fondos SGIIC, and has marketing agreements with international fund managers for certain niche products. At the end of June 2016, Bankia Fondos managed EUR 12,433 million in investment funds, up from EUR 11,964 million at 31 December 2015. This places Bankia Fondos as the fifth largest fund manager in the country with 5.70% market share, according to data provided by Inverco (+26 bps compared to 5.44% market share as of December 2015).

In pension funds, significant efforts were made to encourage long-term saving, highlighting the need to address the situation of savings to supplement future pensions sufficiently in advance. Pension fund advisory services and simulation tools are the main marketing tools for these retirement saving products. Bankia Pensiones, a wholly owned subsidiary of Bankia, is the Group's pension fund management company. It is engaged in the management of all types of pension plans (individual, employment and related), focusing on meeting unitholders' needs and offering products that are suitable for their investment profile and the time horizon established by the retirement age. At 30 June 2016, Bankia's managed assets in pension funds had a total value of EUR 6,697 million (6,857 million at 31 December 2015).

The main short- and medium-term objectives and strategies for Bankia Group to continue driving activity include improving margins and profitability, increasing lending, especially to self-employees and SMEs, managing non-performing loans and boosting cross-selling. The strategy to increase the business with SMEs and self-employees pivots on offering financing and supporting in the development of their business projects, designating managers specialised in small and medium businesses who are qualified to provide individualised advising and tailor-made responses in all areas of SME business: investment projects and financing, both short and long term, treasury management, tax advising, internationalisation processes, and more.

Business Banking

Business Banking targets legal entities with annual income in excess of EUR 6 million. (Other customers, legal entities or self-employed professionals with income below this figure fall into the Retail Banking category). Now, more than 20,000 active customers within large companies, measured by the number of customers doing business with Bankia, which positions the Entity like one of the most relevant in the national market in this business segment.

The customer basis is highly diversified between different productive and economic sectors, especially service sector, manufacturing, followed by construction, commerce and supply. The Entity has traditionally had a large number of customers in the medium and large company segment in two of the three biggest business markets: Madrid and Valencia. Bankia also has good penetration among companies in other regions where it is a strong player such as, La Rioja, the Canary Islands, Castilla la Mancha.

Bankia Group business model in this segment is customer-oriented and strongly supported by specialist teams, which focus on long-term profitability and customer management. The model distinguishes between different segments and distribution channels:

- Business Banking. Business Banking targets growth in the banking business of companies with annual revenue of over EUR 6 million (including those belonging to the corporate segment). It has a network of 59 centres throughout Spain, concentrated in the regions with the greatest business activity. A network of specialist managers are responsible for serving customers and bringing in business. They are assigned a limited number of customers -structuring portfolios where the region's critical mass allows based on the business's revenues- so that they can provide personalised service. The managers also receive support by a team of experts in legal, tax, risk approval and management, marketing and specialised products.

- Corporate Banking. This segment caters to Bankia's largest accounts, which have several common denominators: the size of the businesses (over EUR 300 million in annual sales), groups comprising a large number of companies, and the demand for more complex and sophisticated financial services. Commercial coverage of Corporate Banking customers is provided by two centres, in Madrid and Barcelona, staffed by industry specialists, working in conjuntion with the Capital Markets products teams.

- Capital Markets. The Capital Markets segment consists of a number of areas specialising in products, offering specific financial products demand mainly by Business Banking and Corporate Banking customers.

These segments and distribution channels come in addition to a powerful online banking service, which allows client companies to carry out practically all their transactional operations.

Other initiatives designed to support Spanish businesses, both domestically and internationally, are ICO facilities, foreign trade credits and guarantees and loans to SMEs supported by European Investment Bank (EIB) lines.

The commercial strategy is predicated on active management of total returns for clients, combining a price discipline that sets floor prices based on the cost of funds and the client's risk (assessed using Bank of Spain-approved internal models) and the active search for cross-selling opportunities, efficiency in capital consumption by including the RaR approach to transactions.

To control and manage risk, there are Business Banking teams that report hierarchically and functionally to the Corporate Risk Department, whose objective is to analyse risks, admit them as appropriate, and monitor them as needed. Meanwhile, centralised teams provide support to transactions with large corporations and institutions.

Corporate Centre

The Corporate Centre includes the rest of the businesses and activities other than Retail Banking and Business Banking, including, among others, Investees and assets or portfolios affected by the Restructuring Plann, most of which are classified as Non-current assets held for sale.

Bankia also has a large and diverse portfolio of investees, including subsidiaries, as well as associates and jointly-controlled entities. It is currently divesting of the holdings in accordance with the Restructuring Plan and the Strategic Plan. Disposals are being carried out in an orderly fashion, taking into consideration business and profitability criteria.

3.- ACTIVITY AND RESULTS

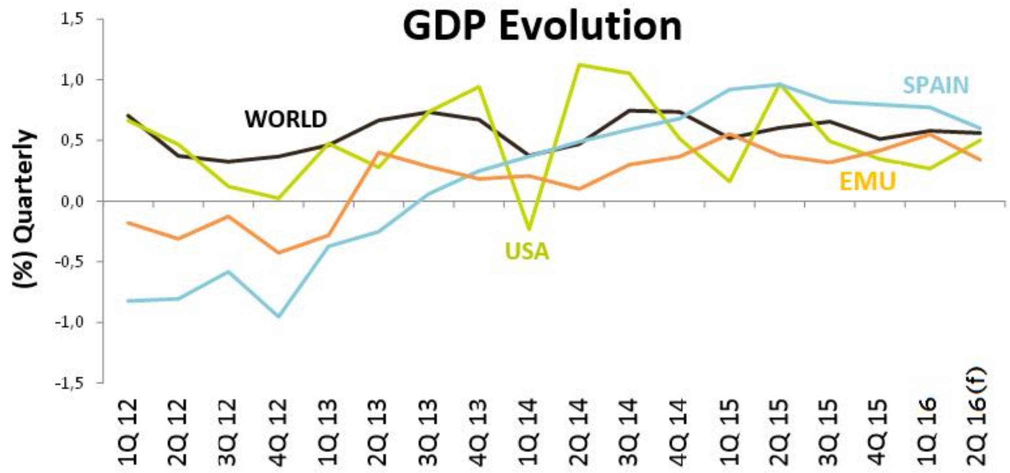
3.1.- Economic and financial backdrop

The global scenario remained fairly stable throughout the first half of 2016, although the unexpected 'Brexit' victory in the United Kingdom's EU referendum on 23 June complicated matters again. Fears of global recession receded, thanks to the recovery in the US. Financial markets overcame the tensions experienced at the beginning of the year and commodity prices, especially oil, rebounded sharply, helping to shore up confidence over the energy sector and emerging economies. However, Brexit points to a lengthy period of uncertainty, which could have a considerable adverse impact on Europe, but a limited impact on world growth (initially treated as a regional shock).

For the most part, inflation is still too low in the main developed economies. This is especially the case in the EMU, where it remains close to zero, although a marked increase in oil prices bolsters expectations that inflation has bottomed out. Against this backdrop, the ECB adopted further expansionary measures at its March meeting: it cut its intervention and deposit rates to 0% and -0.4%, respectively; it extended and strengthened its asset purchase programme; and it announced four new liquidity injections, with highly attractive terms and conditions.

The improved performance of risk assets at the start of the second quarter gave way to a spike in volatility and uncertainty arising from the UK referendum. Brexit's impact on financial markets, and ultimately on the real economy, fostered expectations of fresh monetary stimuli and purchases of safe-haven assets, favouring government debt: the yields on a large majority of bonds of the main countries hit new lows in June, most notably the German 10-year Bund, whose yield fell below 0% for the first time ever. The Spanish benchmark 10-year Bono also received a boost from the outcome of general elections, with the yield falling below that of its Italian counterpart for the first time in the past year.

Economic activity in Spain continued to expand in the first half of 2016, even outperforming expectations at the beginning of the year. GDP growth remained vigorous, reaching rates of around 0.7%/0.8% quarter-on-quarter, fuelled by robust domestic demand underpinned by favourable financing conditions and strong job creation (the number of registered employed is at a six-year high). The trade balance continued to improve (the current account surplus stands at an all-time high), thanks to healthy exports, coupled with a reduction in the energy bill.



Source: Thomson Reuters and Bankia´ Research Department. (f) Forecast

The good performance of the Spanish economy has been reflected in the situation of the banking system, which has shown improve over the year in fundamental business aspects, such as: the growth of lending to households and SMEs, despite deleveraging; the steady decline in the NPL ratio, which is back in single digits for the first time since June 2012; and the improvement in capital strength. However, profitability remains weak due to the interest rate environment and reduced business volumes, despite the return to more normal levels of provisioning, requiring greater cost control. Brexit could also harm the sector, due to the high direct exposure to the United Kingdom of some of Spain's large institutions.

3.2.- Financial performance in the first half of 2016

Sections 3.3, 3.4 and 3.5 below include a summary of basic data and comments on trends in Bankia's main balance sheet and income statement items in the first half of 2016.

The first half of 2016 featured the sale of City National Bank of Florida (CNBF), completed in October 2015, affecting the year-on-year performance of the consolidated income statement for period, as the company’s results were included in the figures for the first half of 2015, but not in the Group's consolidated financial statements for the first half of 2016. The following sections includes comments on the impact of the sale of CNBF on balance sheet and income statement trends where the impact is material on some of the related items.

In addition, for the purposes of presentation, the Group's interim financial statements for the six months ended 30 June 2016 were prepared considering adaptation of the content of public financial reporting to the criteria for preparation, terminology, definitions and formats of FINREP statements, which are mandatory for the supervisory consolidated financial information prepared applying the International Financial Reporting Standards adopted by the European Union in Commission Implementing Regulation (EU) No 680/2014, of 16 April, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

In this respect, the information at 31 December 2015 and 30 June 2015 has been adapted to the new formats to facilitate comparability between the financial information of the respective periods.

3.3.- Key figures

KEY FIGURES DATA - BANKIA GROUP			
Balance (Millions of euros) (*)	**Jun-16**	**Dec-15 (1)**	**Variation**
Total assets	203,501	206,970	(1.7%)
Net loans and receivables from customers	109,794	110,570	(0.7%)
Gross loans and receivables from customers	116,475	117,977	(1.3%)
Balance sheet customer funds	132,323	132,629	(0.2%)
Customer deposits	107,908	108,702	(0.7%)
Debt securities issued	24,414	23,927	2.0%
Total customer managed funds (2)	155,360	155,402	(0.03%)
Total turnover (3)	265,154	265,971	(0.3%)
Equity	12,795	12,696	0.8%
Solvency and leverage ratio (%) (*)	**Jun-16**	**Dec-15**	**Variation**
Commom Equity Tier I (CET 1) - BIS III Phase In	14.57%	13.96%	+0.61 p.p.
Solvency ratio - Ratio Total capital ratio BIS III Phase In	15.89%	15.24%	+0.65 p.p.
Risk weighted assets BIS III	77,586	80,855	(4.0%)
Leverage ratio Phase In (Delegated Regulation 2015/62)	5.75%	5.65%	+0.10 p.p.
Risk management (Millions of euros and %) (*)	**Jun-16**	**Dec-15**	**Variation**
Total risk	122,109	122,929	(0.7%)
Non preforming loans	11,751	12,995	(9.6%)
Provisions for credit lose	7.141	7,794	(8.4%)
NPL ratio	9.6%	10.6%	(1.0) p.p.
Coverage ratio	60.8%	60.0%	+0.8 p.p.
Profit / Losses (Millions of euros)(*)	**Jun-16**	**Jun-15 (1)**	**Variation**
Net interest income	1,124	1,388	(19.1%)
Gross income	1,686	2,029	(16.9%)
Operating income /(expenses) before provisions	900	1,186	(24.2%)
Operating income /(expenses)	696	864	(19.4%)
Profit/ Losses before tax from continuing operations	639	753	(15.1%)
Profit/ Losses after tax	481	562	(14.3%)
Profit/ Losses attributable to owners of the parent	481	556	(13.4%)
Key ratio (%)	**Jun-16**	**Jun-15**	**Variation**
Efficiency	46.6%	41.5%	+5.1 p.p.
R.O.A. (Profit/(Losses) after tax / ATAs) (4)	0.5%	0.5%	(0.0) p.p.
R.O.E. (Profit/(Losses) attributed / Own funds) (5)	8.2%	9.8%	(1.6) p.p.
Bankia's share	**Jun-16**	**Dec-15**	**Variation**
Weighted average number of shares (millions)	11,471	11,472	(0.01%)
Market price at close	0.65	1.07	(39.9%)
Additional information	**Jun-16**	**Dec-15**	**Variation**
Numbers of employees	13,449	13,571	(0,9%)

(*) Interim Financial Statements amounts rounded to millions of euros
(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.
(2) Comprises customer deposits, marketable debt securities and off balance sheet funds managed
(3) Comprises net loans and advances to customer, on and off balance sheet funds managed
(4) Annualised Profit after tax/ average total assets
(5) Annualised Profit attributable /average own founds

3.4.- Highlights of the balance sheet

CONSOLIDATED BALANCE SHEET - BANKIA GROUP				
			Change on Dec -15	
(Millions of euros) (*)	Jun-16	Dec-15 [1]	Importe	%
Cash and cash balances at central banks and other demand deposits	2,462	4,042	(1,580)	(39.1%)
Financial assets held for traiding	11,697	12,202	(505)	(4.1%)
Derivatives	11,529	12,076	(546)	(4.5%)
Debt securities	99	54	45	84.6%
Equity instruments	69	72	(4)	(5.3%)
Available for sales financial assets	29,909	31,089	(1,180)	(3.8%)
Debt securities	29,884	31,089	(1,205)	(3.9%)
Loans and receivables	115,820	116,713	(894)	(0.8%)
Debt securities	603	762	(160)	(20.9%)
Credit institutions	5,423	5,381	42	0.8%
Customers	109,794	110,570	(776)	(0.7%)
Held to maturity investments	25,043	23,701	1,342	5.7%
Derivatives-Hedge accounting	4,141	4,073	68	1.7%
Investments in subsidiaries, joint ventures and associates	288	285	3	1.1%
Tangible and intangible assets	2,254	2,261	(7)	(0.3%)
Non current assets and disposal groups classifies asheld for sale	2,679	2,962	(283)	(9.5%)
Remaining assets	9,208	9,642	(433)	(4.5%)
TOTAL ASSETS	203,501	206,970	(3,468)	(1.7%)
Financial liabilities held for trading	12,245	12,408	(163)	(1.3%)
Financial liabilities measured at amortised cost	174,549	176,276	(1,727)	(1.0%)
Deposits from central banks	16,968	19,474	(2,506)	(12.9%)
Deposits from credit institutions	24,154	23,228	925	4.0%
Customer deposits	107,908	108,702	(794)	(0.7%)
Debt Securities issued	24,414	23,927	488	2.0%
Others financial liabilities	1,105	945	159	16.9%
Derivatives-hedge accounting	944	978	(34)	(3.5%)
Provisions	1,484	2,898	(1,415)	(48.8%)
Remaining liabilities	1,485	1,714	(229)	(13.4%)
TOTAL LIABILITIES	190,706	194,274	(3,567)	(1.8%)
Minority interests (Non controlling interests)	47	66	(20)	(29.6%)
Accumulated other comprehensive income	659	696	(36)	(5.2%)
Own funds	12,089	11,934	155	1.3%
TOTAL EQUITY	12,795	12,696	99	0.8%
TOTAL LIABILITIES AND EQUITY	203,501	206,970	(3,468)	(1.7%)

(*) Interim Financial Statements amounts rounded to millions of euros
(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.

- Summary of Group Activities

The Bankia Group had total assets and total liabilities at 30 June 2016 of EUR 203,501 million, a decrease of 1.7% from 2015. At 30 June 2016, "Loans and receivables from customers", under assets, and "Customer deposits" under liabilities, made up slightly over half of the total assets and liabilities respectively.

The Group's activity in the first half of 2016 showed a good performance in new lending in the key segments for Bankia of consumer and SME lending. This positive commercial trend, coupled with increasingly less private sector deleveraging in Spain, helped stabilise the volume of the Group's lending, which at June 30 2016 did not show any major decline from the end of 2015.

In terms of customer funds under management, the positive trend in strict customer deposits and off-balance sheet funds continued, showing a combined increased of 1,951 million euros (+1.6%) since December 2015. This evolution was fuelled by efforts to attract funds in the retail and business banking networks, as well as by organic growth in assets managed, mainly in investment funds.

Movements in the main balance sheet items during the first half of 2016 are discussed below.

- Loans and receivables

Note 3 and Appendices VII and VIII of the notes to the Bankia Group's interim financial statements provide details on loan approval policies, NPL monitoring, debt refinancing and recovery of the Bankia Group with respect to credit risk. Also provided in this note and appendices is the breakdown of credit risk by product, as well as the distribution of Loan to Value (LTV) of secured loans, the maturity profile, the detail of refinancing and restructuring operations, along with additional information on loans for property development, home purchases and property assets foreclosed or received in payment of debts. Therefore, from a management perspective, this point looks at trends in loans and receivables in first half of 2016 and the main movements therein.

