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

INTERIM MANAGEMENT REPORT

JUNE 2018

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This report was prepared in accordance with the criteria set out in Circular 3/2018 of 28 June, of the National Securities Market Commission (CNMV), on period reporting by issuers of securities admitted to trading on regulated markets related to half-year financial reports, interim management statements and, where applicable, quarterly financial reports.

1. - KEY EVENTS OF FIRST SEMESTER 2018

1.1. - The Group completes the integration of Banco Mare Nostrum

In March 2018, the Group successfully completed the integration of the technology platforms of Bankia and Banco Mare Nostrum ("BMN"). Following the technological integration, BMN customers now have access to Bankia products and associated terms and conditions and all branches now operate under Bankia livery. Changes have also been made to over 1,000 ATMs across the country.

The branch closure process is now complete. At the end of June 2018, the network comprised a total of 2,306 branches. Meanwhile, the workforce resizing process got under way in April, resulting in 1,543 departures through to 30 June 2018, with more than 200 further departures arranged for the latter half of the year. The Group started to achieve initial cost synergies in April, although these will be more significant in the second half of the year.

As regards the business reorganization, the Group entered into a number of agreements in the first half of 2018 designed to accelerate the synergies envisaged in the 2018-2020 Strategic Plan. Accordingly, as from April all of the Group's real estate-related activities are managed by Haya Real Estate after the contracts between BMN and other companies were cancelled and the agreement for the purchase and sale of the real estate management and service business entered into with Haya Real Estate, S.L., on 3 September 2013, was novated. In addition, an agreement was signed with Credit Agricole Consumer Finance in May covering the consumer lending business in Spain through a joint venture, which will market its products exclusively in Spain through non-banking channels. Lastly, in July, after the end of the half year, the acquisition of 100% of the share capital of Caja Granada Vida and Cajamurcia Vida y Pensiones was completed, once all the required permits from the regulatory authorities were secured.

1.2. - Unveiling of the new strategic plan

On 27 February 2018, the Bankia Group unveiled its new 2018-2020 Strategic Plan, which had been approved by the Bank's Board of Directors on 22 February 2018.

The new Strategic Plan seeks to continue increasing the Group's earnings by driving sales and commercial activity, while continuing to improve the quality of its balance sheet and improving shareholder remuneration. To accomplish these objectives, the 2018-2020 Strategic Plan targets four key areas:

- **Great potential to achieve synergies** following the merger with BMN by reducing overlapping costs (saving up to an estimated EUR 190 million by 2020) and increasing significantly customers in regions where Bankia held a relatively small presence prior to the merger (Murcia, Granada, Balearic Islands).

- **Improvement in the cost-to-income ratio** to below 47% in 2020 after successfully achieving the cost synergies resulting from the merger with BMN.

- **Increased income through greater sales of high-value products**. This objective will be achieved through new lending (mortgages, consumer finance and business loans), fees and commissions from managing and marketing mutual funds, payment services and insurance and the new lines of business that the Group could initiate, such as real estate financing, long-term funding to large companies via placements in the capital markets and other fee-bearing products (project finance and acquisition finance).

- **Accelerated reduction of problematic assets** organically and through portfolio sales. The plan contemplates further reductions in non-performing loans and foreclosed assets of EUR 8,800 million through to the end of 2020.

Accomplishing the objectives of the Strategic Plan will allow the Bankia Group to continue generating strong organic capital, while keeping its capital adequacy ratio above 12% (fully-loaded CET1).

1.3. - Earnings performance

Net attributable profit in the first half of 2018 totaled EUR 515 million, matching the figure reported in the same period of 2017. The integration of BMN, coupled with growth in business with customers, active cost management and control of the cost of risk, were the main profit drivers in the period, successfully countering the impact on interest income of lower earnings on fixed-income securities, maturities and repricings of the mortgage portfolio.

The new commercial model has continued to create value for the Group, increasing customer loyalty, making important progress in the multichannel distribution strategy and driving business volumes. These advances pushed up net fee and commission income by 25.6% on the first half of 2017 (+1.4% on a like-for-like basis if we factor in earnings at BMN in the first half of 2017).

Operating expenses (administrative expenses, depreciation and amortization) were up 23.6% year on year following the merger with BMN, although on a like-for-like basis this heading would be down by some 1.7% thanks to the cost-to-income measures rolled out by the Group and the initial cost synergies achieved from the merger.

A further highlight in the period was the improvement seen in impairments and provisions, which were down 22.8% year-on-year even after adding over EUR 20,000 million in customer loans from BMN, to the Group's balance sheet, as a result of the merger.

1.4. - Business activity and volume

Digital customers continued to grow at a healthy pace over the first half of the year. At 30 June 2018, they accounted for 40.9% of total Bankia customers, compared with 40.5% at December 2017 and 37.6% at December 2016.

The progress made in the commercial strategy has also been evidenced in the lending activity, enabling the Bankia Group to record further growth in new lending for both businesses and individuals through mortgages and consumer loans.

Regarding customer funds, we have seen a favorable evolution in sight accounts and off balance sheet resources (mainly in mutual funds) revealing increases of 6% and 8. 6%, respectively, from December 2017, benefiting from the shift in our customer savings out of term deposits.

1.5. - Further improvements in risk management and in reducing problem assets

The key variables related to the credit quality of assets continued to fare well in the first half of 2018. Non-performing loans (NPLs) fell by 10.8% from the end of December, while the NPL ratio shed 0.8 percentage points to reach 8.1% at the end of June 2018. This solid performance is related to a reduction NPL inflows, an improvement in recoveries and active risk management at the Group, all of which have led to further sales of non-performing assets in the first half of the year.

The Group's strategy for reducing problematic assets has also resulted in a reduction in the volume of foreclosed assets, the net value of which fell by 9.3% from December 2017,

1.6. - Capital strength

At 30 June 2018, the Bankia Group's Phase-in CET 1 ratio, including profit for the six months, net of the dividend expected to be charged to reserves, stood at 14.01%, factoring in the effect of early application and the full impact of the implementation of IFRS 9 on 1 January 2018, without applying the transitional arrangements contemplated in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017, and established to cushion the impact.

This level of higher-quality capital makes the Bankia Group one of the most solvent entities in Spain's financial system, with a capital surplus of 545 bps (EUR 4,559 million) above the minimum capital requirement for CET 1 SREP communicated by the ECB to the Group for 2018 (8.563%). At 30 June 2018, the Bankia Group's Phase-in Total Capital ratio was 17.18%. This implies a surplus of 512 bps (EUR 4,284 million) above the minimum requirements for Total Capital SREP for 2018 (12.063%).

The Bankia Group's solvency strength is underpinned by the Group's organic capital generation model, in which the capitalisation of profits and selective growth in the business segments that are considered strategic by Bankia for their higher credit quality are the main cornerstones of its sound solvency position. At the same time, Bankia continues with a gradual process of optimization of its risk weighted assets, which have a positive impact on solvency. This underscores the Bankia Group's ability to continue generating capital while still paying dividends to shareholders.

1.7. - Funding and liquidity structure.

The Bankia Group continues to enjoy an extremely sound financial structure, underpinned by the funding of its credit activity mainly through customer resources. In accordance with this retail banking model, customer deposits at 30 June 2018 represented 65.8% of external funding sources (63.6% at December 2017), leaving the Group operating with a stable LTD ratio of 92%.

Additionally, Bankia taps capital markets in order to supplement its structural liquidity needs. At 30 June 2018, wholesale issuances accounted for 9.4% of the Group's borrowings and consisted primarily of mortgage covered bonds. At 30 June 2018 the Group had sufficient available liquid assets to cover its entire wholesale debt maturities.

1.8. - Upgrades to credit ratings

The main rating agencies continued to upgrade the Bankia Group's credit ratings in the first half of 2018.

On 6 April, S&P upgraded Bankia's rating from BBB- Outlook Positive to BBB Outlook Stable. The move was prompted by the perceived improvement in the "economic climate and the state of the banking sector" in Spain, following the upgrade of Spain's sovereign rating. The agency expects Bankia's capital to continue improving on the back of organic capital generation and the issuance of hybrid instruments. It is also confident that non-performing assets will continue to fall over the next two years, while recurring profitability should improve following the integration of BMN.