Loans and receivables amounted to EUR 115,820 million at 30 June 2016, not registering a significant variation (-0.8%) from year-end 2015.

Under this item, loans and receivables from customers totalled EUR 109,794 million, down a slight EUR 776 million (-0.7%) from 31 December 2015. In gross terms (i.e. before provisions), performing loans (excluding doubtful loans) were stable (-0.2%). Stabilisation of lending reflects, on the one hand, the Group's strategic commitment to reinforce lending growth in key segments (e.g. consumer finance and SMEs) and, on the other, the market environment, in which system deleveraging has eased considerably. Both factors are virtually offsetting the amortisations that occur naturally as the Group's back book of loans, mainly retail mortgages, matures.

Also noteworthy was the new decrease in NPLs in the first half of 2016 (EUR -1,341 million, gross), achieved through sales of portfolios and organically due to the smaller volume of inflows of new NPLs and the reinforcement of recovery activity.

The following table presents movements in loans and receivables from customers (gross balances) of the Bankia Group in the first half of 2016:

LOANS AND RECEIVABLES FROM CUSTOMERS BANKIA GROUP				
			Change on Dec 15	
(Millions of euros) (*)	Jun-16	Dec-15 (1)	Importe	%
Public sector	7,981	5,856	2,126	36.3%
Other financial corporatations	2,032	3,943	(1,911)	(48.5%)
Non-financial corporations	32,315	32,633	(318)	(1.0%)
Households	74,147	75,546	(1,399)	(1.9%)
Gross loans and receivables from customers	116,475	117,977	(1,502)	(1.3%)
Minus: Doubtful credit	10,911	12,252	(1,341)	(10.9%)
Performing loans and receivables from customers	105,564	105,725	(161)	(0.2%)

(*) Interim Financial Statements amounts rounded to millions of euros
(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.

There was an increase in “Public sector” of EUR 2,126 million, mainly due to the reclassification in the first half this year of Bankia's balances with BFA, which in December 2015 were recognised under “Non-financial corporations”. These balances include, mainly, temporary acquisitions of assets and collection rights on amounts to be reimbursed by BFA due to its assumption of 60% of the estimated contingencies arising from Bankia's IPO (see Note 14 to the Bankia Group's interim financial statements for the six months ended 30 June 2016). “Households” showed a decline of EUR 1,502 million in the first half of 2016. The trend in this item, which basically includes consumer finance and mortgage loans for home buying, largely explains the slight fall in loans and receivables from customers in the first half of the year.

· Debt securities

The Group's management of the securities portfolio is based on prudence and profitability regarding the type of bonds included, their liquidity, credit quality and investment horizon. Debt securities at 30 June 2016, recognised under available-for-sale financial assets, held-to-maturity investments, financial assets held for trading and loans and receivables amounted to EUR 55,629 million compared to EUR 55,606 million at December 2015. SAREB bonds received make up a large portion of this amount (EUR 17,337 million), coming from the transfers of assets by the Bank to the SAREB in 2012. The remainder comprises sovereign debt, mainly Spanish, and debt from other public and private issuers.

The Group uses part of the debt securities on the balance sheet, mainly sovereign bonds issued by the Spanish treasury, to manage interest rate risk through ALCO portfolios. These portfolios, which amount to approximately EUR 29,000 million, are designed to help hedge structural interest rate risk in the balance sheet, providing recurring income which is included in net interest income. Moreover, as the assets are highly liquid, they help maintain the Entity's liquidity reserves.

The debt securities held by Bankia Group in the "Available-for-sale financial assets", "Loans and receivables" and "Held to maturity investments portfolios", by type of instrument, at 30 June 2016 and December 2015 are as follows:

BANKIA GROUP - DEBT SECURITIES			
(Millions of euros) (*)	Available for sale financial assets	Loans and receivables	Held to maturity investments
Spanish government debt securities	19,864		5,977
Foreign government debt securities	4,498		1,258
Financial institutions	3,920		12
Other debt securities (**)	1,621	534	17,808
Impairment losses and other fair value adjustments	(17)	69	(12)
Total portfolio at 30 june 2016	29,884	603	25,043

(*) Interim Financial Statements amounts rounded to millions of euros

(**) Held to maturity investments includes securities issued by SAREB received in compensation to assets trespassed to SAREB in December 2012.

BANKIA GROUP - DEBT SECURITIES			
(Millions of euros) (*)	Available for sale financial assets	Loans and receivables	Held to maturity investments
Spanish government debt securities	20,235		4,277
Foreign government debt securities	4,231		1,281
Financial institutions	4,749		12
Other debt securities (**)	1,881	704	18,159
Impairment losses and other fair value adjustments	(6)	59	(28)
Total portfolio at 31 December 2015	31,089	762	23,701

(*) Interim Financial Statements amounts rounded to millions of euros

(**) Held to maturity investments includes securities issued by SAREB received in compensation to assets trespassed to SAREB in December 2012.

The main movements in the first half of 2016 were in available-for-sale financial assets and held-to-maturity investments. At 30 June 2016 available-for-sale financial assets stood at EUR 29,884 million, down EUR 1,205 million or (-3.9%) from December 2015, arising from the different maturities of the public and private debt held by the Group in the portfolio. Meanwhile, held-to-maturity investments amounted to EUR 25,043 million at the end of the period, EUR 1,342 million higher than at the end of last year. This variation reflects the purchases of debt securities for the structural portfolio in the first half of the year.

- Financial liabilities at amortised cost

Financial liabilities at amortised cost at June 30, 2016 stood at EUR 174,549 million, down EUR 1,727 million (-1%) from December 2015. This movement was the result of the decline in the volume of ECB financing, repurchase agreements and one-off non-marketable mortgage covered bonds, which have largely been replaced by alternate funding sources, mainly the reduction in the commercial gap and the liquidity obtained from increased activity in wholesale funding markets, both short and long term, through new issuances.

FINANCIAL LIABILITIES AT AMORTISED COST - BANKIA GROUP				
			Change on Dec 15	
(Millions of euros) (*)	Jun-16	Dec-15 (1)	Amount	%
Deposits from central banks	16,968	19,474	(2,506)	(12.9%)
Deposits from credit institutions	24,154	23,228	925	4.0%
Customer deposits	107,908	108,702	(794)	(0.7%)
Public sector	6,947	6,779	168	2.5%
Other financial corporations	7,924	8,498	(574)	(6.8%)
Non-financial corporations	13,036	12,227	808	6.6%
Households	70,660	69,376	1,284	1.9%
Repos	3,885	5,237	(1,352)	(25.8%)
One-off non-marketable mortgage-backed securities	5,457	6,584	(1,127)	(17.1%)
Debt Securities issued	24,414	23,927	488	2.0%
Other financial liabilities	1,105	945	159	16.9%
Total liabilities at amortised cost	174,549	176,276	(1,727)	(1.0%)

(*) Interim Financial Statements amounts rounded to millions of euros
(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.

Deposits from central banks and deposits from credit institutions

ECB financing decreased from December 2015 to EUR 16,968 million at 30 June 2016, causing a drop in deposits from central banks of EUR 2,506 million (-12.9%) in the first half of the year. This decrease came on the back of maturities and early redemptions of the short-term funds raised from the ECB (MRO) in the first half of 2016, which were replaced, at a lower amount, with liquidity raised in the new TLTRO auctions. At the end of June 2016, 88% of ECB financing (EUR 14,967 million) comprised amounts taken in TLTRO I auctions (EUR 3,651 million) and TLTRO II auctions (EUR 11,316 million). The remainder was financing raised in short-term auctions (MRO).

Meanwhile, deposits from credit institutions barely changed from the end of the year, recording an increase of EUR 925 million in the first half of 2016.

Customer deposits

Customer deposits ended June 2016 at EUR 107,908 million, down EUR 794 million from 2015 (-0.7%). This performance reflects the decrease in the volume of repurchase agreements carried out, mainly, through clearing and settlement houses (EUR -1,352 million) and the redemption of one-off non-marketable mortgage covered bonds in the first half of the year (EUR -1,127 million), as strict customer deposits have fared extremely well since the end of 2015.

Within customer deposits, strict customer deposits (i.e. excluding repurchase agreements and one-off non-marketable mortgage-back securities) ended June 2016 at EUR 98,567 million, an increase of EUR 1,686 million or (+1.7%) from December 31, 2015. Noteworthy was the growth of current accounts of non-financial corporations (companies) and the retail network (households) of 15.2% and 9.6%, respectively, attracting part of the balances that customers are transferring out of term deposits, whose yields are falling as market interest rates decline.

In this respect, with interest rates their lowest levels ever, the Bankia Group opted for a commercial policy aimed at offering customers higher-yielding off-balance sheet products, implying growth in off-balance sheet funds managed by 1.2% since the start of the year. Investment funds delivered the best performance of any product in the first half of 2016. Thanks to healthy subscription, the balance of investment funds managed by the Group increased by 3.8%, extending the upward trend seen in 2015.

CUSTOMER DEPOSITS - BANKIA GROUP

			Change on Dec 15	
(Millions of euros) (*)	Jun-16	Dec-15 (1)	Amount	%
Strict customer deposits	98,567	96,881	1,686	1.7%
Public sector	6,947	6,779	168	2.5%
Other financial corporations	7,604	8,498	(894)	(10.5%)
Current accounts	3,018	3,726	(707)	(19.0%)
Term deposits (2)	4,586	4,772	(187)	(3.9%)
Non-financial corporations	13,355	12,227	1,128	9.2%
Current accounts	7,870	6,832	1,038	15.2%
Term deposits	5,485	5,396	90	1.7%
Households	70,660	69,376	1,284	1.9%
Current accounts	35,923	32,785	3,138	9.6%
Term deposits	34,737	36,591	(1,854)	(5.1%)
One-off non-marketable mortgage-backed securities	5,457	6,584	(1,127)	(17.1%)
Repos	3,885	5,237	(1,352)	(25.8%)
Total customer deposits	107,908	108,702	(794)	(0.7%)
Investment funds	13,053	12,580	473	3.8%
Pension funds	6,347	6,436	(89)	(1.4%)
Insurances	3,638	3,757	(119)	(3.2%)
Total off balance sheet funds	23,038	22,773	265	1.2%

(*) Interim Financial Statements amounts rounded to millions of euros
(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.
(2) Excluded one-off mortgage-backed securities, which are displayed in a separate section

As a result, the total balance of strict customer deposits and off-balance sheet funds grew EUR 1,951 million in the first half of 2016.

Debt securities issued

In the first half of 2016, the Bankia Group continued to, selectively, tap the fixed-income markets with issues, striving to adapt deal sizes to its structural liquidity needs and maintaining an appropriate funding structure. This way, taking advantage of the lower-interest-rate market environment and the support of the Group's management and solvency, it successfully placed EUR 2,000 million in two issues of mortgage covered bonds, in January and March 2016.

The total balance of debt securities issued at end-June 2016 stood at EUR 24,414 million, up EUR 488 million from December 31, 2015.

- Provisions

Provisions recognised on the Group's balance sheet at June 2016 amounted to EUR 1,484 million, a reduction of EUR 1,415 million (-48.8%) from December 31, 2015. This decrease was due mainly to the use of a large part of the funds set aside in 2014 and 2015 to cover the contingencies derived from civil lawsuits in relation to Bankia's 2011 IPO.

Pursuant to the Transactional Agreement between Bankia and its parent, BFA, entered into on 27 February 2015, and the amendment thereto approved by Bankia’s Board of Directors on 23 December 2015, the amount of provisions in this connection was estimated at EUR 1,840 million. In 2015, the Group used EUR 65 million to meet the costs of claims settled and paid, as well as all costs related to this contingency, leaving a balance at end-December 2015 of EUR 1,775 million. In the first half of 2016, another EUR 1,477 million were used, leaving the balance of this provision at 30 June 2016 at EUR 298 million. The reduction in the provision related to Bankia’s IPO, coupled with new allowances for other reasons and provisions released in the first half of 2016, mainly for commitments and guarantees given, resulted in a total decrease of EUR 1,415 million in “Provisions” in the balance sheet at 30 June 2016.

- Total equity

The Group's total equity at June 2016 amounted to EUR 12,795 million, up EUR 99 million from the end of the previous year after including retained earnings.

In equity, "Minority interests" and "Accumulated other comprehensive income" decreased by EUR 20 million and EUR 36 million, respectively. The decrease in minority interests was due to the fall in accumulated profits by companies that are not wholly owned by Bankia. Accumulated other comprehensive income was lower due to the decrease of unrealised gains on fixed income assets classified as available for sale.

3.5.- Highlights of the income statement

BANKIA GROUP CONSOLIDATED INCOME STATEMENT			Change on Jun-15	
(Millions of euros) (*)	Jun-16	Jun-15 (1)	Amount	%
Net interest income	1,124	1,388	(264)	(19.1%)
Dividend income	4	5	(1)	(14.2%)
Share of profit/loss of companies accounted for using the equity method	21	17	3	19.1%
Total net fees and commissions income	406	481	(75)	(15.5%)
Gain and losses on financial assets and liabilities	119	151	(32)	(21.2%)
Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net	143	232	(89)	(38.2%)
Gains or (-) losses on financial assets and liabilities held for trading, net	5	(35)	40	(113.4%)
Gains or (-) losses from hedge accounting, net	(29)	(46)	17	(36.5%)
Exchange differences	15	11	4	36.1%
Other operating income and other operating expenses, net	(3)	(24)	21	(88.1%)
Gross income	1,686	2,029	(343)	(16.9%)
Operating expenses	(786)	(843)	57	(6.7%)
Administrative expenses	(711)	(774)	63	(8.2%)
Staff expenses	(465)	(495)	29	(5.9%)
Other administrative expenses	(245)	(279)	34	(12.1%)
Depreciation and amortisation expenses	(76)	(69)	(7)	9.4%
Pre impairment income	900	1,186	(287)	(24.2%)
Provisions or (-) reversal of provisions	(52)	35	(87)	(248.6%)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(151)	(357)	206	(57.6%)
Total operating income, Net	696	864	(168)	(19.4%)
Impairment or (-) reversal of impairment on non-financial assets	(8)	(10)	2	(17.8%)
Other gain and losses	(49)	(102)	53	(52.0%)
Profit/ (loss) before tax from continuing operations	639	753	(113)	(15.1%)
Tax expense related to profit from continuing operations	(158)	(191)	33	(17.5%)
Profit/ (loss) after tax from continuing operations	481	562	(80)	(14.3%)
Profit/(loss) from discounted operations	0	0	-	-
Profit/ (loss)	481	562	(80)	(14.3%)
Profit/ (loss) attributable to minority interests (non- controlling interests)	0	6	(6)	(100.0%)
Profit/ (loss) attributable to owners of the parent	481	556	(74)	(13.4%)
Main ratios				
Efficiency ratio (2)	46.6%	41.5%	+5.1 p.p.	12.3%
ROA (3)	0.5%	0.5%	(0.0) p.p.	(4.0%)
ROE (4)	8.2%	9.8%	(1.6) p.p.	(16.1%)

(*) Interim Financial Statements amounts rounded to millions of euros
(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.
(2) (Administration expenses + Depreciation and Amortizations) / Gross margin
(3) Annualised profit after tax / Average total assets
(4) Annualised profit attributable to the group/Average own funds

BANKIA GROUP CONSOLIDATE INCOME STATEMENT - QUARTERLY TREND

(Millions of euros) (*)	2Q 16	1Q 16	4Q 15 (1)	3Q 15 (1)	2Q 15 (1)	1Q 15 (1)
Net interest income	546	577	665	688	695	693
Dividend income	3	0	0	1	3	1
Share of profit/loss of companies accounted for using the equity method	13	8	8	7	12	6
Total net fees and commissions income	207	200	229	228	248	233
Gain and losses on financial assets and liabilities	58	61	57	73	78	73
Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net	71	73	84	94	130	102
Gains or (-) losses on financial assets and liabilities held for trading, net	(2)	7	(2)	2	(27)	(8)
Gains or (-) losses from hedge accounting, net	(10)	(19)	(25)	(23)	(26)	(21)
Exchange differences	8	7	9	10	13	(1)
Other operating income and other operating expenses, net	(2)	(1)	(192)	(4)	(11)	(13)
Gross income	833	853	776	1,001	1,037	992
Operating expenses	(387)	(399)	(401)	(414)	(420)	(423)
Administrative expenses	(349)	(362)	(361)	(376)	(384)	(390)
Staff expenses	(227)	(239)	(234)	(242)	(244)	(250)
Other administrative expenses	(122)	(124)	(127)	(134)	(140)	(140)
Depreciation and amortisation expenses	(38)	(37)	(39)	(38)	(36)	(33)
Pre impairment income	446	454	375	587	617	569
Provisions or (-) reversal of provisions	(24)	(28)	(192)	5	12	23
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(64)	(87)	(70)	(156)	(159)	(198)
Total operating income, Net	359	338	113	436	470	394
Impairment or (-) reversal of impairment on non-financial assets	(6)	(2)	42	(4)	(9)	(2)
Other gain and losses	(28)	(21)	141	(29)	(45)	(57)
Profit/ (loss) before tax from continuing operations	324	315	296	403	417	336
Tax expense related to profit from continuing operations	(79)	(78)	(110)	(90)	(105)	(86)
Profit/ (loss) after tax from continuing operations	245	237	185	314	312	250
Profit/(loss)from discounted operations	0	0	0	0	0	0
Profit/ (loss)	245	237	185	314	312	250
Profit/ (loss) attributable to minority interests (non- controlling interests)	0	0	1	14	1	5
Profit/ (loss) attributable to owners of the parent	245	237	185	300	311	244

(*) Interim Financial Statements amounts rounded to millions of euros

(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.