On 6 February 2018, Fitch raised Bankia's rating outlook from Stable to Positive and affirmed its rating at BBB-, citing an improved domestic franchise following the merger with BMN, solid capital post-merger, adequate liquidity and funding sources and an experienced management team adept at mergers.

1.9. - Shareholder payment

Increasing shareholder returns is one of the Bankia Group's top priorities. Thus, on 20 April 2018, Bankia paid a gross dividend of EUR 340.1 million (EUR 0.11024 per share) out of 2017 profit, which represents an increase of 7.1% on the figure paid out in the previous year. Of this amount, EUR 208 million was paid to BFA, Tenedora de Acciones, S.A.U., which held 61.175% of Bankia's capital at 20 April 2018.

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

2. - ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

2.1. - Overview of Bankia Group and its organisational structure

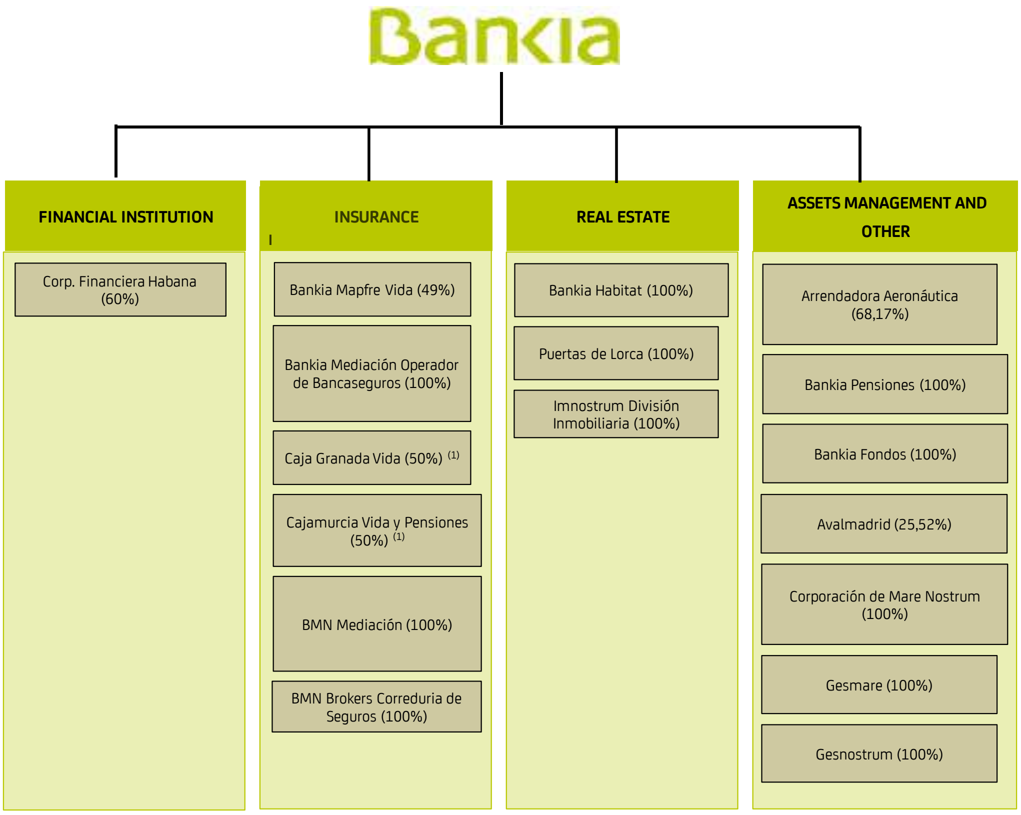
Bankia is a financial group with a presence throughout all the national territory, with an activity that is mainly focused on traditional retail banking, corporate banking, asset management and private banking businesses. Its social purpose includes all types of activities, operations, acts, contracts 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.

BFA is Bankia's biggest shareholder, with a 61.25% stake at 30 June 2018.

Organisationally, Bankia is the Group's parent. At 30 June 2018, the consolidation scope comprised 78 companies between subsidiaries, associates and joint ventures, engaging in a range of activities, including the provision of finance, insurance, asset management, services, and real estate development and management.

Of these, 40 are Group companies, 12 are join ventures and 26 are associates. Bankia mainly does business in Spain. The Group had total assets at 30 June after the integration of BMN of EUR 208,208 million. The Group's branch network comprised 2,306 offices at the year-end. Section 2.3 below provides a breakdown of the branch office network by region.

Investments in companies included in the Bankia Group's scope of consolidation are held directly in Bankia's portfolio or indirectly through other holdings. The most important are:



(1) After the end of June 2018, Bankia has extended to 100% the participation in theses companies at 10 July 2018.

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, the acquisition or disposal of assets under the terms established by the Law or the approval of the Director Remuneration policy, among others.

- **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 determining the Company's general policies and strategies, the corporate governance policy for the Company and the Group, the responsible management policy, the control and risk management policies, and the dividend policy and supervising the functioning of any committees it may have set up and the actions of the delegate bodies.

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 9 meetings in the first half of 2018**
(7 independent directors and 4 executive directors at 30 June 2018) • Mr. José Ignacio Goirigolzarri Tellaeche. Executive Chairman • Mr. José Sevilla Álvarez. Chief Executive Officer • Mr. Antonio Ortega Parra. Executive Director • Mr. Carlos Egea Krauel. Executive Director • Mr. Joaquín Ayuso García. 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

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 and supervise 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 8 meetings in the first half of 2018.
Appointments Committee and Responsible Management Committee	
The Appointments Committee has general authority to propose and report on appointments and removals of directors and senior managers. It is also responsible for, among others, 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 organizes 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	**Nowadays it is composed by external independent directors:** - Mr. Joaquín Ayuso García (Chairman) - Mr. Francisco Javier Campo García (Director) - Mr. Fernando Fernández Méndez de Andés (Director) The Appointments Committee and Responsible Management Committee held 9 meetings in the first half of 2018.

degree of compliance, and everything related to social, environmental, political an reputational risks of society.	
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 programs, considering their appropriateness and utility, and ensuring transparency of remuneration and compliance with the remuneration policy set by the Company, among other responsibilities.	**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 5 meetings in the first half of 2018.
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). Supervises the internal control and risk management function and proposes the system of credit risk delegation to the Board of Directors, among other responsibilities.	**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 20 meetings in the first half of 2018.
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, among other responsibilities.	**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 21 meetings in the first half of 2018.

In addition, at 25 January 2018, the Board of Directors resolved to terminate the **Monitoring and Supervision Committee for the Process of Merger of Bankia and Banco Mare Nostrum ("BMN")**, amending the Board of Directors Regulations by the deletion of the final disposition to regulate the Committee's duties, functioning, composition and organisation. This Committee, which was set up in March 2017, was composed exclusively of independent directors. Its core mission was to monitor and oversee the whole process of the merger of Bankia with BMN, as regards both the study and analysis phases of the transaction and also compliance with all established legal requirements.

The Committee reported to the Board of Directors on the development of all these tasks. In addition, it focused in particular on the interests of all Bankia shareholders, ensuring autonomy and independence in decision-making.

The Committee's four independent directors were: Joaquín Ayuso García (Lead Independent Director and Chairman of the Appointments and Responsible Management Committee), as Chairman, and Francisco Javier

Campo García (Chairman of the Risk Advisory Committee), Eva Castillo Sanz (Chairman of the Remuneration Committee) and Antonio Greño Hidalgo (Chairman of the Audit and Compliance Committee), as members.

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 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 and investees and associates, Joaquín Cánovas, who was appointed in January 2018 and took office after the Bank of Spain had confirmed his suitability for office. His appointment was entered on the Register of Senior Officers on 7 May 2018.

Turning to **appointments**, the Board of Directors agreed to nominate Carlos Egea as executive director on 25 January 2018, who was previously included under the category of other non-executive directors.

Additionally, the General Meeting of Shareholders held on 10 April 2018, after hearing that an opening had arisen on the Board of Directors on 17 October 2017 following the resignation of independent director Álvaro Rengifo Abbad, agreed to keep the number of board members at 12, meaning that the vacancy remained open.

The Bank is now in the process of nominating a new board member to fill the opening and is looking to ensure diversity when selecting the new member.

- **Advances in Corporate Governance**

One of Bankia's main priorities is to align its corporate governance with Spanish and international best practices. 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 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 Company's corporate governance and the operational functioning, basically made up of corporate texts (Corporate Bylaws, General Meeting Regulations, Board of Directors Regulations and, more recently, the Regulations of the Audit and Compliance Committee), internal procedures and rules of conduct (including the Code of Ethics and Conduct, and the Internal Rules of Conduct for Securities Markets activities) and corporate policies.

The Board of Directors approved the **Regulations of the Audit and Compliance Committee** at a meeting held on 26 April 2018 so as to embrace and implement the principles and recommendations set out in CNMV Technical Guide 3/2017 on audit committees. Due to Bankia's status as a credit institution, the regulations also reflect the recommendations contained in EU banking industry publications, such as the Final Guidelines on Internal Governance (EBA/GL/2017/11), the guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12) and the Guide to Fit and Proper Assessments of the European Central Bank.

The Regulations of the Audit and Compliance Committee were duly filed at the Companies Registry and reported to the CNMV and can be found on the Bank's corporate website (www.bankia.com).

2.3.- Business model

The Bankia Group is a franchise with a presence throughout Spain, focusing on Retail and Business Banking, and a growing multi-channel strategy.

The main objective of its activity is to create sustainable, recurring long-term value, to respond to the expectations of its shareholders, customers, employees and society at large. Accordingly, the Bankia Group's business model is characterized by its customer focus, providing a service that is close to customers, professional and tailored to customers' needs at all times.

With this purpose, the commercial model of the Bankia Group, is structured in three main business lines:

- Retail Banking

- Business Banking
- Corporate Centre.

Note 1.12 of the Bankia Group's financial statements provides a breakdown of the results of each business line at 30 June 2018 and 2017, as well as the key balance sheet items of the two year-ends.

After the integration with BMN, the Bankia Group carries out its business through a network of 2,306 branches, distributed geographically as follows:

Autonomous communities	Offices number
Andalucía	325
Aragon	11
Asturias	11
Baleares	156
Canarias	104
Cantabria	20
Castilla - La Mancha	103
Castilla - León	125
Cataluña	134
Ceuta	5
Extremadura	10
Galicia	22
La Rioja	52
Madrid	639
Melilla	1
Región de Murcia	162
Navarra	3
País Vasco	17
Valencia	406
TOTAL	**2,306**

Retail Banking

Retail Banking includes retail banking activity 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. It also includes the Corporate Directorate of Private Banking and Asset Management, as well as Insurance Banking Directorate.

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 payroll and pension deposits, 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 achieve customer satisfaction and loyalty, retaining customers and, providing them with added value in products and services, and in advisory, and service quality, thereby increasing its satisfaction rate with Bankia. To achieve this, it segments customers in accordance with the need for specialised service and the needs of each customer type. 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. Moreover, with a view to offering families a comprehensive commercial service, ensuring that they are provided with the same quality as the biggest customers, all customers of each family group are assigned the same manager. This way, we simplify their dealings with Bankia, while at the same time enhancing the service we offer them.

In the first half of 2018, Retail Banking continued to focus on a loyalty strategy with **retail customers** which began on January 2016, eliminating fees and commissions for customers with payroll and pension deposits. Along the same lines, in January 2017 the Group began marketing the “Hipoteca sin comisiones” (no-fee mortgage), offering the best rates for customers with payroll and pension deposits. The “We remove your fees” strategy has become a cornerstone for the Bank with retail customers. Following the merger with BMN, over 3.4 million customers no longer pay fees by benefiting from the advantages of this commercial strategy.

Another strategic product for Bankia, which saw further improvements during the first half of 2018, is consumer finance, mostly customers that were pre-approved for financing, enabling them to take out products with Bankia in less than a minute through any of the Bank's channels. This is rounded off with a permanent offer of personalised financing for the times when the customer needs it most.

Bankia continued to pursue its commercial strategy of increasing engagement with individual customers by launching Bankia Fácil in June 2018. This new suite of services will allow the Bank to troubleshoot problems that customers often encounter and ultimately make banking an easier task. With this new line of services, customers can find out how much they can borrow should needs arise, cancel products without having to pay additional costs provided they do so within two months of arranging the product, or speak with a manager if need be through a secure and private channel accessible via the app or Bankia Online.

In line with its growing multi-channel and digital banking strategy, one of the pillars of the Group's commercial position, noteworthy, are the new “Oficina Internet” (Internet Office) and the new Bankia app, with improved innovative features in the first half of 2018 to make it easier for customers to take out products and contact the Bank. Also, this year, Bankia has strengthened “Bankia online”, the net internet office for retail customers, which was launched in 2017.

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).

With the aim of strengthening its competitive positioning, based on its relationship with customers, Bankia’s commercial model is 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 allows it to deliver quality, fast service to the customers who execute the most transactions, to free up time for the rest of the branches, so they can devote more time to advisory services and commercial actions. 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.

Bankia also has an agency network, focusing mostly on bringing in new retail and business customers, and marketing the products and services in the Bank's catalogue. Within this agency network Mapfre offices, which distribute Bankia's products and sign up new customers are included.

In line with its multi-channel strategy, the Bank has a complete array of technological channels that allow customers to carry out their transactions, contract and manage products, and to use the online broker. Amongst these are, the "Conecta con tu Experto" ("conect with your expert") service, provided though multi-channel managers integrated in the multi-channel branches, that is directed to customers requiring a personalised service. These customers interact with Bankia in over 90% of the cases through remote channels and, based on their current value and/or commercial upside, require more pro-active selling and personalised service.

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.

Bankia Fondos and Bankia Pensiones are responsible for ***asset management*** which provide financial products to the retail network.

Bankia owns 100% of Bankia Fondos SGIIC, and has marketing agreements with international fund managers for certain niche products. Bankia's investment fund manager offers a wide range of competitive, high quality products in all categories (money market, fixed income, equity, mixed, guaranteed, global, etc.), in both Spain and abroad. This variety allows it to meet the needs of different customer profiles, from the most conservative, whose priority is capital preservation, to the more adventurous, and who are willing to take certain risks in the interest of a higher return.

In pension funds, significant efforts have been 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.

Bankia's ***Bancassurance*** department is in charge of coordinating and promoting the insurance brokerage activity at Bankia and provides specialised support to the branches for the marketing of insurance for individuals (life, home, auto, health and saving) and businesses (comprehensive trade, credit insurance, general liability and comprehensive business).

As part of its comprehensive offering and customer advice, the Bancassurance Directorate is responsible for delivering a good service, both for individuals (savings, health, life, auto, home) and for businesses (trade, SMEs, third-party liability, credit, etc.), being also responsible for the supply of savings insurance.

The Bancassurance department defines the framework for relations with partner insurance companies based on the strategic alliances entered into, with the aim to boost the contribution from the sale of insurance products to the Entity's fees and commissions.

The distribution model is under constant development to bring marketing and sales processes in line with customer needs across the main sales channels (physical, assisted distance and digital) as the Bank seeks to unlock the value of an enhanced and more effective single distribution model for the entire network. The Bank is also driving new initiatives in a bid to maximise its results from this business.

In addition to providing support and advice to the distribution networks and employee training, Bancassurance is continuing to improve support for sales and portfolio management in branch, as well as after-sales service. Progress has also been made in optimising commercialisation systems and in streamlining procedures for arranging insurance and managing the portfolio, not only through the traditional branch network but also new channels, which now have added features and functionalities to enhance the customer experience.

In the first half of 2018, the Bancassurance Directorate continued its efforts to enhance the product catalogue (streamlining it to make it easier and bring it closer to customers) and sales systems (to make them more efficient), accompanying Bankia on its digital transformation around insurance.

In the first half of 2018, the activity focused on boosting production of insurance, increasing product penetration among Bankia customers and raising the contribution to the Entity's income statement, simplifying operations in branches to boost productivity per employee, tailoring products to the needs of customers from the bancassurance channel, promoting remote channels for arranging insurance and accompanying the Bank on its digital transformation, maximising its potential.

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-employed and SMEs, managing non-performing loans and boosting cross-selling.

The alignment with its needs, understood as something dynamic, is what inspires Bankia's planning and strategy for the development of the Personal Banking business.

Business Banking

Business Banking targets legal entities with annual income in excess of EUR 6 million (Corporate banking) as well as the Capital Markets activity. Other customers, legal entities or self-employed professionals with income below this figure fall into the Retail Banking category.