BANKIA GROUP CONSOLIDATE INCOME STATEMENT - HIGHLIGHTS						
	June 2016			June 2015 [1]		
(Millions of euros) (*)	Amount	% of gross income	% of average total assets	Amount	% of gross income	% of average total assets
Net income interest	1,124	66.7%	1.1%	1,388	68.4%	1.2%
Gross income	1,686	-	1.7%	2,029	-	1.8%
Operating expenses	(786)	(46.6%)	(0.8%)	(843)	(41.5%)	(0.7%)
Administrative expenses	(711)	(42.2%)	(0.7%)	(774)	(38.1%)	(0.7%)
Depreciation and amortization expenses	(76)	(4.5%)	(0.1%)	(69)	(3.4%)	(0.1%)
Provisions (-) reversal of provisions	(52)	(3.1%)	(0.1%)	35	1.7%	0.0%
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(151)	(9.0%)	(0.1%)	(357)	(17.6%)	(0.3%)
Total operating income, Net	696	41.3%	0.7%	864	42.6%	0.8%
Impairment or (-) reversal of impairment on non-financial assets	(8)	(0.5%)	(0.01%)	(10)	(0.5%)	(0.0%)
Other gains and losses	(49)	(2.9%)	(0.05%)	(102)	(5.0%)	(0.1%)
Profit/loss before tax from continuing operations	639	37.9%	0.6%	753	37.1%	0.7%
Tax expense related to profit from continuing operations	(158)	(9.4%)	(0.2%)	(191)	(9.4%)	(0.2%)
Profit /losses after tax from continuing operating	481	28.6%	0.5%	562	27.7%	0.5%
Profit/loss from discounted operations	-	-	-	-	-	-
Profit/loss	481	28.6%	0.5%	562	27.7%	0.5%
Profit/loss attributable to minority interests (non-controlling interests)	-	-	-	6	0.3%	0.01%
Profit/loss attributable to owners of the parent	481	28.6%	0.5%	556	27.4%	0.5%

(*) Interim Financial Statements amounts rounded to millions of euros
(1) Data adapted as indicated in Note 1.5 of the Consolidated Interim Financial Statements ended June 30, 2016.

- Overview of Group earnings

The Bankia Group reported profit attributable to owners of the parent of EUR 481 million, down EUR 74 million (-13.4%) from same period 2015.

These results were shaped by the same negative factors affecting the banking industry as a whole last year, such as low market rates of interest, which primarily affected the returns on the retail business and fixed-income portfolios, and other Bankia Group-specific factors, such as the deconsolidation of CNBF after its sale in October 2015 and the start-up of commercial strategies without fees and commissions designed to boost customer loyalty.

In this business context, in the first half of 2016 the Group consolidated the progress made last year in key management aspects, such as cost containment and risk management. This drove a considerable reduction in operating expenses and provisions compared to the first half of 2015.

Main movements in the Group's income statement items are discussed below.

- Net interest income

Net interest income for the Group totalled EUR 1,124 million in the first half of 2016, down EUR 264 million (-19.1%) from the same period in 2015. Of this amount, EUR 72 million arose from the exclusion of City National Bank of Florida from the Group's consolidation scope, as the sale was completed on 16 October 2015. Stripping out this negative impact, net interest income would have decreased by EUR 192 million (-14.6%).

The performance of net interest income was impacted by the market environment, which saw the Euribor rate set another all-time low, considerably affecting returns on the mortgage and fixed-income portfolios.

The following table shows trends in net interest income in first half 2016 and 2015, with average balances of income and expenses for the various items comprising total investment and funds, and the impact of changes in volumes and prices on the overall trend in net interest income in the first half of 2016.

STRUCTURE OF INCOME AND EXPENSES - BANKIA GROUP

	June 2016			June 2015			Variation		Effect	
(Millons of euros y %) (*)	Average balance	Income/ Expenses	Yield / Cost	Average balance medio (1)	Income/ Expenses	Yield / Cost	Average balance (1)	Income/ Expenses	Yield / Cost	Volume
Finance income										
Credit institutions (2)	7,081	11	0.30%	8,524	3	0.06%	(1,443)	8	10	(2)
Loans and receivables from customers(a)	109,982	989	1.81%	117,726	1,251	2.14%	(7,744)	(263)	(196)	(67)
Debt securities	55,286	404	1.47%	62,787	653	2.10%	(7,501)	(249)	(195)	(54)
Other interest bearing assets	354	3	1.98%	376	4	2.08%	(21)	(0)	(0)	(0)
Other non-interest bearing assets	31,429	-	-	39,817	-	-	(8,388)	-	-	-
Total assets (b)	204,133	1,407	1.39%	229,229	1,911	1.68%	(25,096)	(504)	(335)	(169)
Financial expenses										
Credit institutions (2)	40,648	44	0.22%	56,259	61	0.22%	(15,610)	(16)	0.4	(17)
Customer deposits (c)	107,170	152	0.29%	110,199	379	0.69%	(3,029)	(227)	(223)	(4)
Strict customer deposits	95,415	135	0.28%	99,378	334	0.68%	(3,963)	(199)	(194)	(5)
Repos	5,694	0.2	0.01%	3,310	1	0.03%	2,384	(0.4)	(0.5)	0.1
Singular bonds	6,062	17	0.58%	7,512	45	1.21%	(1,451)	(28)	(23)	(4)
Debt Securities issued	24,788	84	0.68%	24,407	81	0.67%	381	2	1	2
Other interest bearing liabilities	969	4	0.73%	1,385	2	0.32%	(416)	1	3	(2)
Other non-interest bearing liabilities	17,936	-	-	24,255	-	-	(6,319)	-	-	-
Equity	12,623	-	-	12,724	-	-	(102)	-	-	-
Total Liabilities and Equity (d)	204,133	284	0.28%	229,229	523	0.46%	(25,096)	(239)	(206)	(34)
Customers margin (a-c)		836	1.52%		872	1.45%		(36)	27	(63)
Interest margin (b-d)		1,124	1.11%		1,388	1.22%		(264)	(130)	(135)

(*) Interim Financial Statements amounts rounded to millions of euros
(1) At 30 June 2015, average balances include interest bearing assets and interest- bearing liabilities of City National Bank of Florida, which was sold in October 2015.
(2) Includes central banks and credit institutions.

Interest on loans and receivables from customers fell EUR 263 million to EUR 989 million at June 2016. This evolution is due to several factors. First, the reason behind this was the continued downward repricing of the mortgage portfolio on the back of further declines in Euribor rates in first half of 2015, reaching negative levels for the first time ever (the 12-month Euribor ended the year at -0.028% in June 2016 compared to 0.163% the year before). Other factors on top of the decline in the yield curve include the absence of CNBF's contribution, credit deleveraging and the elimination of floor clauses, which are no longer included in retail mortgage loans. All of these factors fed through the average interest rate on lending portfolios in the first half of 2016, which was 1.81%, down 33bp from year-earlier figure. However, as explained below, lower income from lending was accompanied by a decrease in the prices of liabilities which, coupled with a more profitable mix of new loan arrangements, made up for the lower profitability of the loan book. As a result, the customer margin stood at 1.52% at the end of the first half of 2016, 7 basis points more than at 30 June 2015.

In addition, finance income from securities portfolios in the first half this year was down by EUR 249 million over the same period last year. This was mostly because of the lower profitability of Spanish sovereign debt, as illustrated by the downward repricing of SAREB bonds and, to a lesser extent, the reduction in average balances of the portfolios.

As a result of all these factors, the Group's average return on assets in 2016 was 1.39%, 29bp lower than the same period in 2015.

The lower cost of funding was what enabled the Group to make up for the fall in returns on assets. Finance costs for the Group in the first half of 2016 fell by 46% (EUR 239 million) from the same period last year. Most of the reduction was in the cost of customer deposits (EUR -227 million), the average rate of which was 40bp lower than in the same period in 2015 thanks to the sharp reduction in the average price of new term deposits arranged, in line with the overall situation of financial markets.

In addition, the reduction in average balances with the European Central Bank brought down the cost of the Bankia Group's funding in the first half of 2016, driving a EUR 16 million reduction in interest expense from financial institutions.

The lower finance cost of retail savings reduced the average cost of the Group’s liabilities by 18bp from the same period last year to 0.28% at 30 June 2016.

That said, the positive performance in funding costs did not fully mitigate the pressure caused by low interest rates on returns from loans and lower income from the fixed-income portfolios, resulting in an 11bps year-on-year decrease in net interest margin to 1.11% at 30 June 2016.

· Gross income

Gross income for Bankia Group in amounted to EUR 1,686 million, down 16.9% from the same period in 2015 (EUR 2,029 million). The breakdown shows a significant weight of income from the core banking business, i.e. net interest income, and fee and commission income, which combined represented nearly 97% of the Group's gross income in June 2016. Stripping out the impact of the deconsolidation of CNBF, the year-on-year decline in gross income was 13.6%.

Net fees and commissions contributed EUR 406 million to the Group's income statement, 15.5% less than in the first half last year. This was the result of the start-up in January of customer loyalty strategies that entailed the elimination of all fees and commissions charged to customers whose income is directly pain into their accounts. The largest impact was on fees and commissions related more closely to the typical banking business (provision of collection and payment services). The fall in fee and commission income in the first half of 2016 was also the result of lower commissions for claims for past-due receivables and management of impaired assets. The decrease in fees and commissions for the management of impaired assets were higher in the first half of 2015 due to the larger volume of sales of non-performing and defaulted loan portfolios.

NET FEES AND COMISSIONS - BANKIA GROUP

			Change on Jun-15	
(Millions of euros) (*)	Jun-16	Jun-15	Importe	%
Traditional banking	184	221	(37)	(16.7%)
Contingent liabilities and commitments	44	47	(3)	(7.4%)
Collection and payment services	141	174	(33)	(19.2%)
Financial product sales	143	144	(1)	(0.7%)
Investment funds	52	53	(1)	(1.2%)
Pensions funds	29	30	(1)	(3.8%)
Insurance and others	61	61	-	-
Total fees and commissions and non-banking financial product sales	327	365	(39)	(10.6%)
Others fees and commissions income	118	157	(38)	(24.5%)
Security services	27	28	(1)	(4.0%)
Operations design and framing	18	19	(1)	(6.1%)
Recovered written off assets	8	31	(23)	(75.0%)
Others	66	79	(13)	(16.3%)
Fees and commission income	445	522	(77)	(14.7%)
Fees and commission expenses	39	41	(2)	(5.4%)
Total net commissions	406	481	(75)	(15.5%)

(*) Interim Financial Statement amounts rounded to millions of euros

Gains and losses on financial assets and liabilities, net made a smaller contribution to the Group's consolidated income statement this year, of EUR 119 million through 30 June 2016 compared to EUR 151 million in the same period last year. This was mainly due to lower sales of fixed-income portfolios.

Other operating income and expenses showed a net expense of EUR 3 million in June 2016, a decrease of EUR 21 million from the figure reported in first half of 2015. This trend is explained mainly by the lower expenses arising from the management of the bank's foreclosed assets, losses caused by fraud, and other irregularities. In the first half of 2016, this item included the annual contribution to the National Resolution Fund, which was due in full in April. In 2015, the contribution was due in December. In addition, the balance this year included the gain attributable to Bankia on the sale of Visa Europe (EUR 58 million).

The other items comprising gross income (dividends, share of other recognised income and expense of entities accounted for using the equity method and exchange differences) did not show any significant changes in balances or movements, although the overall performance was slightly better (EUR 7 million higher) than in the first half of 2015.

· Operating expenses

In line with the efficiency improvement targets, operating expenses (administrative expenses and depreciation and amortisation expenses) were 6.7% lower this year than in the first half of 2015, at EUR 786 million at 30 June 2016. A large portion of this decrease (EUR 45 million) was due to CNBF's deconsolidation. Excluding the impact of CNBF's sale, operating expenses on a constant perimeter basis were down 1.5% year-on-year thanks to cost-containment and streamlining initiatives carried out following the conclusion of the Group's restructuring process. Particularly noteworthy was the 12.1% fall in other administrative expenses, while staff expenses were down 5.9% compared to the first half of 2015.

The efficiency ratio (operating expenses/gross income) at 30 June 2016 stood at 46.6%, which measures up well with the ratios of the main Spanish and European competitors.

ADMINISTRATIVE EXPENSES - BANKIA GROUP				
			Changes on Jun-15	
(Millions of euros) (*)	Jun-16	Jun-15	Amount	%
Staff expenses	465	495	(29)	(5.9%)
Wages and salaries	361	371	(10)	(2.7%)
Social security costs	86	90	(4)	(4.4%)
Pension plans	8	22	(14)	(63.5%)
Others	11	13	(2)	(13.6%)
Administrative expenses	245	279	(34)	(12.1%)
Property, plant and equipment	55	60	(5)	(8.9%)
IT and communications	78	85	(7)	(8.0%)
Advertising and publicity	20	28	(8)	(28.7%)
Technical reports	12	19	(7)	(35.9%)
Surveillance and security courier services	7	7	-	-
Levies and taxes	29	28	1	3.6%
Insurance and self-insurance premiums	2	3	(1)	(24.5%)
Other administrative expenses	43	49	(6)	(12.8%)
Total administrative expenses	711	774	(63)	(8.2%)
Efficiency ratio	46.6%	41.5%	+5.1 pp	12.3%

(*) Interim Financial Statement amounts rounded to millions of euros

- Pre-provision operating income

The evolution of operating income and expenses placed pre-provision profit´s margin in EUR 900 million in June 2016 under the EUR 1,186 million from the first half in 2015.

- Provisions and write-downs

As with operating expenses, the total volume of provisions and impairments has performed positively the first half of 2016. Total provisions for the Group, including provisions for the impairment of financial assets, non-financial assets, non-current assets held for sale (included in “Other gains and losses”) and other allowances recognised totalled EUR 235 million. This is 45.3% lower than the figure reported for the first half of 2015.

Of the total, impairment on financial assets not measured at fair value through profit or loss, which includes mainly provisions for credit losses, amounted to EUR 151 million, marking a sharp decline of 57.6% year-on-year thanks to active management of the Group's risks and, accordingly, the improvement in the credit quality of its portfolios.

Impairment of non-financial assets, mainly goodwill, tangible assets, investment properties and inventories, was 17.8% lower year-on-year at EUR 8 million.

Also noteworthy was the decrease in impairment of non-current assets held for sale, included under “Other gains and losses” in the summary income statement presented in this report. This item totalled EUR 24 million in the first half of 2016, EUR 74 million (-75.5%) less than in the year-ago period, mostly due to the decrease in impairment of the Group's foreclosed real estate assets.

The only item faring worse than last year was provisions, which included provisions for contingent liabilities and commitments, taxes and other legal contingencies, with a negative balance in the first half this year of EUR 52 million. In the first half of 2015, the Group showed a positive balance of EUR 35 million due to guarantees released in the period.

- Other gains and other losses

This item mainly includes impairment of the foreclosed real estate assets indicated above. The balance at 30 June 2016 was negative in the amount of EUR 49 million, EUR 53 million less than the negative figure recognised in the first half of 2015. This improvement underscores the better quality of all of the Group's assets, driving a decrease in impairment of properties and foreclosed real estate assets compared to last year.