The customer basis is highly diversified between different productive and economic sectors, especially commerce, manufacturing and service sector followed by construction 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 rates among companies in other regions where it is a strong player such as La Rioja, the Canary Islands or 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 (excluding those belonging to the corporate segment). It has a network of centres throughout Spain, concentrated in the regions with the greatest business activity. A network of specialist managers is 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 teams 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, plus a branch in Palma de Mallorca specialised in dealing with customers from the Hotel business. When selling products and services, Corporate Banking managers work alongside Capital Markets product 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.

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 (Risk adjusted Return) approach to transactions.

The prices offered to customers take into consideration the cost of funds, the customer’s risk —which is determined through advanced internal models validated by the Bank of Spain— and their level of engagement with the Bank.

The objectives of the teams are to contribute business volume and results, cross-selling and close supervisions of risks, so as to provide financial support to business ventures with a view to establishing long-term relationships with customers.

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, sanction them as appropriate, and monitor them as needed. There are risk analysis and approval teams specialised in businesses some of them centralised teams provide support to transactions with large corporations and institutions. The rest are not centralised in business directions.

2018 has opened up new possibilities with business with large corporations for two reasons: 1) the lifting of the operating and business restrictions included in the Bank's restructuring plan; and 2) the integration of BMN customers. Regarding restrictions, the Bank will be able to raise long-term finance again in 2018 for investment grade companies and companies with access to capital markets, thereby expanding the potential business base. At the same time, in terms of products, we can be more active in project finance operations. Regarding customers, from the beginning of 2018, BMN's integration will increase the Bank's base of business companies with annual revenue of over EUR 6 million. Having service staff specialised in customers with higher turnover and working harder on relational quality on all business fronts should present opportunities with the Bank's new customers.

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 Plan, most of which are classified as Non-current assets held for sale.

Customer service and multi-channel network

Amid an increasingly competitive environment, Bankia's over-riding objective is to maximise customer satisfaction and loyalty. The Bank's activity places priority on delivering an increasingly efficient and higher quality service, striving to always satisfy customers' needs and expectations.

Technological progress and the development of the information society have given rise to new ways of providing service to bank customers, with tools such as the web or mobile phone becoming increasingly important. As a result, providing appropriate multi-channel customer service is one of the Group's priorities. In line with this objective, in 2015 Bankia created the Corporate Directorate for New Distribution Models, which is responsible for carrying out the Bank's multi-channel transformation project.

Significant strides were made in the Bankia Group's multi-channel strategy in the first half of 2018, cementing many of the projects initiated in previous years, which have driven considerable growth in the multi-channel and digital customer bases. At the end of June 2018, multi-channel customers accounted for 40,9% of all Bankia customers, up from 40.5% in December 2017.

Bankia's big project in terms of digital service for customers is "Conecta con tu Experto" (connect with your expert), a free and remote specialist advisory service, which is key to delivering multi-channel customer services, especially to the more digital customers. In this service, Bankia assigns a personal manager which customers can contact through the telematics means of their choice, by phone, e-mail, virtual chat, etc., who can provide personalised service and do away with waiting times. All types of banking transactions can be performed through this service, except cash withdrawals.

As part of Bankia's strategic digital transformation in the first half of 2018, improvements were made to the digital channels, with new features added to Bankia Online and the Bankia app. Bankia Online, which was implemented in 2017, now includes a second tier of categories for both incomings and outgoings, enabling users to better classify and sort their transactions. Customers can also download an income and expense report in Excel and/or PDF format and can now add authorised accounts to Bankia Online. Meanwhile, three new tools have been added to the Bankia app: a mortgage calculator, a fund comparison feature and a loan calculator.

The initiatives undertaken until now, coupled with advances in the multi-channel strategy to be rolled out in the coming years, are designed to enhance customer satisfaction and attract new customers to the Bankia Group. While the results obtained in recent years are encouraging, more work needs to be done.

3.- ACTIVITY AND RESULTS

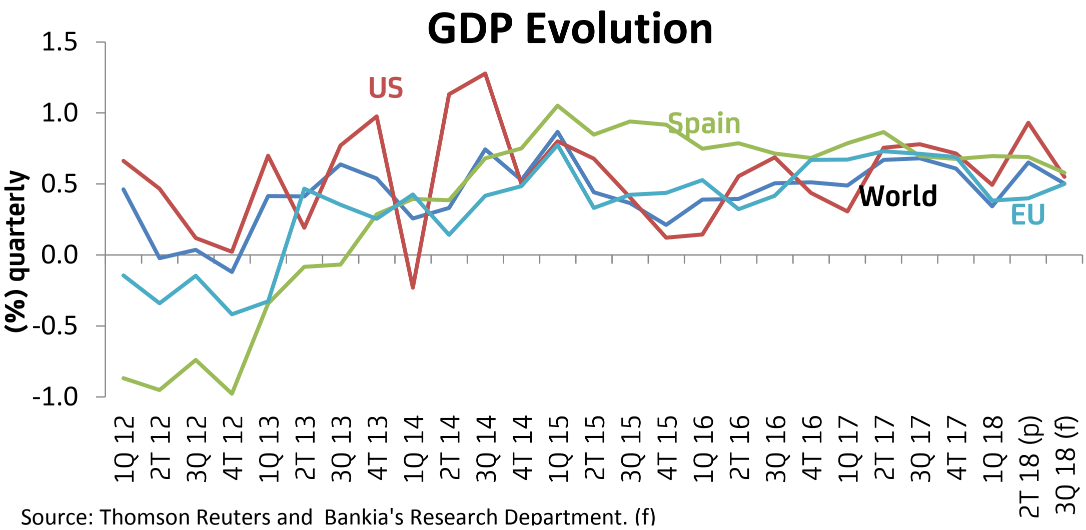
3.1.- Economic and financial backdrop

The global economy remained buoyant in the first six months of 2018 (on par with the average level of 3.3% growth reported in 2017), despite a sequence of negative shocks in the period, notably: (i) a sharp increase in oil prices; (ii) the protectionist spiral unfolding in the United States; (iii) the political crisis in Italy; and (iv) turbulence across emerging markets due an appreciating dollar and interest rate hikes by the Fed.

Economic growth in early 2018 proved to be somewhat of a disappointment in the EMU, with expectations high following a strong showing in 2017: growth slowed in the first quarter to 1.5%-2.0% and this trend is expected to continue throughout the rest of the year. The United States also witnessed a slowdown in the first quarter of 2018, before rallying strongly in the second quarter to move past 3.0%. Meanwhile, inflation remains in check, although future outbreaks cannot be ruled out due to the prevailing climate of extremely lax monetary policies (especially in the EMU), sustained growth outpacing potential growth, a strong labour market, spiralling oil prices and an increase in trade barriers. The risks are higher in the United States —where core inflation is on target and rising— than in the EMU, where inflation remains stable at around 1.0%.

Despite this increased uncertainty, the two main central banks have continued to normalise their monetary policy, albeit at different paces. The Fed has hiked its reference rate by 25 bps on two occasions, bringing it to 1.75%-2.00%, while continuing to reduce its balance sheet. Meanwhile, the ECB has decided to pare back its asset purchase programme from 30 billion to 15 billion euros a month from September, before ending the programme all together in December. However, in a show of caution, it announced that it does not intend to raise its reference interest rates until summer 2019 at the earliest. This, combined with lower-than-expected growth across the EMU, has sparked huge demand among investors for German sovereign debt, with the IRR on the 10-year bund falling 13 bps in the first six months of the year. This healthy performance is in stark contrast to the tensions facing Italian public debt, which is having to contend with a new government bent on increasing public spending. There has been some positive news, in that there has been virtually no contagion to Spanish debt.

In Spain, economic activity continued to grow in the first half of 2018, with GDP gaining 0.7% in the second quarter —having kept up this pace for a year now— driven by robust internal demand in a climate of favourable borrowing conditions and rising employment. In the last year alone, Social Security affiliation has increased by nearly 574,000, bringing the total volume to over 19 million individuals, its highest in the last 10 years. Despite the increase in investment, rising levels of inflation have curbed spending in recent months by limiting the public's purchasing power. The buoyant economy continues to support its high international funding capacity, which remains at 2% of GDP.