- Profit before tax and attributable profit

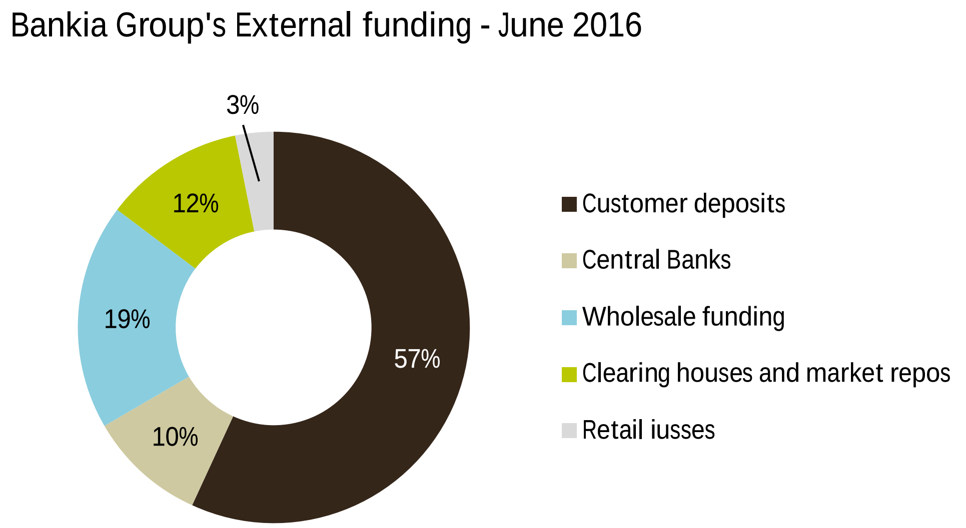
The Bankia Group reported profit before tax from continuing operations of EUR 639 million in the first half of 2016, a decrease of 15.1% from the same period of 2015. After income tax and profit attributed to minority interest, profit attributable to owners of the parent was EUR 481 million, a decrease of 13.4% from last year.

4.- FUNDING STRUCTURE AND LIQUIDITY

The Group's goal is to maintain a long-term financing structure that is in line with the liquidity of its assets and whose maturity profiles are compatible with the generation of stable, recurring cash flows. In line with this goal, in the first half of 2016 the Group achieved improvement in both its liquidity metrics and liability structure.

Note 3.2 to the consolidated interim financial statements for the period ended 30 June 2016 describes Bankia Group's liquidity management policies and provide details on maturities of financial assets and financial liabilities used to project its liquidity balance at different maturities. Accordingly, this section deals with trends in the Group's main liquidity indicators and funding sources in the first half of 2016.

According to the retail business model underpinning the banking activity, the Group's funding structure places priority on attracting retail liabilities, which lend stability to the balance sheet. Therefore, the Bankia Group's main external funding source is customer deposits. The Group also taps the market for finance through repos with clearing houses and the interbank market, issues made on capital markets, issues distributed through the network and balances with the ECB.



The following chart shows trends in the Group's funding structure:

FUNDING SOURCES - BANKIA GROUP						
			Changes on dec -15		Percentage	
(Millions of euros) (*)	Jun-16	Dec-15	Amount	%	Jun-16	Dec-15
Strict customer deposit	98,567	96,881	1,686	1.7%	56.8%	55.3%
Public sector	6,947	6,779	168	2.5%	4.0%	3.9%
Other financial corporations	7,604	8,498	(894)	(10.5%)	4.4%	4.8%
Current accounts	3,018	3,726	(707)	(19.0%)	1.7%	2.1%
Term deposits	4,586	4,772	(187)	(3.9%)	2.6%	2.7%
Non-financial corporations	13,355	12,227	1,128	9.2%	7.7%	7.0%
Current accounts	7,870	6,832	1,038	15.2%	4.5%	3.9%
Term deposits	5,485	5,396	90	1.7%	3.2%	3.1%
Households	70,660	69,376	1,284	1.9%	40.7%	39.6%
Current accounts	35,923	32,785	3,138	9.6%	20.7%	18.7%
Term deposits	34,737	36,591	(1,854)	(5.1%)	20.0%	20.9%
Wholesales funding	32,392	30,669	1,724	5.6%	18.7%	17.5%
Deposits from credit institutions (1)	7,978	6,742	1,236	18.3%	4.6%	3.8%
Debt Securities issued	24,414	23,927	488	2.0%	14.1%	13.6%
Retail issues	5,457	6,584	(1,127)	(17.1%)	3.1%	3.8%
Clearing houses and market repos	20,060	21,723	(1,663)	(7.7%)	11.6%	12.4%
Central banks	16,968	19,474	(2,506)	(12.9%)	9.8%	11.1%
Total external funding sources	173,444	175,331	(1,887)	(1.1%)	100.0%	100.0%

(*) Interim Financial Statements amounts rounded to millions of euros

(1) Includes interbank deposits, collateral posted and other loans and deposits from credit institutions

Customer funds raised continued to perform strongly in the first half of 2016, extending last year's good performance with an absolute increase of EUR 1,686 million and a relative increase in the weight on the balance sheet funding mix. Strict customer deposits at 30 June 2016 represented 56.8% of the Group's external funding sources, compared to 55.3% in December 2015, broken down as follows: (i) 40.7% households, (ii) 7.7% non-financial corporations, (iii) 4.4% other financial corporations and (iv) 4% public sector. In the first half of 2016 customers continued to transfer savings from long-term deposits to current accounts and short-term deposits.

The growth of retail funding sources, alongside a reduction in lending, helped narrow the commercial gap; i.e. the difference between loans (excluding repos) and strict customer deposits, plus funds received from the EIB and ICO for the grant of second-floor loans. The commercial gap at June 2016 stood at EUR 6,180 million, down EUR 3,485 million from the end of 2015. The performance by the commercial gap had a positive impact on the Group's main liquidity ratios. Specifically, the "Loan to deposits" or LTD ratio (net loans/strict customer deposits plus funds raised through second-floor loans and one-off non-marketable mortgage-backed securities) at the end of June 2016 stood at 100.7%, a 2.2pp reduction from December 2015 reflecting the balance achieved between the Group's loans and deposits.

The reduction in the commercial gap led to a decrease of EUR 1,663 million in market repo activity (repos through clearing houses and bilateral repos with other banks) from December 2015, representing 11.6% of the Bankia Group’s external funding sources at 30 June 2016. This activity forms part of the Group's strategy to diversify its funding sources and reduce costs, increasing the sources of liquidity secured by liquid assets other than those of the ECB.

Wholesale funding, which comprises mainly mortgage-backed securities and deposits from credit entities, increased by EUR 1,724 million compared to December 2015, representing 18.7% of the Bankia Group's external funding at June 2016. This increase was due to higher volume of deposits of financial institutions and new debt issues. Through June this year, the Bankia Group seized opportunities to tap the wholesale market with long-term issues, successfully placing EUR 2,000 in two new issues of mortgage-backed securities in January and March.

Meanwhile, retail issues (one-off non-marketable mortgage-backed securities included in loans and advances to customers) declined by EUR 1,127 million, representing 3.1% of the Bankia Group's external funding at first half of 2016.

The reduction in the commercial gap, in addition to the liquidity obtained from wholesale funding operations, reduced the reliance on the ECB by 12.9% to EUR 16,968 million at 30 June 2016. As a result, the weight of central banks on the Bankia Group's funding structure decreased to 9.8% of borrowings compared to 11.1% in December 2015. EUR 14,967 million of the total funding from central banks held by the Bankia Group at end-June 2016 were obtained in the ECB TLTRO programme, EUR 3,501 million more than December 2015 due to new auctions in the first half of 2016.

The net result of all these changes was a EUR 1,887 million (-1.1%) reduction in the level of external funding sources in the first half of 2016.

The Group has a comfortable maturity profile, with EUR 3,710 million of debt issues falling due in 2016 and EUR 1,452 million in 2017, of which EUR 4,174 million are bonds and mortgage-backed securities. To meet these maturities and scheduled redemptions in the coming years, the Group had EUR 32,870 million of available liquid assets at 30 June 2016, equivalent to 16.2% of the Group's assets and sufficient to cover its entire wholesale debt maturities.

Therefore, with scant concentration of significant maturities and a favourable capital market environment, the Bankia Group has a great deal of flexibility to meet its short- or medium-term funding needs.

LIQUIDITY RESERVE - BANKIA GROUP		
(Millions of euros) (*)	Jun-16	Dec-15
Highly liquid available assets [(1)]	19,333	27,199
Undrawn amount on the facility	13,009	5,354
Cash [(2)]	528	2,051
TOTAL	32,870	34,604

(*) Interim Financial Statements amounts rounded to millions of euros

(1) Market value considering the ECB haircut

(2) Notes and coins plus balances at Central Banks less the amount of minimum reserves

5.- CAPITAL MANAGEMENT, SOLVENCY AND LEVERAGE RATIO

Capital management geared at all times to complying with minimum regulatory requirements and with the risk appetite target or level established by the Group is a key cornerstone of the Group's Corporate Risk Appetite and Tolerance Framework.

The entry into force of the solvency requirements known as BIS III on 1 January 2014, which then marked a change and entailed tougher quality and minimum capital requirements, has led to a raft of regulatory changes impacting the solvency of financial institutions. By adequately managing its capital, the Bankia Group has been able to bolster its solvency and minimise the impact of these regulatory changes.

A main cornerstone of capital management is the Capital Planning process, both the short and the medium and long term, designed to assess the sufficiency of present and future capital, even in adverse economic scenarios, in relation to the minimum capital requirements (Pillar I and Pillar II) for each level of capital and at in terms of the target level and optimal structure of capital determined by the governing bodies. For this, the capital buffer requirements affecting the Group are also taken into consideration, along with their direct impact on the Bank's remuneration policy (including the distribution of dividends).

The capital planning process is a holistic process involving all levels of the Entity. Senior management and the Board of Directors play a key role in designing and monitoring capital planning. The capital planning exercise is based on financial planning (e.g. balance sheet, income statement, planned corporate transactions and restrictions included in the Group's Recapitalisation Plan approved by the European Commission and the Spanish Finance Ministry on 28 November 2012), on the macroeconomic scenarios forecast by the Group and on the impact analysis of potential changes in capital adequacy regulations.

Capital planning is aligned and consistent with the Entity’s strategic planning, and establishes a baseline or expected scenario and at least one adverse scenario resulting from the application of a combination of adverse impacts on the expected situation. It also allows to quantify potential impacts on results and solvency according to an economic crisis scenario. The Group has mitigation plans in place to offset impacts in adverse economic scenarios.

Since 2015, in response to the recommendations issued by the various consultative bodies in the industry and the regulatory changes made with respect to the European Banking Union, the Bankia Group strengthened its capital planning and management framework, formally documenting or updating existing documentation on these processes in a series of reports approved by the Entity's Board of Directors. These documents are:

- The Corporate Risk Appetite and Tolerance Framework, which defines the level of risk appetite (internal capital target) based on the risks the Group is willing to assume in carrying out its business. Together with the capital target, the tolerance or maximum levels of deviation from the established target which the Bank considers acceptable are determined. In this respect, the internal capital target and tolerance levels were revised up during 2016 to adapt to the increase in the minimum regulatory requirements of Pillar II described below.

- The Corporate Capital Planning Framework, which sets out a clear governance framework to ensure the involvement and coordinated orientation of the Group's various divisions related to the capital planning process to achieve a common objective and that this objective fits in the Group's Risk Appetite and Tolerance Framework.

- Capital Planning Policies, which include Senior Management's guidelines regarding capital preservation and correct risk measurement, as well as the corrective measures for potential deviations included in the Capital Contingency Plan.

- Recovery Plan, which sets out the solvency and leverage indicator levels below the Entity's tolerance level which, prior to potential non-compliance with regulations, would trigger the corrective measures in crises situations, as well as the range of measures and execution of each. Similar to the Corporate Risk Appetite and Tolerance Framework, levels of the Recovery Plan were revised up in the first half of

2016 to bring them into line with the new minimum regulatory requirements of Pillar II, described below.

Capital planning is a dynamic and ongoing process. Therefore, these documents define a series of regulatory and financial indicators and metrics, with related minimum thresholds, calibrated and graded in accordance with the various levels of admission (risk appetite and tolerance levels, early warning levels and Recovery Plan levels). The objective is to facilitate appropriate monitoring and control of the established targets and identify in advance future capital requirements and the corrective measures to be adopted.

In this respect, real capital adequacy ratios are measured against these metrics and indicators and their various thresholds periodically. Potential deviations are analysed to determine whether the causes relate to one-off or structural events. The measures required to adapt the level of capital so it complies with the established targets is analysed and decided. In the case of default, this could ultimately trigger the Capital Contingency Plan or even the Recovery Plan.

The Capital Committee is mainly in change of projecting and controlling the evolution of the Entity's solvency ratios on a monthly basis, allowing the Entity to perform an active and agile capital management. It also monitors the solvency regulatory framework to ensure that the Group continuously adapts to any changes that may occur.

Regarding regulatory developments, Directive No 2014/59/EU of the European Parliament and of the Council on the recovery and resolution of credit institutions (Bank Recovery and Resolution Directive or BRRD) was approved in May 2014 and became effective in January 2015. It was transposed into Spanish legislation through Law 11/2015 on the Resolution and Recovery of Credit Institutions, of 18 June. This legislation determines the circumstances for entry into resolution of a financial institution and resolution scheme, designing an internal mechanism where shareholders and creditors absorb losses (bail-in) in order to protect deposits, minimise the costs for taxpayers and avoid as far as possible recourse to the Singe Resolution Fund (SRF). In addition, over the course of the second half of 2016, the Resolution Authority will set the minimum requirement for own funds and eligible liabilities (MREL) of each bank. The Bankia Group will most likely be notified of its required MREL level in the second half of this year.

Solvency levels

As a result of the supervisory review and evaluation process ("SREP"),the European Central Bank set a minimum Common Equity Tier I (CET1) for the Bankia Group of 10.25%. This minimum CET1 phase-in requirement includes Pillar I, Pillar II and the capital conservation buffer.

In addition, Bankia Group was identified by the Bank of Spain as an other systemically important institution (O-SII). Therefore, a Common Equity Tier I capital buffer was established at 0.25% of its total risk exposure on a consolidated basis. However, considering the phase-in period provided for in Law 10/2014, it will only be required to maintain 25% of this buffer in 2016; i.e. 0.0625%. Lastly, the Bank of Spain set the counter-cyclical buffer applicable to credit exposures in Spain from 1 January 2016 at 0%. In summary, the Bankia Group's minimum Common Equity Tier I requirement for 2016 is 10.31%.

At 30 June 2016, the Bankia Group achieved a CET1 ratio of 14.57% including the amount of net profit for the period it is expected to allocate to reserves (13.96% at 31 December 2015 including net profit appropriated to reserves), with CET1 capital generation in the period of +61bps. The level of CET1 implies a surplus of EUR 3,301 million above the 10.31% regulatory minimum requirement for 2016, previously mentioned.

The total capital ratio (BIS III) at 30 June 2016 was 15.89% including the net profit for the year it intends to allocate to reserves (15.24% at 31 December 2015).

The following table provides a detail of capital levels, as well as risk-weighted assets calculated in accordance with the CRR and CRD IV at 30 June 2016 and 31 December 2015 applying the phase-in schedule for each period.

BANKIA GROUP Solvency Basilea III

			(Millions of € and %)	
Eligible capital	June 2016 (*) (**)		Dec. 2015 (*)	
Common Equity Tier I	11,302	14.6	11,289	14.0
Tier I	11,302	14.6%	11,289	14.0
Tier II	1,024	1.3%	1,034	1.2%
Total Capital BIS III (1)	12,326	15.9%	12,323	15.2%
Risk weighted assets BIS III	June 2016 (**)		Dec. 2015	
Credit risk	69,988		73,247	
Operational risk	6,649		6,649	
Market risk and CVA	949		959	
Total weighed assets BIS III	77,586		80,855	
Excess/(Shortfall on Minimal regulatory defects)	June 2016 (*) (**)		Dec. 2015 (*)	
		minimum		*minimum*
Excess/(Shortfall Bis III)I	3,301	10.31%	3,002	10.25%

(*) Including the amount of consolidated net profit earmarked for reserves. In 2015, EUR 759 million (EUR 1,061 million of profit minus EUR 302 million of dividend). In 2016, 313 million (481 millionof profit minus EUR 168 million of potential dividend).

(**) Estimated figures

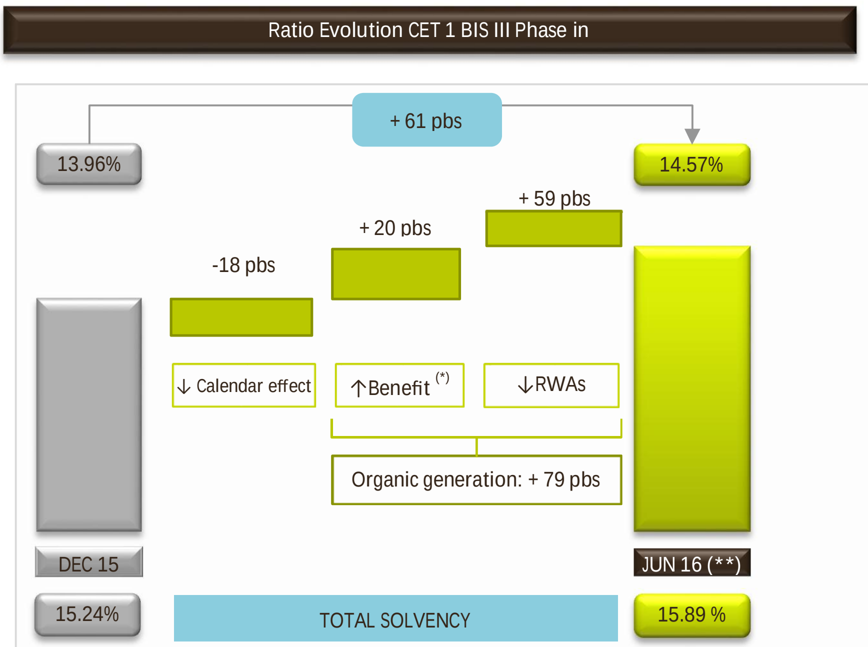
During the first half of 2016, the Bankia Group strengthened its CET1 in +61bps and its total capital base in +65bps, which shows the consolidation of a self-sustainable model of higher quality capital generation.

The positive trend in capital was driven mainly by organic CET1 generation, in line with the Group's objective of reinforcing CET1 given its permanence, availability and greater loss-absorption capacity in accordance with Basel III capital requirements. The main drivers of this trend in capital in the first half of 2016 are as follows:

- Net profit for the period (EUR 481 million) less the deduction for the regulatory dividend (EUR 168 million) and other impacts on the numerator of +20bps in CET1 and +19bps in total capital. In addition, the calendar effect had an impact on both CET1 and total capital of -18bp.

- Reduction in risk-weighted assets of EUR 3,269 million, generating +59bps of CET1 (+64bps in terms of total solvency). The decline in RWAs was centred on credit risk associated with balance-sheet deleveraging and the sale of non-strategic assets under the framework of the commitments assumed in the Recapitalisation Plan of the BFA Group (parent) approved by the European Commission in November 2012, and the active management of the composition of, and the improved quality of, the Group's loan portfolio. In this sense, in the first half of 2016 the Group sold its (50%) stake in Globalvía and a portfolio of doubtful assets.

The trend is as follows:



(*)It includes consolidated net profit for the first half of the year and other effects in the numerator lessened by a dividend potential of the Group of EUR 168 million
(**) Estimated data

The reconciliation of equity in the balance sheet to regulatory capital, including profit for the period earmarked for reserves, is shown below. Data at December 2015 are included for comparison purposes.

BANKIA GROUP reconciliation between Equity and Eligible Capital BIS III

(Millions of € and %)

Eligible capital components	Jun 16 (*)	Dec 2015 (*)	Variation	% Variation
Own funds	12,089	11,934	155	1%
Valuation adjustments	659	696	(37)	(5%)
Non-controlling interests	47	66	(19)	(28%)
Total Equity (Public Balance)	12,795	12,696	99	1%
Adjustment between public and regulatory balance	(8)	(10)	2	-
Total Equity (Regulatory balance)	12,787	12,687	100	1%
Non elegible capital components	(640)	(685)	45	(7%)
Valuation adjustments non elegible as CE T-1	(616)	(663)	47	(7%)
Non-controlling interests	(24)	(22)	(2)	0%
Regulatory capital deductions	(845)	(712)	(133)	19%
Goodwill and other intangible assets (regulatory balance)	(268)	(260)	(8)	3%
Other deductions	(409)	(150)	(259)	173%
Dividend	(168)	(302)	134	(44%)
Common Equity Tier I	11,302	11,289	13	0%
Additional Tier I	0	0	0	0%
Tier II	1,024	1,034	(10)	(1%)
TOTAL REGULATORY CAPITAL BIS III (*)	12,326	12,323	3	0%

(*) Includes the net consolidated profit for the year, expected to be allocated to reserves.

The minimum capital requirements cover credit, foreign currency, market and operational risks.

The requirements for credit risk, including equity portfolio risk, amounted to EUR 5,599 million at 30 June 2016 (EUR 5,860 million at 31 December 2015). This requirement is calculated using both the standardised approach (32% of the portfolio) and the internal rating-based (IRB) approach (68% of the portfolio). In 2014, after receiving authorisation from the Bank of Spain, the Entity began to apply the IRB approach to all its exposures to corporates. Both calculation methods still coexist for exposures to institutions and retail exposures. The remaining on-balance-sheet exposures are calculated using the standard method.

Currency and market risk exposures, and CVA were calculated using internal models, and at 30 June 2016 amounted to EUR 76 million (EUR 77 million at 31 December 2015).

Finally, the Bankia Group used the standardised approach to calculate the capital requirements for operational risk, wich at 30 junio 2016, as well as at 31 December 2014amountedto EUR 532 million, as they are recalculated annually in the fourth quarter of the year.

In addition, in respect of required solvency levels, during the first half of 2016, the ECB, as part of the supervisory action process, in conjunction with the EBA carried out a stress test (2016 EU-Wide Stress) in which Bankia's parent, the BFA Group, took part. The stress tests covered more than 70% of the EU banking sector, evaluating the capacity of the 51 financial institutions to resist shocks.

Regarding other stress tests conducted by the EBA, in 2016 there was no pre-determined threshold that banks had to surpass in the projected baseline and adverse scenarios, but rather the exercise, coupled with other aspects of the supervisory review process (ICAAP), will help determine, individually for each bank, the Pillar II capital requirements. Tentatively, the banks will be notified by the end of 2016.

Leverage ratio

The leverage ratio arose in the December 2010 Capital Framework of the Basel Committee on Banking Supervision (BCBS), which introduced this new metric as a supplementary ratio to solvency requirements but unrelated to risk measurement. The aim is to include the leverage ratio as a binding Pillar I requirement from 1 January 2018, after conclusion of the review and calibration period that started on 1 January 2013.

At 30 June 2016, the Bankia Group's (phase-in) leverage ratio was 5.8% (5.6% at 31 December 2015), including the amount of profit earmarked for reserves in Tier 1 capital, above the 3% minimum reference level set by the BCBS.

The leverage ratio performed positively in the first half 2016, increasing thanks mainly to the decrease in exposure, due above all to the reduction in total assets on the Bankia Group's balance sheet.

The following table provides a breakdown of the leverage ratio at 30 June 2016, along with a reconciliation of total assets on the balance sheet and leverage exposure measure. The composition of the leverage ratio at 31 December 2015 is showed for comparison purposes:

BANKIA GROUP leverage ratio		
Items (Millions of € and %)	Jun 16 (*)	Dec 2015 (*)
Tier 1 Capital	11,302	11,289
Exposure	196,557	199,831
Leverage ratio	5.8%	5.6%
Reconciliation between Public Balance sheet and exposure for leverage ratio		
Total Assets Public Balance	203,501	206,970
(+/-) Adjustments difference between Public and Regulatory Balance	198	116
(-) Items already deducted from Tier 1 capital	(676)	(410)
(-) On-balance sheet derivatives assets	(15,671)	(16,149)
(+) Derivative exposure	468	664
(+) Add-ons for counterparty risk in securities financing transactions (SFTs)	703	822
(+) Off-balance sheet items (including use of CCFs)	8,034	7,819
Total leverage ratio exposure	196,557	199,831

(*) Estimates calculated accordingto Delegated Regulation 2015/62. Tier I Capital includes consolidated net profit earmarked for reserves.

During the first half of 2016, the BCBS, in conjunction with the European Banking Authority (EBA), carried out several QIS (Quantitative Impact Study). The BFA Group, to which the Bankia Group belongs, was one of the financial institutions invited to participate actively in the leverage ratio monitoring process.

6.- RISK MANAGEMENT

Risk management is a strategic cornerstone in the organisation. The primary objective of risk management is to safeguard the Group's financial stability and asset base, while creating value and developing the business in accordance with the risk tolerance levels set by the governing bodies. It involves the use of tools for measuring, controlling and monitoring the requested and authorised levels of risk, managing non-performing loans and recovering unpaid risks.

Since 2014, Bankia Group's risk function has undergone a transformation process to achieve management excellence by adopting best practices. Guidelines needed to be established to provide a foundation for the risk function, which must be independent and comprehensive, considering all relevant factors objectively, but also aligned with the business in order to achieve the Entity's objectives, maximising value creation. At the same time, the organisational structure was adapted, with two departments, Retail Risks and Corporate Risks, to support the business structure. A policy framework was designed consistent with the risk appetite and tolerance levels defined by the Entity's governing bodies.

The transformation process has crystallized involving a number of initiatives, such as the industrialisation and specialisation of the recoveries model, the extension of the use of risk-adjusted return (RAR), the improvement in the representation of guarantees and collateral and the review of levels and rating schemes. Moreover, risk training initiatives have been strengthened. The overall aim is to aid the development of the business with controlled risks, which is crucial to providing stability and sustainability to value creation.

One of the key features of European regulations implementing the capital agreements known as BIS III is the introduction of corporate governance as a core element of risk management. This regulation establishes the need for entities to have sound corporate governance procedures, including a clear organisational structure, effective risk identification, management, control and communication procedures, and remuneration policies and procedures that are compatible with appropriate and effective risk management.

Illustrating its willingness to strengthen the importance of corporate governance in risk management and following the recommendations issued by the main international regulatory bodies, at its meeting in September 2014 the Board of Directors approved the Risk Appetite Framework (RAF) for the BFA-Bankia Group. The RAF is the set of elements that allow the governing bodies to define risk appetite and tolerance levels, and compares these with the Entity's risk profile at any given time.

Efficient risk governance led to improvements in the last year, such as the integration of the Risk Appetite Framework with the Capital Planning Framework and the Recovery Plan, reinforcement of the independence of the Chief Risk Officer (CRO), approval by the Board of Directors of the new status of the CRO and implementation of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Adequacy Liquidity Assessment Process (ILAAP).

Note 3 to Bankia Group's financial statements for the period ended 30 June 2016 provides details on the governing bodies responsible for supervising and controlling the Group's risks, as well as the general principles, organisational model, policies and methods to control and measure the risks to which the Group is exposed through its business. Accordingly, this section provides an overview of the performance and main indicators used to assess the trends in risks in first half of 2016.

6.1.- Credit risk

Credit risk is the risk of loss assumed by Bankia Group in the regular course of its banking business if its customers or counterparties fail to comply with their contractual payment obligations.

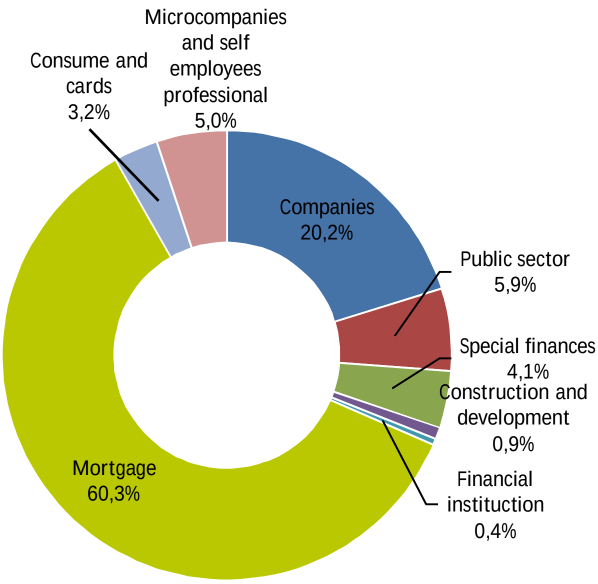
Credit risk management is an end-to-end process, running from loan or credit approval to elimination of exposure, either at maturity or through recovery and sale of assets in the event of foreclosure upon default. It involves identifying, analysing, measuring, monitoring, integrating and valuing credit risk-bearing transactions on a differentiated basis for each segment of the Bank's customers.

The variables the Bank uses to measure credit risk are derived from internal models: probability of default, exposure at default and loss given default (severity). These variables allow ex-ante analysis of the credit portfolio's risk profile by calculating the expected loss and economic capital required.

- Risk profile and composition of assets

Given its activity and business model, Bankia's risk profile shows far greater exposure to credit risk than the other risks to which its business is inherently exposed. The following table shows the distribution by portfolio of expected loss and regulatory capital for credit risk at 30 June 2016:

(Millions of euros)	Jun-16	
Sector	Regulatory Equity	Expected Loss
Public sector	143.9	132.8
Banks and financial intermediaries	242.7	38.1
Companies	1,732.9	2,915.5
Property	83.3	588.0
Retail:	2,342.3	2,643.4
Mortgage	*1,918.9*	*1,913.1*
Consume	*136.8*	*101.4*
Cards	*71.5*	*43.7*
Micro-companies and self-employed professional	*215.1*	*585.2*
Equity	16.1	0.8
TOTAL	4,561.2	6,318.6



The main characteristics of the Group's credit risk profile and its trends in the first half of 2016 according to data from the audited portfolio (does not include positions in financial investees) are as follows:

- Loans and advances to customers remains similar to 2015 year-end structure, with a 31% - 69% distribution between the corporate segment, including public sector, and retail.

- The weight of the real estate portfolio over total loans is below 1%.

- The mortgage portfolio accounts for 60% of total loans and receivables. The second largest portfolio corresponds to companies representing 20% of the total, followed by loans to public institutions and bodies (6% of the total portfolio).
- 40% of assets at 30 June 2016 were classified in the doubtful category for subjective criteria or are in the "curing" period. Accordingly, no loans in this portfolio are past-due that imply subjective arrears, or refinancing agreements have been reached with the customers and, therefore, there is an apparent willingness to pay. This must be verified over a period of at least six months, but can be extended to the entire grace period where applicable.

The maturity profile of credit exposure is detailed in Note 3.2 to the condensed consolidated interim financial statements for the six-month period ended 30 June 2016 (table on residual maturities). A significant portion of loans and advances to customers (64%) mature beyond five years given the large volume of mortgage loans to homebuyers, which are generally for long periods.

· Asset quality: trends in doubtful balances, NPL and coverage

The Group pro-actively manages and anticipates credit risk with a view to containing the inflow of non-performing loans (NPLs) and raising NPL coverage. Management has enabled the key variables related to credit quality of assets to continue to fare well in the first half of 2016.

Doubtful exposures continued to perform favorably, falling by 9.6% from EUR 1,244 million at end-December 2015 to EUR 11,751 million at end-June 2016. This improvement is explained by the gradual decrease in inflows of NPLs, stronger efforts in monitoring and recovery management, and the sale of portfolios of doubtful and extremely doubtful assets in the first half of 2016, with a new sale that resulted in a reduction of the doubtful balance of EUR 215 million. As a result, the NPL ratio fell further in the period, to 9.6% at 30 June 2016, 1 percentage point lower than at 31 December 2015.

The Group follows a prudent provisioning policy, which allows it to achieve high NPL coverage ratios. In this way, to cover these doubtful exposures, the Group's total allowance for insolvency at 30 June 2016 amounted to EUR 7,141 million, leaving an NPL coverage ratio of 60%, 0.8pp higher than at the end of 2015.

The improvement in the portfolio risk profile and satisfactory levels of provision coverage leave the Group in a good position to achieve one of the main objectives in the Strategic Plan: to increase profitability and curtail risk in the coming years.

NPL and Coverage - BANKIA GROUP				
			Change on Dec-15	
(Millions of euros and %) (*)	Jun-16	Dec-15	Amount	%
NPLs	11,751	12,995	(1,244)	(9.6%)
Total risk	122,109	122,929	(820)	(0.7%)
Total NPL Ratio(1)	9.6%	10.6%	(1.0) p.p.	(9.0%)
Total provisions	7,141	7,794	(653)	(8.4%)
Standard	60	60	(0)	(0.1%)
Specific	7,036	7,713	(677)	(8.8%)
Country risk	16	21	(6)	(26.2%)
Debt securities	30	0	30	-
Coverage ratio	60.8%	60.0%	+0.8 pp	1.3%

(*) Interim Financial Statements amounts rounded to millions of euros

(1) NPL ratio: non- performing loans and advances to customers and contingent liabilities/risk assets consisting of loans and advances to customers and contingent liabilities.

· Credit risk of trading in derivatives

The Group is exposed to credit risk through its activity in financial markets, specifically its exposure to OTC (over the counter) derivatives. This exposure is called counterparty risk.

The method used to estimate counterparty risk entails calculating EAD ("exposure at default") as the sum of the current market exposure and the potential future exposure. This method aims to obtain the maximum expected loss for each transaction.

However, in order to mitigate most of these risks, the Bankia Group has, inter alia, tools that mitigate risk, such as early redemption agreements (break clause), netting of credit and debit positions (netting), collateralisation for the market value of the derivatives or offsetting of derivatives.

At 30 June 2016, there were 1,114 netting and 219 guarantee agreements (135 derivatives, 75 repos and 9 securities loans). The main figures regarding quantification of the derivatives activity at that date are as follows:

- Original or maximum exposure: EUR 31,265 million.
- Exposure applying mitigation techniques through netting: EUR 7,956 million.
- Net exposure after applying all mitigation techniques: EUR 1,825 million.

As shown, counterparty risk in derivatives trading is reduced by 94.23% by applying derivatives netting and guarantee agreements.

6.2.- Liquidity risk

Liquidity risk can be expressed as the probability of incurring losses through insufficient liquid resources to comply with the agreed payment obligations, both expected and unexpected, within a certain time horizon, and having considered the possibility of the Group managing to liquidate its assets in reasonable time and price conditions.