Source: Thomson Reuters and Bankia's Research Department. (f)

In the Spanish banking industry, lending to households fared especially well, finally managing to hold steady following seven years of decline on the back of consumer financing and other lending. The increase in new lending in this particular segment was key to its turnaround. Growth in new loans was also reported across the other segments, although they have yet to see the same positive result in their outstanding balance. On the subject of risk quality, the volume of unproductive assets has continued to fall in the year to date, and is even picking up pace in response to sales of large portfolios at certain banks. This trend is expected to continue over the coming months. Turning to customer funds, deposits continued to rise quietly while assets under investment funds posted more dynamic growth. Once again, ensuring a decent return on investment is the main challenge the sector is facing. On the subject of the Banking Union, the Eurogroup summit held in late June agreed to start work on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme. It was also agreed to toughen the European Stability Mechanism so as to provide a backstop for the Single Resolution Fund.

3.2. - Financial performance in 2018

- **Note about comparative information**

When comparing information, please take note of the following aspects and events:

1. **Merger with BMN:** since the merger between Bankia and BMN was completed for accounting purposes on 1 December 2017, the Group's balance sheets at 30 June 2018 and 31 December 2017 already include

all the assets and liabilities of the resulting entity. Meanwhile, the income statement only shows BMN earnings after the December 2017 statement. Accordingly, the Group's income statements for the first half of 2018 and 2017 are not expressed on a like-for-like basis. To provide a more meaningful comparison between both periods, this report indicates how the main items of the income statement would have changed on a like-for-like basis as if BMN had also contributed earnings in the first half of 2017.

2. **Presentation of comparative information:** the Bankia Group's condensed interim financial statements at 30 June 2018 are presented in accordance with the financial reporting criteria set out in IFRS 9, which entered into force on 1 January 2018. The Group has elected to apply the classification and measurement changes of IFRS 9 prospectively, without restating the information for previous periods as permitted under the standard. However, the Bankia Group's balance sheet at 31 December 2017 and its income statement at 30 June 2017, which are presented as part of the interim financial statements at 30 June 2018, have been adapted accordingly to reflect the criteria for presenting financial information set out in IFRS 9, thus providing a more meaningful comparison between both periods in like-for-like terms.

   The impacts of applying the financial reporting criteria contained in IFRS 9 to previous periods are described at length in Note 1.3.1 to the interim financial statements at 30 June 2018. The most relevant of these are certain reclassifications made to fixed income portfolios and changes in their nomenclature, although none were material enough to have an impact on the final balances.

3. **Impacts of first-time adoption of IFRS 9**: the main impacts of the first-time adoption of IFRS 9 at 1 January 2018 were reported under impairment of financial assets at amortised cost, which were up EUR 653 million due to the recognition of provisions for expected losses, as opposed to the incurred losses model under the preceding IAS 39. New provisions were charged to reserves. Meanwhile, certain fixed-income assets have been reclassified between the amortised cost portfolio and the fair value portfolio through other comprehensive income. This process generated positive measurement adjustments of EUR 172 in equity.

   All the impacts arising from the first-time application of IFRS 9 are described in detail in Note 1.31 to the Bankia Group's interim financial statements for the six months ended 30 June 2018.

Sections 3.3, 3.4 and 3.5 below include a summary of basic data and comments on the most significant trends in Bankia Group´s main balance sheet and income statement items in the first half of 2018.

3.3.- Key figures

KEY FIGURES DATA - BANKIA GROUP

Balance (Millions of euros) (*)	Jun-18	dec-17	Variation
Total assets	208,208	213,932	(2.7%)
Loans and advances to customers (net)	121,534	123,025	(1.2%)
Loans and advances to customers (gross)	127,082	128,782	(1.3%)
Balance sheet customer funds	146,147	150,181	(2.7%)
Customer deposits	128,696	130,396	(1.3%)
Debt securities issued	17,451	19,785	(11.8%)
Total customer managed funds (1)	170,543	172,645	(1.2%)
Total turnover (2)	292,077	295,670	(1.2%)
Equity	13,209	13,613	(3.0%)

Solvency and leverage (%) (*)	Jun-18	dec-17	Variation
Common Equity Tier I (CET 1) - BIS III Phase In	14.01%	14.15%	(0.14) p.p.
Solvency ratio - Total BIS III Phase In capital	17.18%	16.84%	+0.34 p.p.
BIS III Risk Weighted Assets	83,634	86,046	(2.8%)
Phase In leverage ratio (Delegated regulation No. 62/2015)	5.93%	6.02%	(0.09) p.p.

Risk management (Millions of euros and %) (*)	Jun-18	dec-17	Variation
Total risk	133,962	136,353	(1.8%)
Doubtful loans	10,809	12,117	(10.8%)
Provisions for credit lose	5,945	6,151	(3.4%)
NPL ratio	8.1%	8.9%	(0.8) p.p.
Hedging ratio	55.0%	50.8%	+4.2 p.p.

Profit / Losses (Millions of euros) (*)	jun-18 (3)	jun-17 (3)	Variation
Net interest income	1,047	995	5.3%
Gross income	1,841	1,648	11.8%
Operating income /(expenses) before provisions	897	884	1.5%
Operating income /(expenses)	726	712	1.9%
Profit/ Loss before tax from continuing operations	681	693	(1.7%)
Profit/ Loss	515	514	0.1%
Profit/ Loss attributable to owners of the parent	515	514	0.1%

Key ratio (%)	jun-18 (3)	jun-17 (3)	Variation
Efficiency (4)	51.3%	46.4%	+4.9 p.p.
ROA (5)	0.5%	0.6%	(0.1) p.p.
RORWA (6)	1.2%	1.4%	(0.1) p.p.
ROE (7)	8.3%	8.6%	(0.2) p.p.
ROTE (8)	8.5%	8.7%	(0.2) p.p.

Bankia's share	Jun-18	dec-17	Variation
Weighted average number of shares (millions) (7)	3,085	3,085	0.0%
Market price at close	3.21	3.99	(19.6%)

Additional information	Jun-18	dec-17	Variation
Numbers of employees	16,493	17,757	(7.1%)

(*) Financial Statement amounts rounded to millions of euros
(1) Comprises customer deposits marketable debt securities and off balance sheet funds managed
(2) Comprises net loans and advances to customer, on and off balance sheet client managed funds
(3) Figures at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting accounting for accounting purposes from 1 December 2017.
(4) Administration and amortization costs / gross margin
(5) Profit/ Loss/ average total assets
(6) Profit/ Loss attributable to owners of the parent/ risk weighted assets
(7) Profit/ Loss attributable to owners of the parent/ average own funds
(8) Profit/ Loss attributable to owners of the parent/ average tangible own funds

3.4.- Highlights and changes of the balance sheet

CONSOLIDATED BALANCE SHEET - BANKIA GROUP

(millions of euros) (*)	Jun-18	dec-17	change Dec-17 Amount	change Dec-17 %
Cash, cash balances at central banks and other demand deposits	2,518	4,504	(1,986)	(44.1%)
Financial assets held for trading	6,271	6,773	(502)	(7.4%)
Derivatives	6,151	6,698	(546)	(8.2%)
Debt securities	116	2	114	5689.1%
Equity instruments	4	74	(70)	(94.4%)
Non-trading financial assets mandatorily at fair value through profit or loss	9	0	9	-
Debt securities	0.3	0	0	-
Loans and advances to customers	8.5	0	8	-
Financial assets at fair value through other comprehensive income	17,873	22,745	(4,872)	(21.4%)
Equity instruments	74	71	3	4.0%
Debt securities	17,799	22,674	(4,874)	(21.5%)
Financial assets at amortised cost	161,105	158,711	2,394	1.5%
Debt instruments	34,803	32,658	2,145	6.6%
Loans and advances to credit institutions	4,776	3,028	1,748	57.7%
Loans and advances to customers	121,526	123,025	(1,499)	(1.2%)
Derivatives – Hedge accounting	2,558	3,067	(509)	(16.6%)
Investments in joint ventures and associates	342	321	22	6.8%
Tangible and intangible assets	2,626	2,661	(35)	(1.3%)
Non-current assets and disposal groups classified as held for sale	2,867	3,271	(404)	(12.4%)
Other assets	12,038	11,879	159	1.3%
TOTAL ASSETS	**208,208**	**213,932**	**(5,724)**	**(2.7%)**
Financial liabilities held for trading	6,669	7,421	(752)	(10.1%)
Derivatives	6,446	7,078	(631)	(8.9%)
Short positions	222	343	(121)	(35.3%)
Financial liabilities measured at amortised cost	184,830	188,898	(4,067)	(2.2%)
Deposit from central banks	13,856	15,356	(1,500)	(9.8%)
Deposit from credit institutions	23,867	22,294	1,574	7.1%
Customer deposits	128,696	130,396	(1,700)	(1.3%)
Debt securities issued	17,451	19,785	(2,334)	(11.8%)
Others financial liabilities	960	1,067	(107)	(10.0%)
Derivatives – Hedge accounting	252	378	(126)	(33.4%)
Provisions	1,756	2,035	(278)	(13.7%)
Other liabilities	1,493	1,587	(95)	(6.0%)
TOTAL LIABILITIES	**195,000**	**200,319**	**(5,319)**	**(2.7%)**
Minority interests (Non-controlling interests)	15	25	(10)	(38.7%)
Other comprehensive accumulated income	299	366	(67)	(18.3%)
Own funds	12,894	13,222	(328)	(2.5%)
TOTAL EQUITY	**13,209**	**13,613**	**(405)**	**(3.0%)**
TOTAL LIABILITIES AND EQUITY	**208,208**	**213,932**	**(5,724)**	**(2.7%)**