The Entity's approach to monitoring liquidity risk is based on three cornerstones:

- The first one is the liquidity gap, classifying asset and liability transactions by term to maturity taking into account the residual maturity. The liquidity gap is calculated for the recurring retail business, as well as for the funding needs of the Entity’s structural portfolios.

- The second is the funding structure, identifying the relationship between short- and long-term funding and the diversification of the funding mix by asset type, counterparty and other categorisations.

- Third, in keeping with the future regulatory approach, the Entity uses metrics that enable it to measure the resilience of the bank's liquidity risk profile in different time horizons of above mentioned regulatory ratios.

As a supplement to the various metrics, the Entity has a well-defined Contingency Plan, which identifies alert mechanisms and sets out the procedures to be followed if the plan needs to be activated.

Note 3.2 Bankia Group's 2015 consolidated interim financial statements provide information on remaining term to maturity of the Bank's issues by funding instrument, along with a breakdown of financial assets and liabilities by contractual residual maturity at 30 June 2016 and 31 December 2015.

Alongside the monitoring of liquidity risk in normal market conditions, action guidelines have been designed to prevent and manage situations of liquidity stress. This pivots around the Liquidity Contingency Plan (LCP), which sets out the committees in charge of monitoring and activating the LCP and the protocol for determining responsibilities, internal and external communication flows, and potential action plans to redirect the risk profile within the Bank's tolerance limits.

The LCP is backed by specific metrics, in the form of LCP monitoring alerts, and by complementary metrics to liquidity risk and regulatory funding indicators, LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). These ratios have built-in stress scenarios for the ability to maintain available liquidity and funding sources (corporate and retail deposits, funding on capital markets) and allocate them (loan renewal, unprogrammed activation of contingent liquidity lines, etc). For the LCR, the scenario relates to a survival period of 30 days, and the regulatory assumptions underlying the construction of the ratio are valid exclusively for this period.

As for regulatory requirements, starting in October 2015, the calculation of the Group's LCR was adapted to Delegated Regulation (EU) 2015/61 of the European Commission, which became effective on 1 October. The net stable funding ratio (NSFR) is currently undergoing a review by the European Union and, once the definition is complete, this ratio will form part of the minimum standards on 1 January 2018, with a requirement of at least 100%.

6.3.-Market risk

Market risks arise from the possibility of incurring losses on positions in financial assets caused by changes in market risk factors (interest rates, equity prices, foreign exchange rates or credit spreads).

Limits are established in accordance with a number of metrics: value at risk (VaR) calculated using the historical simulation method, sensitivity, maximum loss (stop-loss limit) and the size of the position.

The Markets and Operational Risks Department is independent of the business units and it is integrated in the Corporate Risks Department, which with respect to market risk in trading performs the following functions: control and monitoring of positions with market risk and counterparty lines; daily calculation of the results of the various desks and portfolios; independent valuation of all market positions; periodic reporting on the various market risks to the pertinent committee; and, lastly, control of model risk.

· Interest rate risk

Interest rate risk balance sheet structural (positions not included in the trading portfolio) reflects the probability of incurring losses because of changes in the benchmark interest rates for asset and liability positions (or certain off-balance sheet items) that could have an impact on the stability of the Entity's results. Rate fluctuations affect both the Group's interest margin in the short and medium term, and its economic value in the long term. The intensity of the impact depends largely on different schedules of maturities and repricing of assets, liabilities and off-balance sheet transactions. Interest rate risk management is designed to lend stability to interest margins, maintaining levels of solvency that are appropriate for the Company's level of risk tolerance.

Interest rates remained at historically low levels since 2014. Long-term rates eased, in line with the unorthodox monetary policies adopted, which sought, inter alia, to stimulate growth in the euro area and overcome the economic slowdown of the past few years. The market scenario was managed by the Assets and Liabilities Committee (ALCO), which aims to maximise the economic value of the banking book and support net interest income, thereby ensuring recurring profit generation for the Entity.

According to Bank of Spain regulations, the sensitivity of the net interest margin and the value of equity to parallel shifts in interest rates (currently ±200 basis points) is controlled. In addition, different sensitivity scenarios are established based on implied market interest rates, comparing them to non-parallel shifts in yield curves that alter the slope of the various references of balance sheet items.

- Other market risks

Other market risks arise from the possibility of incurring losses in value of positions in financial assets and liabilities caused by changes in market risk factors other than interest rate risk (equity prices, foreign exchange rates or credit spreads). These risks arise from cash and capital markets positions and can be managed by arranging other financial instruments.

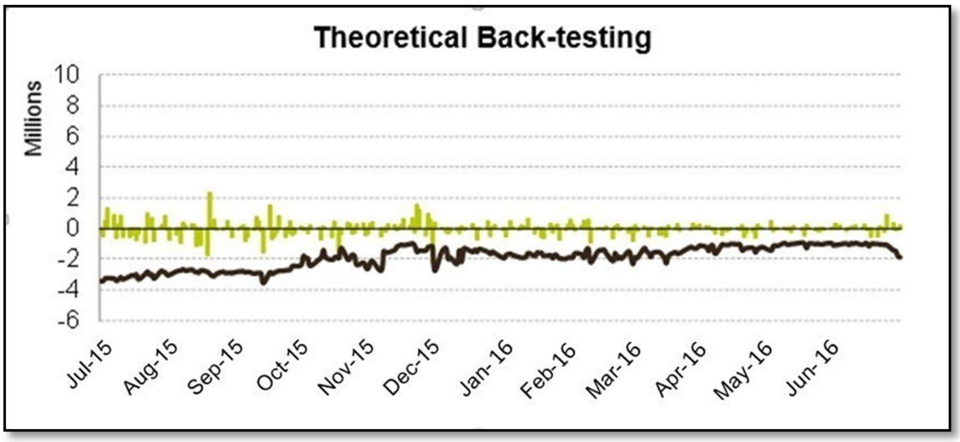
· Market risk measurement and monitoring

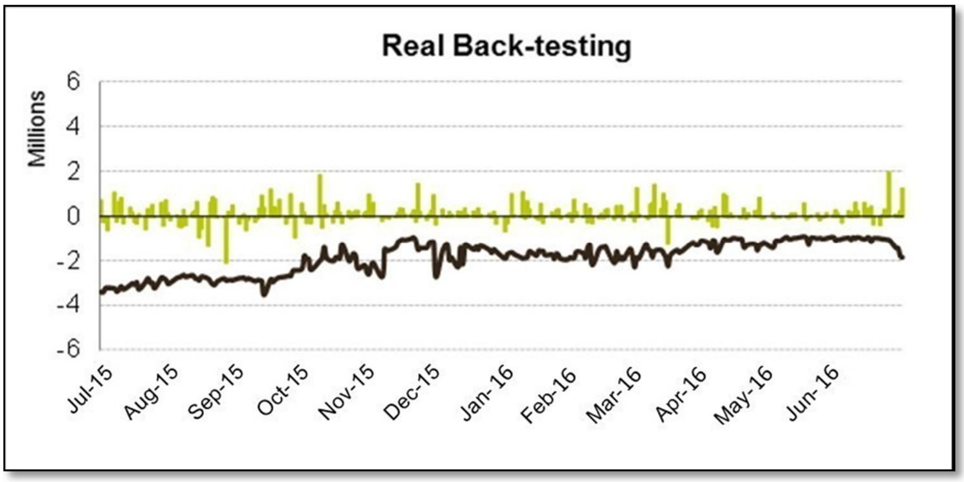
For market risk measurement used two metrics: VaR (value at risk), which provides a prediction of the maximum loss that can suffer in a time interval with a certain level of confidence and sensitivity, which expresses the impact on the valuation of financial instruments to the changes in various risk factors. These metrics are complemented by an analysis of scenarios, which consists of evaluating the economic impact of extreme movements in market factors on trading activity.

a) Value at Risk (VaR) and back-testing

VaR is measured by the historical simulation method using a 1-day time horizon and a 99% confidence level. It takes at least one year of observations of market data.

The accuracy of the model is verified daily through subsequent controls (backtesting), which compare actual losses with the estimated loss measured using VaR. As required by regulations, two tests are conducted, one applying hypothetical changes in the value of the portfolio by comparing the daily VaR with the results obtained, without considering changes in the positions of the portfolio, and one applying actual changes comparing daily VaR with net daily results excluding commissions.





The backtest of the regulatory metric applied to hypothetical changes showed one occurrence in the last year. Since a 99% confidence level and 1-year observation period is used in the model, the occurrence relates to the model's expected performance, which means that the model consistently and prudently predicted the losses. This also means that own funds calculated using regulatory criteria based on internal models are sufficient to cover any extraordinary losses that may arise.

b) Sensitivity

Sensitivity quantifies changes in the economic value of a portfolio due to given movements and determinants of the variables affecting this value.

In the case of non-linear movements, such as derivatives activities, sensitivity analysis is supported by an evaluation of other risk parameters, such as sensitivity to movements in the price of the underlying (delta and gamma), volatility (vega), time (theta) and interest rate (rho). For share or index options, elasticity to changes in dividend yield is calculated. Sensitivity analysis by tranche is also used to measure the impact of non-parallel movements in the term structures of interest rates or volatilities, and to obtain the distribution of risk in each tranche.

c) Stress-testing

Periodically, stress-testing is performed to quantify the economic impact of extreme movements in market factors on the portfolio.

Sensitivity, VaR and IRC measures are supported by stress-testing applying different types of scenarios:

- Historical scenario: scenarios built based on movements observed in previous crises (e.g. Asian crisis of 1998, the tech bubble of 2000/2001, the financial crisis of 2007/2008). These scenarios are reviewed annually to reflect the key events occurring in the year.

- Crisis scenario: applies extreme movements in risk factors that may not necessarily have been observed.

- Last-year scenario: maximum expected daily loss over a 1-year observation period with a 100% confidence level.

- Sensitivity analysis: designed to measure the impact on the metric of slight changes in the parameters used to calculate the IRC, the estimate of the metric excluding transitions to default and the impact on the metric of parallel movements in loss rates in the event of default.

- Credit crisis scenario: devised by two separate analysis; 1) based on a matrix of credit margins built using variations observed, and 2) based on a transition matrix related to credit risk stress scenarios.

- Worst case: default by all issuers in the portfolio.

· Trends and distribution of market risk in first half of 2016

Bankia Group maintained an average VaR in the first half of 2016 of EUR 2.19 million, with a maximum of EUR 3.47 million and a minimum of EUR 0.73 million.

VaR	Financial assets and liabilities held for trading (*Millions of euros*)
Average	2.19
Maximum	3.47
Minimum	0.73

Distribution of VaR by risk category (*Millions of euros)*				
Risk category	Puntual	Average	Maximum	Minimum
Interest rate	0.63	1.98	3.17	0.58
Equity instrument	0.04	0.07	0.23	0.02
Foreign exchange	0.11	0.11	0.59	0.04

· Trading in derivatives

Bankia Group's trading in derivatives arises mainly from the management of market and interest rate risks, and from market making and distribution activities.

Risk of the derivatives trading activity measured in terms of VaR remains extremely low, as this activity is based on transactions with customers carried out in the market under the same terms as opposite transactions.

VaR of derivatives activity *(Millions of euros)*	Debt securities	Equity instruments	Exchange rate	Total
Average	1.59	0.09	0.13	1.80
Maximum	2.84	0.25	0.61	3.09
Minimum	0.77	0.04	0.05	0.98

- Country risk

Country risk is defined as the risk of incurring losses on exposures with sovereigns or residents of a country due to reasons inherent to the country's sovereignty or economic situation; i.e. reasons other than normal commercial risk, including sovereign risk, transfer risk and other risks related to international financial activity (war, expropriation, nationalization, etc.).

The Bankia Group's country risk management principles are grounded on criteria of maximum prudence, whereby this risk is assumed on a highly selective basis.

Bankia Group's exposure to country risk at 30 June 2016 was marginal, recognising a provision in this connection of EUR 16 million.

6.4.- Operational risks

- Customer concentration risk

Bankia is subject to Bank of Spain concentration limits, such that the exposure to any single non-consolidated economic group or borrower must not exceed 25% of eligible capital. In this respect, the Group regularly monitors large exposures with customers, which are reported periodically to the Bank of Spain. At 30 June 2016, there were no exposures that exceeded these limits.

- Operational risk

The control of the operational risk is carried out in the Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems of the Bank or from external events. This definition includes legal risk, but excludes strategic risk and reputational risk.

Bankia Group has the following operational risk management objectives:

- To foster an operational risk management culture, geared particularly to awareness raising, assuming responsibility, commitment and quality of service.
- To ensure operational risks are identified and measured in order to prevent potential losses affecting results.
- To reduce losses caused by operational risks by implementing continuous improvement systems for processes, a control structure and mitigation plans.

- To encourage the use of risk transfer mechanisms that limit exposure to operational risk.
- To verify that contingency and business continuity plans are in place.

The Operational Risk Department falls within the Market and Operational Risks Department in the Corporate Risk Department. The Operational Risk Committee, whose responsibilities include approving policies and methods, is the natural channel for senior management participation in operational risk management. This committee met in person two times in the first half of 2016, once each quarter, at which trends in real and expected loss data, all the operational risk management actions carried out, the Cybersecurity Plan and planning for this year were presented.

The capital requirement to cover operational risk is rooted in Basel II. European Regulation No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 (CRR) regulates the treatment of this type of risk in the area of credit institutions.

The Bankia Group used the standardised approach to measure its operational risk. This approach requires the disaggregation of the relevant revenues of the past three reporting periods by business line and the application of a percentage to each, as set out in the regulations, based on the related risk. The Bankia Group's capital requirement for operational risk at 30 June 2016 amounted to EUR 532 million.

- Changes in regulatory frameworks and regulatory risk

The financial services industry is characterized for being tightly regulated. Bank operations are subject to specific regulation and Bankia Group’s operations are exposed to risks that could arise from changes in the regulatory framework.

Changes in the regulatory framework due to modifications in government policies, the banking union process or of any other type could give rise to new regulatory requirements that affect the Bankia Group's solvency levels, ability to generate future profit, business model, dividend policy, and capital and liability structure.

Regulatory developments have been much more profound since the entry into force in January 2014 to the new prudential requirements known as BIS III became effective. For Europe, this consisted of Directive 2013/36/EU, of 26 June 2013 (“CRD IV”) and Regulation (EU) 575/2013, of 26 June 2013 ("CRR"). The framework continues to expand through new regulatory and implementing technical standards.

Additionally, the configuration of the European Banking Union is based on two key cornerstones: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Both have brought with them additional regulatory developments, such as the Bank Recovery and Resolution Directive (BRRD) and the Directive on Deposit Guarantee Schemes.

The Regulatory Monitoring Committee, composed of senior executives, identifies the potential impact and influence of regulatory changes on the Entity, anticipating any adverse effect. The Committee pays particular attention to certain areas, such as business, accounting, risk management, solvency, liquidity, compliance and internal audit. Meanwhile, it establishes appropriate criteria for adapting the business model to the new regulatory paradigm, subsequently performing periodic and exhaustive monitoring of each adaptation project.

· Reputational risk

Reputational risk is defined as the risk of failure to meet stakeholder expectations to the point that this undermines the level of recognition obtained or prevents the desired level from being reached, resulting in an adverse attitude and/or behaviour that could have a negative impact on the business. This risk must be managed well, through identification, evaluation, prevention and permanent control.

There has been a push lately to demarcate more clearly and reinforce reputational risk requirements by the main international regulators (the BIS, EBA, ECB, PRA and FED), highlighting the importance of identifying and managing reputational risk events and integrating them in banks' risk management systems. This requires adopting a dual perspective when facing this event type: the risk itself and the reputation.

The first step in this case would be to define the keys to Bankia's reputation; i.e. the main elements it wishes to protect, including its reputational view, the reputational attributes for which it wishes to be recognised and the map of stakeholders with which they are related. The margin for reputational risk tolerance differs depending on the stakeholder. Therefore, reputational risks are identified through: interaction between the Entity and the stakeholder or stakeholders, mainly through bidirectional communications channels (e.g. corporate mail, customer care service, shareholder offices, forums and presence on social networks, the supplier portal, the confidential whistleblowing channel, focus groups with employees, etc.); customer and supplier satisfaction surveys; and direct contact in the day-to-day work of the Entity (employee-customer or procurement manager-supplier).

In addition, the environment must be monitored continuously in order to know what issues become critical for the Society. Similarly, the Entity's performance appraisal and comparison with practices at other banks helps discern the potential level of tolerance that could exist to reputational risk.

Bankia held focus groups with all its stakeholders (customers, shareholders, suppliers and employees), personal interviews, with academic, institutional, investors and third sector CSR experts to gain greater insight into their strengths and threats, thereby expanding the identification of reputational risks. Moreover, an analysis is conducted of the situation, sector disputes and practices of other financial institutions around the world.

By pinpointing reputational risks, Bankia can align its behaviour with the expectations of each stakeholder groups, thereby achieving a dual objective: mitigating risks and detecting opportunities.

Reputational risk events can stem from a number of risk categories (e.g. credit, market, counterparty, operational, structural, liquidity, strategic, legal). Therefore, Bankia analysed its corporate risk map to identify the risks with the greatest impact on reputation.

Bankia's objective when managing reputational risks is to generate trust, loyalty and the best opinion possible among its stakeholders as a means of becoming more competitive. Sustainable management of reputational risk is crucial for carrying out the Bank's long-term plans and achieving its objectives. It considers reputation not only as past performance, but as a possibility and future opportunity.

7.- FORECLOSED REAL ESTATE ASSETS

The net balance of the Bankia Group's property assets foreclosed or received in payment of debt ended at 30 June 2016 at EUR 2,608 million (EUR 3,709 million gross), representing just 1.3% of the Group's assets. Most of the foreclosed properties are held by Bankia, S.A. and entail liquid assets (81%), mainly existing and newly built homes, which makes the disposal easier.

The Entity’s policy helps borrowers meet their obligations, so that foreclosure is always the last solution. It has several initiatives in place to ease the impact: adapting debts and renegotiations, offering to extend maturities or grace periods, among others. Only when it believes there are no real chances of recovering the amount financed does it acquire the mortgaged asset.

In this respect, Bankia Group's objective regarding this type of asset is to dispose of it with the smallest possible impact on the income statement through sale or rental, with or without a purchase option related to the Housing Social Fund and/or special rentals. With this objective, the Group engaged HAYA R.E. to manage, administer and sell its foreclosed assets under the supervision of the property Management Division. Accordingly, Bankia Group has an active provisioning policy for these assets based on appraisal updates and the outlook for the real estate market. Provisions recognised at the end period of June 2016 for foreclosed assets from Bankia Group's business in Spain amounted to EUR 1,102 million, implying coverage of 29.7%.

Property market showed the first positive signs in relation to prices and sales, in first half of 2016 Bankia Group has sold EUR 204 million of foreclosed assets.

FORECLOSED AND ACQUIRED ASSETS OF BANKIA GROUP - SPAIN BUSINESS

	June 2016			
(Millions of euros)	Gross amount	Valuation adjustment	Net amount	Coverage (%)
Real estate assets from construction and development	412	127	285	30.9%
Of which: finished buildings	299	76	223	25.5%
Of which: buldings under constructions	29	12	17	41.4%
Of which: land	85	39	45	46.5%
Property assets from loan for house purchase	2,696	812	1,884	30.1%
Other real estate assets	601	162	439	26.9%
Total foreclosed assets	3,709	1,102	2,608	29.7%

(*) Interim Financial statements amounts rounded to millions of euros

8.- INFORMATION ON CREDIT RATINGS

At 30 June 2016 the ratings granted to Bankia Group by different rating agencies include the following:

Issuer Rating		
	STANDARD & POOR'S	FitchRatings
Long term	BB+	BBB-
Short term	B	F3
Perspective	Positive	Stable
Date	05/04/2016	23/02/2016

Mortgage Covered Bonds Rating			
	STANDARD & POOR'S	FitchRatings	DBRS
Rating	A+	A	AA (high)
Perspective	Stable	Stable	---
Date	15/01/2016	26/02/2016	23/06/2016

Note: Related to the ratings assigned to Bankia by Moody's in October 2013 Bankia informed that had decided to end the contractual relationship with Moody's. In this sense, the ratings that the agency continues to publish about Bankia have the status of "not requested" ("Unsolicited") "and" non-equity "(" Non-participating "), ie Bankia does not participate in the review of ratings by the agency, who based their decisions strictly on available public information about the entity. Despite that repeatedly has asked the agency to stop publishing ratings of Bankia, is Moody's unilateral decision to determine the time at which stop publishing ratings on the Bank.

Key issues regarding credit ratings during the first half of 2016 include the following:

- The achievement of all of the objectives of the Entity's 2012-2015 Strategic Plan, coupled with the positive performance of the banking business, the reduction in NPLs and the improvement in capitalisation, have had a positive impact on the Entity's ratings of late.

- Regarding the sovereign rating, Standard & Poor's Ratings Services ("S&P"), Fitch Ratings ("Fitch") and DBRS Ratings Limited ("DBRS") affirmed their ratings for Spain of "BBB", "BBB+" and "A low", respectively, all with stable outlooks. The three agencies considered the improved macroeconomic outlook for Spain, which bodes well for the operating environment of banks in Spain. In the wake of the positive trends seen last year, the agencies believe 2016 will be a year of consolidation, in which banks will improve gradually as the economy gathers steam and the real estate market stabilises.

Highlights regarding Fitch's rating for Bankia include:

- On 23 February, Fitch upgraded Bankia's rating from BB+/positive to BBB-/stable, returning Bankia to investment grade. The key factor behind the rating upgrade was the upgrade of Bankia's viability rating (VR) of one notch from "bb+" to "bbb-", taking its long-term rating to "BBB-". Bankia's short-term IDR was raised from "B" to "F3" and its subordinated debt rating from "BB" to "BB+".

- With this rating upgrade, Fitch has upgraded Bankia's VR by five notches in less than two years. In April 2014, it upgraded the VR by two notches, from "b" to "bb-" citing the rapid progress of the Bank's restructuring in 2013 and its positive implications for the capital and funding profile. In April 2015, it carried out a two-notch upgrade from "bb-" to "bb+" for the improvement in asset quality and strong capital.

- Then, on 26 February, the agency upgraded the rating of Bankia's mortgage covered bonds from A-/positive to A/stable. The action on mortgage covered bonds was driven mainly by the upgrade to Bankia's IDR, which serves as a starting point for the mortgage covered bonds rating, and the maintenance of a level of overcollateralisation necessary for the upgrade.

S&P took the following rating actions on Bankia during the first half of 2016:

- On 5 April, S&P raised Bankia's rating by one notch, from "BB" to "BB+", leaving the outlook positive and affirming the short-term "B" rating. The upgrade was driven mainly by the upgrade of Bankia's standalone credit profile of one notch from "bb" to "bb+", taking its long-term rating to "BB+". This rating action reflected the improvement in Bankia's funding and liquidity profile by having reduced its reliance on short-term funding, especially on ECB funding. The agency affirmed the "B" short-term rating and raised the rating on subordinated instruments from "B" to "B+".

- With this rating, S&P has raised Bankia's standalone credit profile by three notches since December 2013, from "b+" to "bb+", citing improved asset quality, prudent risk management, stabilisation of the business and franchise, improvement in capital and in the funding and liquidity position; in sum, the steady and generalised improvement in the Bank's risk profile.

- Regarding Bankia's mortgage covered bonds, on 15 January S&P affirmed its "A/Stable" rating. This rating action is part of the ongoing surveillance of the mortgage portfolio and the agency noted that Bankia has managed to successfully build a strengthened risk management model, which will benefit the bank's risk culture. The agency also cited the reduction in credit risk related particularly to the residential mortgage loan book which, in conjunction with other factors, underpinned an improvement of the metrics related to the quality of Bankia's mortgage-backed securities.

In addition, DBRS has assigned ratings to Bankia's mortgage-backed securities since 2014. Over the course of the first half of 2016, DBRS carried out the following actions on its mortgage covered bonds ratings:

- On 21 January and 14 March, DBRS affirmed its “AA” rating of the mortgage covered bonds following the new issuances of the Bankia 2016-1 and Bankia 2016-2 mortgage covered bonds, respectively, both for EUR 1,000 million. On 29 April, it affirmed its “AA” rating of the mortgage covered bonds following the tap issuance of EUR 285.5 million of an existing issuance maturing in September 2025.

- On 23 June, the agency upgraded Bankia’s mortgage covered bonds by one notch from “AA” to “AA (high)” following the review of the strength of the reference agency.

In the first half of the year, Bankia publicly asked DBRS to assign it an issuer rating. After the end of the reporting period, on 8 July, DBRS assigned Bankia the following ratings based on an intrinsic assessment of its financial strength, all with stable outlooks:

- Senior unsecured long-term debt and deposit rating of “BBB (high)”
- Short-term debt and deposit rating of “R-1 (low)”
- Long-term critical obligations rating of “A”
- Short-term critical obligations rating of “R-1 (low)”

These rating actions give Bankia two long-term investment grade ratings.

Lastly, regarding rating agencies, also in the first half of 2016 Bankia decided to make a public request to Scope Ratings AG (“SCOPE”) to assign ratings to its mortgage covered bonds. As a result, after the end of the reporting period, on 8 July, SCOPE assigned an “AAA” rating, stable outlook, to Bankia’s mortgage-backed securities, citing the strength of the issuing bank, the legal framework and the resolution applicable to covered bonds in Spain, as well as the strong credit support provided by the mortgage book to the issuance of mortgage-backed securities.

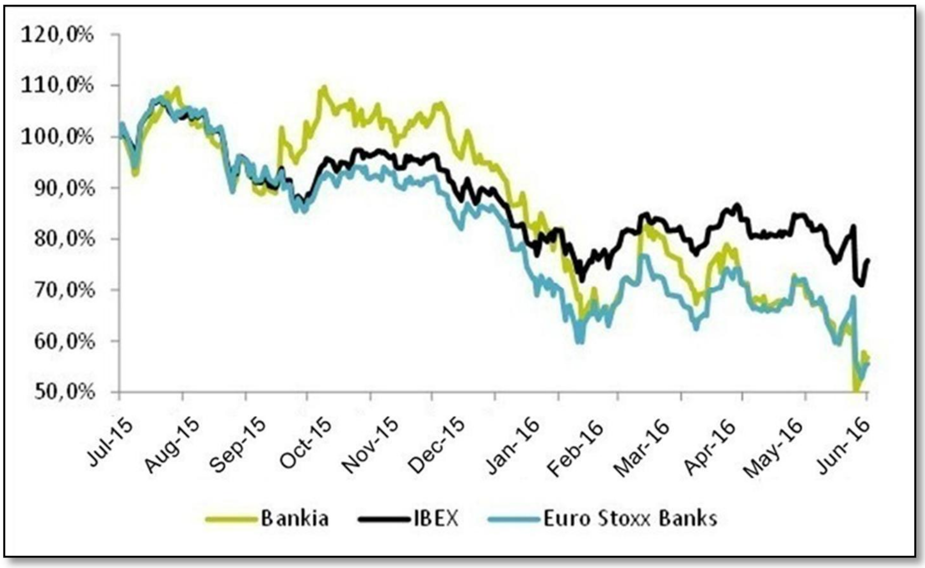
9.- SHARE PRICE PERFORMANCE AND SHAREHOLDER STRUCTURE

· Bankia share price

Equity markets slumped in the first half of the year. The Euro Stoxx Banks retreated by 34.89%, while the Ibex lost 14.47%. Bankia's share price ended the period at EUR 0.646, down 39.85% from last year's closing price. An average of around 36.4 million shares changed hands daily, equivalent to an average cash amount of EUR 29.7 million per session.

BFA is still the Group's main shareholder, with a 65.06% stake at 30 June 2016. During the first half of 2016, the restitution process for retail shareholders participating in Bankia's 2011 IPO was completed in a quick, simple and secure procedure that protected Bankia's equity.

The number of Bankia shares in issue remained unchanged at 11,517 million.



· Payment of dividend

A resolution was adopted at the General Meeting of Shareholders of Bankia held on in Valencia on 15 March 2016 to distribute a gross dividend of EUR 2.625 cents per share out of 2015 profit, a 50% increase in the dividend paid out of 2014 profit. Payment was made on 31 March 2016 to shares with dividend rights at the payment date, for a total of EUR 300,716,808.87, equivalent to pay-out ratio of 29% the Bankia Group's attributable profit in 2015.

· Analysts' consensus

At 30 June 2016, there were 31 equity analysts covering the stock actively and issuing target prices for Bankia. Bankia's consensus target price was EUR 0.91 per share, implying 41% upside from the market price.

48.39% of analysts had "buy" recommendations vs. 45.16% at the end of 2015, 25.81% had "hold" recommendations and 25.81% rated the stock “sell”.

10.- INFORMATION ON TREASURY SHARES

At 30 June 2016, the Group held EUR 61.9 million in treasury shares.

Bankia held 39,867,346 treasury shares at 31 December 2015 worth EUR 46.5 million. In the first half of 2016, it bought 69,781,221 shares, for EUR 56.4 million, and sold 41,423,498 shares, for EUR 40.9 million, leaving it with a balance at 30 June 2016 of EUR 61.9 million, as indicated above.

11.- DIVIDEND POLICY

Bankia did not pay shareholders any dividends in 2011, 2012 or 2013. For 2014, at the Ordinary General Shareholders Meeting of Bankia held on 22 April 2015, a resolution was adopted to distribute a gross dividend of EUR 201,553,249.52 charged to the Company's 2014 profit. This dividend was paid on 7 July 2015. This was the first dividend paid by Bankia since it was incorporated.

Subsequently, pursuant to the resolutions adopted by the General Meeting of Shareholders on 15 March 2016, on 31 March 2016, Bankia distributed a EUR 300.72 million dividend (EUR 2.625 cents per share) out of 2015 profit to shares carrying dividend rights at the payment date, marking a nearly 50% increase on the dividend paid out of 2014 profit.

Underpinned by organic capital generation ability and an increasingly strong balance sheet, the Bankia Group's goal in the coming years is to maintain shareholder remuneration as another step towards getting the business back to normal and repaying the public assistance received.

12.- ORGANISATION AND PEOPLE

12.1.- People

Bankia Group has a workforce of 13,449 professionals, of which 13,175 work at Bankia S.A. Note 16 to the consolidated financial statements for the interim financial statements ended 30 June 2016 provides a breakdown of Group employees by gender and professional category.

Bankia's development as a bank is dependent on the consolidation of a new corporate culture and an employment policy predicated on promoting talent and providing equal opportunities for all.

One of the cornerstones of the Entity's human resources policy is to identify and manage talent across the entire organisation. Furthering the trend begun in last year towards promoting the professional and career development of employees, in the first half of 2016 a number of initiatives were carried out, highlighted by:

- Management Skills Development Program.
- Senior Management Program for corporate managers, the second edition of which began in May.
- The Career Development Plan (CDP) program, which also kicked off its second edition in the first half of 2016. Following the start of the new edition of CDPs, two-thirds of the Retail Branch and Central Services Manager Talent Group will have their own, personalised CDP.
- Progress in the Mentoring Programme, the first edition of which is scheduled to be completed in the last quarter of 2016. The second edition began in June 2016, in which 60 of the Bank's professionals participated. It is expected to run for 18 months.
- Continuation of talent development plans for staff with pre-management functions. Over the first six months of the year, 484 new professionals were included in talent development plans, taking the total to 832 from a variety of functional and geographic areas. This number represents approximately 6.4% of the Entity's total workforce.
- Advances in the programme identifying candidates to receive training for positions in the organisation that require a greater degree of specialisation and that, given their nature, are difficult to fill internally. In line with this objective, a new project, called "Cantera de Negocios 2016-2017" (Business Pool), was started in the early months of 2016 targeting the Capital Markets, Corporate Banking, Financial Management and Specialist Business (Business Banking) areas.

Turning to training, the focus during the first half of 2016 was on honing employees' key skills, synchronising actions with the Entity's priorities and relating processes for measuring the transfer to results and certification, with 249,243 training hours given.

More training itineraries were carried out, involving branch managers as well as managers of private banking and SMEs in order to shore up the knowledge and skills related to their function.

Bankia also enhanced employees' knowledge and skills by embarking on the key initiatives in a number of areas to:

- Specific on-boarding training was given for multi-channel managers related to changes in the Bank's distribution models. In addition, the training of this group of managers was completed through a training itinerary designed to develop their skills in multichannel customer service.

- Specific training actions were conducted to develop employees' commercial skills, bolstering the commercial service and management process from the viewpoint of quality in customer relations.

- Further efforts were made to reinforce technical skills in credit risk admission and management, in the development of foreign trade and in the improvement in operational management.

- Lastly, an extensive training plan was developed for Plus+ branch managers and advisors with a view to obtaining European Financial Advisor –EFA- certification, which will allow them to offer unique advisory service to our customers and pre-empt the requirements arising from the transposition of the European Directive MIFID II.

In respect of occupational health and safety, Bankia places special emphasis on occupational risk prevention, through the development of a coherent policy and a coordinated occupational risk prevention. The Risk Prevention Management System encompasses all measures taken to mitigate and control occupational risks. These measures are carried out through an Annual Programme of Preventive Measures, approved by the State Health and Safety Committee.

Several agreements have been signed by the Bank and workers' representatives to improve working conditions. These include action protocols in situations of external violence and robbery, which are executed immediately and in a coordinated manner to provide support and assistance to employees.

Moreover, preventive campaigns continue to promote good health, along with collaborative actions with several institutions such as the Spanish Cancer Association, which seek to raise awareness and inform all members of the organisation. Blood drives were also carried out in collaboration with different public organisations.