(*) Financial Statement amounts rounded to millions of euros

- **Summary of Group Activities**

The Bankia Group ended June 2018 with EUR 208,208 million of total assets, 2.7% less than in December 2017.

Customer loans fell 1.2% as a result of natural maturities of the mortgage portfolio and the sustained reduction in doubtful assets. However, new loans continued to grow at a healthy pace in the first half of 2018, with gains reported in both loans to business and to individuals in the form of mortgages and consumer loans.

In customer funds, there was further growth in the most liquid and lower cost deposits (i.e. current accounts) and off-balance sheet funds, which continued to attract funds withdrawn by customers from deposits with set maturity. Particularly noteworthy was the increase in investment funds (+12.7%), underscoring the growing demand for these savings products and the organic growth of the Group's assets under management.

We now briefly comment the trends of the Bankia Group's key balance sheet items in the first half of 2018.

- **Loans and receivables**

Note 3 and Appendices VII and VIII of the notes to the Bankia Group's intermediate financial statements provide details on the Group's loan approval policies, NPL monitoring, debt refinancing and recovery policies with respect to credit risk. Also provided in this note and appendices is the breakdown of credit risk by product and activities, 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 the first half of 2018 and the main movements therein.

Under this item, **loans and advances to customers reported as financial assets at amortised cost** amounted to EUR 121,526 million, slightly down (-1.2%) on the figure at 31 December 2017, mainly in response to the reduction in doubtful loans and the stock of mortgage loans, which have continued to feel the effects of the household deleveraging process. Even so, new loans have continued to grow since December 2017 in both the mortgage segment and consumer and business loans, due to the positive impact of commercial strategies geared towards being close to customers and the improvement in macroeconomic indicators.

Gross non-performing loans (NPLs) extended the downtrend seen in 2017, falling by EUR 1,019 million, net (-18.4%). The fall was mainly organic (lower gross NPL inflows and healthy pace of recovery), but there were also portfolio sales in the semester amounting to EUR 527million, gross.

Stripping out non-performing loans and reverse repurchase agreements, the Group's performing loan portfolio was stable (-0.2%) from December 2017, underscoring the good performance of the Group's new loans in the year.

LOANS AND ADVANCES TO CUSTOMERS BANKIA GROUP BY COUNTERPARTY

(Millions of euros) (*)	jun-18	dec-17	Change Dec-17 Amount	Change Dec-17 %
Government agencies	5,471	5,596	(125)	(2.2%)
Other financial companies	2,161	2,877	(716)	(24.9%)
Non-financial companies	35,743	35,803	(60)	(0.2%)
Households	83,699	84,506	(808)	(1.0%)
Impairment losses	(5,548)	(5,757)	209	(3.6%)
Loans and advances to customers	**121,526**	**123,025**	**(1,499)**	**(1.2%)**
Less: Doutful net of provisions	(4,528)	(5,547)	1,019	(18.4%)
Less: accountin balance with BFA	(39)	(256)	217	(84.7%)
Healthy loan portfolio	**116,958**	**117,222**	**(264)**	**(0.2%)**

(*) Financial Statement amounts rounded to millions of euros

- **Debt securities**

Debt securities at 30 June 2018, recognised under financial assets held for trading, “non-trading financial assets mandatorily at fair value through profit or loss”, “Financial assets at fair value through other comprehensive income” and “financial assets at amortised cost” amounted to EUR 52,719 million compared to EUR 55,334 million at December 2017. Of the total at the end of June 2018, EUR 19,962 million were SAREB bonds received as a result of the asset transfer carried out by the Group in 2012. The remainder are comprises sovereign debt, mainly Spanish, and debt from other public and private issuers.

The debt securities held by Bankia Group by type of instrument, at 30 June 2018 and 2017 are as follows:

DEBT SECURITIES - BANKIA GROUP

(millions of euros) (*)	Financial assets held for trading	Financial assets designated at fair value through other comprehensive income	Financial assets at amortised cost	TOTAL
Spanish goverment debt securities	113	14,300	10,848	25,261
Foreign goverment debt securities		2,906	3,576	6,482
Financials institutions		76	30	106
Other straight fixed income securities (**)	3	518	20,355	20,877
Impairment losses and other fair value adjustments		(1)	(6)	(7)
Total portfolio at 30 June 2018	**116**	**17,799**	**34,803**	**52,719**
Spanish goverment debt securities	2	16,215	10,204	26,421
Foreign goverment debt securities		4,280	1,260	5,540
Financials institutions		1,590	3	1,593
Other straight fixed income securities (**)		594	21,195	21,788
Impairment losses and other fair value adjustments		(5)	(4)	(8)
Total portfolio at 31 Decembre 2017	**2**	**22,674**	**32,658**	**55,334**

(*) Financial Statement amounts rounded to millions of euros
(**) Financial assets at amortised coste includes, interalia, securities issues by SAREB on December, 2013.

The biggest change reported in the first half of 2018 was seen in the portfolio of financial assets at fair value through other comprehensive income, which decreased EUR 4,872 million (-21.4%) on the figure reported at 31 December 2017 to reach EUR 17,873 million at 30 June 2018. This reduction can be explained by the sales made by the Group in the first half of the year ahead of an expected change in market interest rates. Meanwhile, the portfolio of assets at amortised cost gained EUR 2,145 million to reach EUR 34,803 million after the Group completed the reinvestment initially proposed and approved in January 2018.

Following the application of IFRS 9 for periods beginning on 1 January 2018, the Group has reviewed its business models and contractual terms and conditions on the portfolio of financial assets at year-end 2017. This process has led to certain reclassifications of debt securities between financial assets at amortized cost and financial assets at fair value through other comprehensive income. These movements had the effect of valuation transfers and adjustments net amounting to EUR 237 million and pushing up equity by EUR 172 million in the first half of 2018. Reclassifications of the fair value portfolio through profit or loss were not material.

- **Financial liabilities at amortised cost**

Financial liabilities at amortized cost at 30 June 2018 stood at EUR 184,830 million, decrease EUR 4,067 million (-2.2%) from December 2017. This performance was the result of the Group's lower overall funding needs thanks to the proceeds obtained from asset disposals, mainly fixed income, maturities of wholesale debt in the period and utilization of part of the funds deposited in the treasury account of the Bank of Spain at 31 December 2017.

FINANCIAL LIABILITIES AT AMORTISED COST - BANKIA GROUP

			Change Dec-17	
(millions of euros) (*)	jun-18	dec-17	Amount	%
Deposits from central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**
Deposits from credit institutions	**23,867**	**22,294**	**1,574**	**7.1%**
Customer deposits	**128,696**	**130,396**	**(1,700)**	**(1.3%)**
Government agencies	6,970	5,678	1,293	22.8%
Other financial companies	8,822	9,336	(514)	(5.5%)
Non-financial companies	15,517	16,186	(669)	(4.1%)
Households	90,273	89,029	1,245	1.4%
Reserve repurchase agreement	436	2,668	(2,231)	(83.6%)
Single mortgage bonds	6,676	7,499	(823)	(11.0%)
Debt securities issued	**17,451**	**19,785**	**(2,334)**	**(11.8%)**
Other financial liabilities	**960**	**1,067**	**(107)**	**(10.0%)**
Total financial liabilities at amortised cost	**184,830**	**188,898**	**(4,067)**	**(2.2%)**

(*) Financial liabilities amounts rounded to millions of euros

Deposits from central banks and deposits from credit institutions

Deposits from central banks totalled EUR 13,856 million at the end of the first half of 2018, decrease EUR 1,500 million on the figure at 31 December 2017 due to the early repayment of the ECB's TLTRO I facility that Bankia had arranged during the period. At 30 June 2018, all ECB funding (EUR 13,856 million) comprised the amounts acquired at the TLTRO II auctions.