12.2.- Suppliers

In the first half of 2016, Bankia successfully renewed the certification of its procurement management system in accordance with the UNE-CWA 15896 standard, which it first obtained in 2015 and the main goal is to achieve excellence in organisations' purchasing or procurement departments through a standard quality commitment that adds value to the company and ensures that environmental, ethical and sustainability aspects are observed.

The Bank also establishes its own criteria for the procurement function in accordance with the Code of Ethics and Conduct approved by the Board of Directors and with the provisions of the International Federation of Purchasing and Supply Management (IFPSM). These criteria are based on mutual benefits, loyalty and honestly, objectivity in decision-making, transparency and equal opportunities, confidentiality, integrity and independence in relations and corporate social responsibility, among others.

The supplier certification process is a pre-requisite for establishing commercial dealings with Bankia. This process assesses areas to indicate economic, social, environmental and government risk.

In addition to imposing stricter supplier selection criteria, Bankia has undertaken commitments to speed up the process and aid in the fulfilment of the obligations it has assumed, such as implementing electronic contracts and invoices. In the first half of 2016, 95.1% of contracts entered into were paperless, while digital invoices accounted for 37.03% of the total.

Thanks to initiatives to improve relations between Bankia and its suppliers, 85.6% of suppliers rated their satisfaction with the Bank at seven or higher (on a scale of 0 to 10). This figure was obtained from the satisfaction surveys sent to Bankia service providers or product suppliers seeking their perception on aspects such as friendliness, responsiveness to suggestions, negotiations and compliance with payment commitments. For the first time, perception studies were conducted in the period on suppliers involved in a negotiation process, whether or not they were awarded a contract.

13.- ENVIRONMENTAL DISCLOSURES

Bankia integrates environmental impact in the organisation's decision-making, aligning it with the business strategies and including environmental governance in its overall management. Therefore, it has an environmental policy underpinned by the values defined by the Entity for the stakeholders it engages. These values are:

- Commitment to combatting climate change, eco-efficiency and prevention of waste generation, all under the framework of a certified environmental management system.
- Professionalism, through training and awareness raising among all employees to bring them on board and through competent, objective-based management.
- Achievement orientation, with systems of environmental performance indicators in place to ensure continuous improvement in the Group's environmental management.
- Integrity, based on ethical, responsible and transparent behaviour focused on complying with prevailing legislation.
- Closeness to suppliers in order to encourage responsible environmental conduct.

Bankia sees measuring the environmental impact of its activity as fundamental, and works proactively to mitigate any such effect. It focuses efforts on the environmental management of its work centres, boosting eco-efficiency vis-à-vis the use of natural resources, helping to tackle climate change, and fostering environmentally-responsible attitudes among its staff, suppliers and customers.

In this respect, to get employees more involved, internal forums were created to help foster dialogue, discuss proposals and encourage employees to sign up for environmental-protection initiatives supported at corporate level by Bankia.

Regarding suppliers, a specific assessment of suppliers' environmental performance and management is carried out as part of the supplier approvals process (including the carbon footprint of the product or service offered). Suppliers are informed of the principles governing their relationship with Bankia and provided guidelines on environmental best practices.

Suppliers with the greatest impact are offered the opportunity of participating in workshops that help contribute to continuous improvement, which makes Bankia a more sustainable and committed organisation each day.

In 2016, new content will be added to the web and Intranet, with the objective of getting all employees involved in environmental protection.

Regarding environmental management, Bankia has a management model for its work centres based on the international ISO 14001:2004 standard. Bankia's head offices in Valencia and its centre of operations in Madrid and in Las Rozas building, where the Data Processing Centre is which has a certified environmental management system. The objective in 2016 is the documentary adaption of the environmental management system to the ISO 14001:2004 new requirements.

Regarding the eco-efficiency of activities, Bankia has an Energy Efficiency Plan 2015-2019 rooted in the analysis and diagnosis of the situation of the branch network and buildings in 2013. This affects the majority of the work centres and the objective is to reduce electricity and fuel consumption (natural gas and diesel) by 19% compared to the base year (2013). To achieve this objective in 2016, actions have been planned for this year to make modifications to thermal management of buildings, implement smart metering in offices and for IT equipment, substitute lighting with more efficient LED-type lighting in the centres that consume the most electricity and renew air conditioning/heating equipment.

Thanks to its commitment to clean energies, since 2013 Bankia has eliminated all indirect emissions associated with electricity consumption in all of its buildings and across the commercial market. In this regard, for the fourth consecutive year, Bankia contracted 100% of its electricity supply with guarantees of origin (green energy), achieving another of the Plan objectives. It also has a photovoltaic solar energy capture system installed on the Pintor Sorolla building in Valencia (the bank's headquarters).

In the area of consumption and waste management, the strategy aims to prevent waste and promote recycling. In line with these objectives, a number of initiatives had continued to carry out in first half of 2016 to reduce paper and water consumption, e.g. digital contract signing, invoice management through a digital platform to prevent paper generation and the installation of water saving systems in the taps in all of the Bank's branches and buildings.

In the area of waste management, the strategy aims to prevent waste and promote recycling. In the last years Bankia has focused its efforts on donation of electric and technological equipment and furniture to educational centres and NGOs devoted to social purposes. This, is making a valuable contribution to the social work of these organisations, while also avoiding these items being thrown away.

CONSUMPTION OF MATERIALS [1]	1S 2016	2015	Units
Total consumption of recycled paper (DIN A4)	325.30	741.50	Tons
Consumption of paper produced using virgin pulp with a low environmental impact (DIN A4) [2]	0.89	1.63	Tons
Total paper consumption (DIN A4)	326.19	743.13	Tons
% Consumption of paper produced using ECF virgin pulp (DIN A4)	100.0	100.0	Percentage
Total consumption of toners	7,725	14,575	Toners
% Printer cartridges used that are recycled	97.42	99.82	Percentage

1 Data on Bankia, S.A.
2 Paper supplied by manufacturers with FSC and PEFC certification, which guarantee materials used come from sustainably-managed forests.

ENERGY CONSUMPTION [1]	1S 2016	2015	Units
Electricity consumption [2]	164,040 [3]	379,638	GJ

1 Data on Bankia, S.A.
2 Consolidated data up to 30 November 2015, estimating the consumption data for December.
3 Consolidated data up to 30 April 2016, estimating the consumption data for May and June.

Climate change is one of the greatest challenges faced in the field of environmental management. Inside the strategy to combat climate change, with the 2015-2019 Energy Efficiency Plan provides continuity to Bankia commitment with clean energies.

Efforts to promote the use of video conferencing rather than making trips for meetings have continued this year to minimise fuel consumption and reduce the emissions of air pollutants associated with transport. During the first half of 2016, these services received 2,775 requests and were used by 43,575 people.

Geared towards continuous improvement and to have a holistic view, the protocol to measure the carbon footprint was strengthened and a complete inventory of emission sources was taken, expanding the scope of the information considered.

On the other hand, each year, Bankia takes the Global Climate Change Report questionnaire from the CDP (Carbon Disclosure Project), which analyses its climate change strategy and management.

In 2015, Bankia's result was 100 B (vs. the financial sector average of 84 C), making it Spain's second best bank and a global benchmark for its inclusion in the CDP Climate Disclosure Leadership Index 2015 (CDLI).

Also in 2015 Bankia achieved the highest mark possible (100) for its corporate transparency with respect to climate change, raising its score by three points from 2014. In this respect, the completeness, accuracy and quality of the responses to the questionnaire are scored and assessed.

Similarly, in 2015 Bankia was also awarded the second highest score (B) in the assessment of its performance for actions undertaken to reduce carbon emissions and mitigate the risks to the business arising from climate change. The level of actions taken is evaluated based on the information provided in the questionnaire with respect to mitigation of and adaptation to climate change, and transparency.

In June 2016, Bankia completed the participation process by filling out the CDP Climate Change 2016 questionnaire.

14.- RESEARCH, DEVELOPMENT AND TECHNOLOGY

In the first half of 2016, the Bank focused IT investment in the two major transformation projects begun in previous years: The Redesign of Operating Processes at Branches and the Multi-channel Transformation Plan. These plans have a two-fold objective: to make the processes performed by the commercial network more efficient, and to drive the digital transformation of the business

The Redesign of Business Processes Plan, which began in 2014 and runs through 2018, has as its main objective to make the commercial network more “efficient” through operational streamlining to make the branches more flexible and decrease administrative red tape, compliance with regulatory requirements regarding the delivery, receipt and filing of customer documentation, and leveraging the possibilities of the multi-channel customer relationship

In the first half of this year, efforts focused on the redesign of processes related to asset products (guarantees and guarantee lines, discounting, credit accounts, credit card lines and loan operations), the redesign of POS maintenance processes and stores, processes related to motor and health insurance and the process for maintaining products designed to attract customers. Work aimed at enhancing commercial processes began in the period with the design of a new office start-up scenario and improvements in the commercial contact manager and customer commercial file.

One of the main highlights of the plan is the centralisation of the bulk of the administrative tasks related to product processing in the back office. In the first half of the year, CSO (a wholly owned Bankia subsidiary) carried out most of the tasks related to financial data input and collation on asset transactions and activities related to the sign-up and arrangement of loan transactions.

Further investment went to the new document scan and archiving model with the evolution of the original model based on the new needs of the redesigned processes and the creation of their document maps.

Under the framework of the “digital transformation”, noteworthy in the period is that the number of customers managed through the remote manager model surpassed the 150,000 mark. The goal is to end the 2016 with 250,000 customers using the service. Technical adaptations and adaptations of the architecture related to this focused on promoting the omnichannel approach and adding new features for customer sales.

In July 2015 the Management Committee approved the Multi-channel Transformation Plan, which establishes the road map, guidelines and the set of initiatives behind Bankia's digital transformation in the 2016-2018 period. Hefty investments were made in the first half of the year to the following lines of action:

- Business Intelligence. In this line of action, progress was made on developing mechanisms for capturing analytical data from operational channels, core Big Data architecture was developed allowing the management of centralised campaigns with advanced analytics, and work was performed on developing advanced Big Data architecture with real-time capabilities.

- Upgrade of digital channels (OIP, mobility, wall and self-assessment tools). Under this line of action, production of the Bank's new public website is slated to begin in the first few weeks of the second half this year. This more intuitive, user-friendly web offering a greater variety of services is designed to facilitate interaction with customers, promoting “digital dialogue” by starting up a specialised contact center. Product sales will be guided by a personalised purchasing system supported by simulators and comparison tools. The web will unify the current portals, bringing them closer to customers, and adapt to the devices used by customers at any given time, whether a PC, a smartphone or a tablet.

- Digital marketing. In this line of action, a multichannel dashboard was developed and work was carried out on the availability of internal commercial spaces (App and public website).

Beyond the scope of these two Portfolio Transformation Projects, the rest of investment in the first half of 2016 was spread out among projects on a number of fronts: business with individuals and companies, risks and recoveries, regulations, technology and infrastructure.

On the Business with Individuals and Companies front, the main projects focused on Insurance, Private Banking & Asset Management, and Business Banking.

In insurance, work began to define and develop a new product, Vida Nexo, and develop web-service communication between Mapfre and Bankia. For Private Banking and Asset Management, functionalities were developed targeting portfolio management and dealings with international funds. In Business Banking, developments focused on furthering the capacities of the Foreign Trade business (e.g. factoring and forfaiting, query features, documentary credit data storage, international SEPA direct debit) and improving customer information on customers, as well as defining the developments necessary to enhance managers' commercial planning systems.

Meanwhile, in Retail Banking, as a result of the call for public bids by the Spanish lottery and gambling company, (Sociedad Estatal de Loterías y Apuestas del Estado), the applications required to activate the large winnings payment and related cash management features were developed.

In Risks and Recoveries, the migration to the market risk platform, previously handled by Kondor, to MUREX continued in the period. The migration project will run until 2017, although in the first half of this year the migration of equity, credit derivative and organised derivative markets products was carried out. Elsewhere, developments continued in relation to the collection agency and lawyers management project. The implementation and integration of the PFS Recovery tool as a single interface for management of the recovery activity is expected to conclude this year.

Work in the period was carried out on the extension of the calculation of risk-adjusted return (RAR) to individuals, on the optimisation of time spent by systems in the calculation process and on mechanisation and inclusion of RAR metrics in pricing authorities in asset proposals.

Ever-increasing requirements of regulators and supervisors led to hefty investment in Regulatory Reporting and Compliance in the first half of the year. This component includes, *inter alia*, investment to develop rules and regulations related to the Security Market Reform Act, the new CIRBE (Bank of Spain risk information centre), the implementation of the Bank of Spain FINREP statements, Taxation on Securities, Target2 Securities, new CRS and FATCA standards, EMIR, Control of International Sanctions Lists and the Law on the Promotion of Business Financing.

In the first half this year, work also continued in relation to the Redesign of the Information System of the Bank, which is scheduled to run until 2017 and designed to structure the Bank's information repositories, aligning information management with standards backed by supervisory bodies (EBA, ECB) and implementing corporate information governance.

On the technological front, efforts continued to execute a series of medium-term projects focused on upgrading operational systems and improving the evolution and maintenance capabilities (redesign of payment methods, single collection and payment system, renewal of asset systems, and migration to Oracle v11).

Other important technological projects include the upgrade and evolution of security, processes and logic architectures, the consolidation and improvement of development and testing environments, the optimisation of Online and Batch and developments of architecture related to Big Data.

Lastly, in the area of IT infrastructure management, the main investments in the first half of the year went to the deployment of advanced technology ATMs and the renewal of workstation infrastructure.

15.- FORECASTS AND BUSINESS OUTLOOK

The global economic outlook for the second half of 2016 points to continuation (e.g. moderate growth, line with the first half). However, it is also challenging, especially for Europe amid renewed concerns surrounding the financial sector and, more importantly, the Brexit victory in the UK referendum. Brexit will most likely have a fairly limited impact on growth in the EMU over the rest of year, but more so in 2017: it could lower GDP growth by between 0.3 and 0.5pp to just above 1.0% (1.5% estimated for 2016). For the US and the rest of the world, Brexit does not appear to pose any major risk, possibly detracting just a two tenths from global growth 2017, although there are downside risks to forecasts. In this setting, central banks should take on a greater role. The Bank of England could relaunch its asset purchase program and cut its reference rate. The Federal Reserve could delay embarking on a tightening campaign and probably will not start one this year. As for the ECB, it will probably expand its asset purchase program, at least its duration, although it could well increase the volume or the assets eligible for purchase. It seems less likely that it will lower interest rates, although the market is priced for such a move.

In Spain, the economy should continue to grow, albeit at a gradually lower pace as certain temporary drivers, such as oil prices and budget stimuli, ease. Nevertheless, economic growth will continue to be spurred by an expansionary monetary policy and progress on correcting imbalances, not to mention improved competitiveness and the reduction in household and corporate deleveraging.

As for the risks, political uncertainty in Spain seems to be waning in the wake of the latest elections; in contrast, given the strong economic ties between Spain and the UK, our economy is particularly vulnerable to Brexit, although it is not expected to have any major immediate impact. Against this backdrop, our forecasts point to GDP for the whole of 2016 of around 2.8%.

In this business environment, considerable challenges lie ahead for the financial sector, as institutions' business margins in 2016 will remain under pressure due to the low level of interest rates and a still tenuous rebound in economic activity. However, the growth path for the Spanish economy should continue to spur new lending, which in 2015 already registered significant growth, especially in loans to households and SMEs. Meanwhile, the banking sector in general should continue to cement the foundations for coping with the potential impact on activity of the international political and financial situation.

As regards, in 2016, the Bankia Group will continue to work on consolidating the business, with the overriding aim of becoming more competitive and profitable, and expanding the more recurring business so it can generate capital organically. To do so, it will focus targets on the following:

- A key strategy will be to put of the focus on the customer, understand their needs and offering the best combination of service excellence and competitive pricing in the market. In this respect, one of the Bankia Group's top priorities in 2016 will be to strengthen the loyalty of existing customers and lay foundations for Bankia to bolster their relationship and loyalty.
- Continue making improvements in profitability and maintain efficiency levels that are among the highest in the Spanish financial sector.
- Increase lending to self-employed professionals and businesses as a means of boosting revenue and improving margins, with the objective of gaining market share while controlling the cost of risk.
- Continue reducing the stock of problem assets organically and through the sale of NPL portfolios in order to free up liquidity and funds so new loans can be granted in strategic segments.

To achieve these objectives, the Bankia Group is working on a second strategic plan with the objective of maintaining its leadership in efficiency, balance sheet strength and profitability among Spain's large banks. The Bankia Group will embark on this new plan from a solid financial position, strong capitalized and an ability to enhance solvency organically and on a recurring basis, with a healthy efficiency ratio and a considerable level of profitability. These strengths will be crucial for the Group in a period that will still be challenging for the banking sector as interest rates look set to remain low, while competition should remain fierce.

16.- EVENTS AFTER THE REPORTING PERIOD

No other significant events took place between 30 June 2016 and the date of formulation for issue of Bankia Group's consolidated interim financial statements with a significant impact on those financial statements