Deposits from credit institutions amounted to EUR 23,867 million at 30 June 2018, rise 7.1% from the end of 2017, caused by the higher volume of reverse repurchase agreements with other entities.

Customer deposits

Customer deposits at the Group totalled EUR 128,696 million at 30 June 2018, down EUR 1,700 million (-1.3%) versus 31 December 2017. This change came in response to a reduction in repo transactions in the first half of the year (EUR -2,231 million) and in one-off non-marketable mortgage-backed securities (EUR -823 million), while strict customer funds performed well to gain EUR 1,354 million.

Within customer deposits, strict customer deposits (i.e. excluding repurchase agreements, and one-off non-marketable mortgage-backed securities) totalled EUR 121,583 million, up 1.1% on December 2017. Highlights in the first six months included an increase in funds deposited by the public sector and growth in the most liquid and lower cost (current accounts) resources of the retail network (households), and financial and non-financial corporations (companies), attracting part of the balances that customers are transferring out of deposits with agreed maturity, whose yields fell in line with the trend of market interest rates.

CUSTOMER DEPOSITS - BANKIA GROUP

			Change Dec-17	
(millions of euros) (*)	**jun-18**	**dec-17**	**Importe**	**%**
Strict customer deposit	**121,583**	**120,229**	**1,354**	**1.1%**
Public sector	6,970	5,678	1,293	22.8%
Other financial companies	8,822	9,336	(514)	(5.5%)
Current accounts	5,681	5,743	(62)	(1.1%)
Term deposits (1)	3,141	3,593	(452)	(12.6%)
Non-financial companies	15,517	16,186	(669)	(4.1%)
Current accounts	12,920	12,408	512	4.1%
Term deposits	2,597	3,778	(1,182)	(31.3%)
Households	90,273	89,029	1,245	1.4%
Current accounts	57,570	53,677	3,893	7.3%
Term deposits	32,703	35,351	(2,648)	(7.5%)
Single mortgage bonds	**6,676**	**7,499**	**(823)**	**(11.0%)**
Reserve repurchase agreement	**436**	**2,668**	**(2,231)**	**(83.6%)**
Total customer deposits	**128,696**	**130,396**	**(1,700)**	**(1.3%)**
Investment funds (2)	17,724	15,726	1,998	12.7%
Pension funds (2)	6,673	6,738	(65)	(1.0%)
Total off balance funds resources	**24,396**	**22,464**	**1,932**	**8.6%**

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

(1) Excluded single mortgage bonds, showed in a separate epigraph.

(2) Excludes off-balance-sheet customer funds marketed by the Group but managed by third parties outside the Bankia Group.

With interest rates remaining persistently low, the Bankia Group opted for a commercial policy aimed at offering customers higher-yielding off-balance sheet products, with more attractive yields, driving growth in off-balance sheet funds managed of 8.6% from December 2017. Investment funds continued to deliver the best performance of any product thanks to healthy subscription.

The combined balance of strict customer deposits and off-balance sheet funds was broadly steady in the first half of 2018, increasing by EUR 3,286 million (+2.3%) from December 2017.

Debt securities issued

Bankia has selective policy in fixed-income markets wholesale issuance, orientated to maintain the Group financial soundness, to adapt deal sizes to its structural liquidity needs and maintaining an appropriate funding structure. At 30 June 2018, the balance of debt securities issued by the Group stood at EUR 17,451 million, down EUR 2,334 million on the figure reported at 31 December 2017. This reduction was a product of maturities and wholesale redemptions during the first half of the year, mainly in relation to mortgage covered bonds (cédulas hipotecarias).

- **Provisions**

Provisions recognised on the Group's balance sheet at 30 June 2018 amounted to EUR 1,756 million, down EUR 278 million (-13.7%) from the amount recognised at the end of December 2017. This decrease was due mainly to provisions associated with the repayment of amounts under floor clauses and restructuring costs following the merger with BMN.

- **Total equity**

At 30 June 2018 amounted to EUR 13,209 million, EUR 405 million less than at year-end 2017. This reduction was mostly concentrated in own funds as a result of the loss charged to reserves in January following the posting of additional credit loss provisions under the new IFRS 9 (EUR 487 million) and payment of the dividend out of 2017 profit (EUR 340 million, gross, or EUR 338 million, net).

3.5.- Highlights of the income statement

INCOME STATEMENT - BANKIA GROUP

(Millions of euros) (*)	jun-18 (1)	jun-17 (1)	Change Jun-17 Amount	%
Net interest income	**1,047**	**995**	**52**	**5.3%**
Dividend income	8	7	1	9.3%
Share of profit/(loss) of companies accounted for using the equity method	29	18	11	59.5%
Total net fees and commissions	534	425	109	25.6%
Gain and losses on financial assets and liabilities	291	262	29	11.0%
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	270	217	53	24.3%
Gains or losses on financial assets and liabilities held for trading, (net)	34	60	(26)	(43.7%)
Gains or losses from hedge accounting, (net)	(13)	(15)	2	(14.4%)
Exchange differences	6	4	1	34.3%
Other operating income and other operating expenses (net)	(74)	(65)	(9)	14.0%
Gross income	**1,841**	**1,648**	**194**	**11.8%**
Operating expenses	(944)	(764)	(180)	23.6%
Administrative expenses	(856)	(681)	(176)	25.8%
Staff expenses	(596)	(461)	(135)	29.3%
Other administrative expenses	(260)	(220)	(40)	18.3%
Depreciation	(88)	(83)	(5)	5.7%
Pre impairment income	**897**	**884**	**14**	**1.5%**
Provisions or reversal of provisions	36	3	34	-
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses, (net)	(208)	(174)	(33)	19.2%
Total operating income	**726**	**712**	**14**	**1.9%**
Impairment or reversal of impairment of investment in joint-ventures or associates	41	(3)	44	-
Impairment or reversal of impairment on non-financial assets	(9)	(6)	(2)	38.5%
Other gains and losses	(76)	(10)	(67)	687.7%
Profit or Loss before tax from continuing operations	**681**	**693**	**(12)**	**(1.7%)**
Tax expense or income related to Profit or Loss from continuing operations	(166)	(179)	12	(6.9%)
Profit or Loss	**515**	**514**	**0**	**0.1%**
Profit or Loss attributable to minority interest	0	1	(0)	(66.2%)
Profit or Loss attributable to owners of the parent	**515**	**514**	**1**	**0.1%**
Main ratios				
Efficiency ratio (2)	51.3%	46.4%	+4.9 p.p.	10.6%
ROA (3)	0.5%	0.6%	(0.1) p.p.	(11.8%)
ROE (4)	8.3%	8.6%	(0.3) p.p.	(2.8%)

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

(1) Figures at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

(2) (Administration expenses + Depreciation and Amortizations) / Gross margin.

(3) Profit/ Loss / Average total net assets.

(4) Profit or Loss attributable to owners of the parent / Average own funds .

INCOME STATEMENT BANKIA, GROUP- QUARTERLY TREND

(millions of euros) (*)	2T 18 (1)	1T 18 (1)	4T 17 (1)	3T 17 (1)	2T 17 (1)	1T 17 (1)
Net interest income	**521**	**526**	**501**	**472**	**491**	**504**
Dividend income	7	1	2	0	2	6
Share of profit/(loss) of companies accounted for using the equity method	18	12	9	12	10	9
Total net fees and commissions	270	264	229	210	218	207
Gain and losses on financial assets and liabilities	152	139	54	51	101	161
Gains or losses on the derecognition in financial assets and liabilities not measured at fair value through profit or loss, (net)	141	130	47	45	71	146
Gains or losses on financial assets and liabilities held for trading, (net)	18	16	15	12	36	24
Gains or losses on financial assets not held for trading designated at fair value through profit or loss, (net)	0	0	0	0	0	0
Gains or losses from hedge accounting, (net)	(7)	(7)	(9)	(5)	(6)	(9)
Exchange differences	5	1	3	3	2	2
Other operating income and other operating expenses (net)	(70)	(3)	(132)	2	(61)	(3)
Gross income	**903**	**939**	**666**	**751**	**762**	**886**
Operating expenses	(459)	(485)	(875)	(387)	(378)	(386)
Administrative expenses	(419)	(437)	(828)	(344)	(336)	(345)
Staff	(291)	(305)	(700)	(229)	(226)	(235)
Other administrative expenses	(128)	(132)	(128)	(114)	(110)	(110)
Depreciation	(40)	(48)	(47)	(44)	(42)	(41)
Pre impairment income	**444**	**453**	**(209)**	**364**	**384**	**500**
Provisions or reversal of provisions	24	13	38	(6)	(5)	8
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses, (net)	(91)	(116)	(88)	(66)	(67)	(107)
Total operating income	**376**	**350**	**(259)**	**291**	**312**	**401**
Impairment or reversal of impairment of investment in joint-ventures or associates	41	0	0	0	0	(3)
Impairment or reversal of impairment on non-financial assets	(5)	(4)	(2)	(2)	(1)	(6)
Other gains and losses	(28)	(49)	(67)	(29)	(22)	12
Profit or Loss before tax from continuing operations	**384**	**297**	**(328)**	**260**	**289**	**404**
Tax expense or income related to Profit or Loss from continuing operations	(99)	(67)	82	(34)	(78)	(100)
Profit or Loss	**285**	**230**	**(246)**	**226**	**210**	**304**
Profit or Loss attributable to minority interest	(0)	0	(12)	1	0	0
Profit or Loss attributable to owners of the parent	**285**	**229**	**(235)**	**225**	**210**	**304**

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

(1) Data for 2Q 18 and 1Q 18 are for the resulting entity of the merger between Bankia and BMN. Data for 4Q 17 include one month of BMN data, as the merger was effective for accounting purposes from 1 December 2017. Data for 3Q 17, 2Q 17 and 1Q 17 are reported by the Bankia Group before the merger with BMN.

INCOME STATEMENT BANKIA GROUP - HIGHLIGHTS

(millions of euros) (*)	June 2018 [1]			June 2017 [1]		
	Amount	% of gross income	% os average total net assets	Amount	% of gross income	% os average total net assets
Net income interest	**1,047**	**56.9%**	**1.0%**	**995**	**60.4%**	**1.1%**
Gross income	**1,841**	**-**	**1.8%**	**1,648**	**-**	**1.8%**
Operating expenses	(944)	(51.3%)	(0.9%)	(764)	(46.4%)	(0.8%)
Administrative expenses	(856)	(46.5%)	(0.8%)	(681)	(41.3%)	(0.7%)
Depreciation and amortization charge	(88)	(4.8%)	(0.1%)	(83)	(5.1%)	(0.1%)
Provisiones o reversión de provisiones	36	2.0%	0.0%	3	0.2%	0.0%
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss or modification gain or losses. (net)	(208)	(11.3%)	(0.2%)	(174)	(10.6%)	(0.2%)
Total operating income	**726**	**39.4%**	**0.7%**	**712**	**43.2%**	**0.8%**
Impairment or reversal of impairment on non-financial assets Investments in joint ventures and associates	41	2.2%	0.0%	(3)	(0.2%)	(0.0%)
Impairment or reversal of impairment on non-financial assets	(9)	(0.5%)	(0.0%)	(6)	(0.4%)	(0.0%)
Other gains and losses	(76)	(4.2%)	(0.1%)	(10)	(0.6%)	(0.0%)
Profit or Loss before tax from continuing operations	**681**	**37.0%**	**0.7%**	**693**	**42.1%**	**0.8%**
Tax expense or income related to profit or Loss from continuing operations	(166)	(9.0%)	(0.2%)	(179)	(10.8%)	(0.2%)
Profit or Loss	**515**	**28.0%**	**0.5%**	**514**	**31.2%**	**0.6%**
Profit or Loss attributable to minority interest (non-controlling interests)	0	0.0%	0.0%	1	0.0%	0.0%
Profit or Loss attributable to owners of the parent	**515**	**27.9%**	**0.5%**	**514**	**31.2%**	**0.6%**

(*) Financial Statement amounts rounded to millions of euros

(1) Figures at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

- **Overview of Group earnings**

The Bankia Group ended June 2018 with net attributable profit of EUR 515 million, matching the figure reported in the same period of 2017. The integration of BMN, coupled with growth in business with customers, active cost management and careful monitoring of the cost of risk, were the main profit drivers in the period, successfully countering the impact on interest income of lower earnings on fixed-income securities, maturities and repricings of the mortgage portfolio.

Main movements in the Group's income statement items of ended June 2018 are discussed below.

- **Net interest income**

Net interest income for the Bank totalled EUR 1,047 million, up EUR 52 million (+5.3%) year on year following the integration of BMN. If we include earnings at BMN in the first half of 2017 so as to provide a like-for-like comparison, the Group's net interest income would have fallen by 9.8% year on year due to the impact of the lower yield on fixed income securities following the sales and portfolio rotation carried out in 2017 and the first half of 2018, and also because of the natural maturities and repricings of the mortgage portfolio, which has continued to show the drop in market interest rates in the last year.

The following table shows trends in net interest income in the first half of 2018 and 2017, 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 2018.

STRUCTURE OF INCOME AND EXPENSES - BANKIA GROUP

(millions of euros y %) (*)	June 2018 Average balance [1]	June 2018 Income/ expenses [1]	June 2018 Type	June 2017 Average balance	June 2017 Income/ expenses	June 2017 Type	Variation Average balance	Variation Income/ expenses	Effect Type	Effect Volume
Finance income										
Credit institutions [2]	7,038	45	1.30%	6,053	43	1.43%	985	3	(4)	6
Loans and advances to customers (a)	120,749	1,018	1.70%	103,725	871	1.69%	17,023	146	3	143
Debt securities	53,582	190	0.72%	49,725	250	1.01%	3,858	(60)	(74)	14
Other interest bearing assets	428	4	1.87%	394	2	0.80%	34	2	2	0
Other non interest bearing assets	26,812	-	-	23,900	-	-	2,912	-	-	-
Total assets (b)	**208,609**	**1,257**	**1.22%**	**183,796**	**1,166**	**1.28%**	**24,813**	**91**	**(58)**	**150**
Financial expenses										
Credit institutions [2]	37,563	25	0.13%	36,926	24	0.13%	637	1	1	0
Customer deposits (c)	126,628	82	0.13%	103,149	54	0.11%	23,478	29	13	15
Strict customer deposits	118,499	35	0.06%	97,522	47	0.10%	20,977	(12)	(18)	6
Repos	929	1.1	0.24%	562	0.0	0.00%	366	1.1	1	0
Singular bonds	7,200	46	1.30%	5,065	7	0.27%	2,135	40	26	14
Debt securities issued	19,072	97	1.02%	18,978	90	0.96%	94	7	6	0
Other interest bearing liabilities	1,192	6	0.94%	833	3	0.71%	360	3	1	2
Other non interest bearing liabilitites	10,841	-	-	11,152	-	-	(311)	-	-	-
Equity	13,313	-	-	12,759	-	-	555	-	-	-
Total Liabilities and Equity (d)	**208,609**	**210**	**0.20%**	**183,796**	**171**	**0.19%**	**24,813**	**39**	**14**	**25**
Customers margin (a-c)		**935**	**1.57%**		**817**	**1.59%**		**118**	**(11)**	**128**
Balance sheet differential (b-d)		**1,047**	**1.01%**		**995**	**1.09%**		**52**	**(72)**	**125**

(*) Financial Statement amounts rounded to millions of euros

(1) Bankia and BMN merged with effect for accounting purposes on 1 December 2017. Therefore, earnings and average balances for the first half of 2018 include the finance income, finance costs, interest-bearing assets and liabilities of the merged entities. Meanwhile, data for the first half of 2017 correspond to the Bankia Group pre-merger.

(2) Includes central banks and credit institutions. Loans and advances to credit institutions includes negative interest arising from deposits from credit institutions (mainly TLTRO II and repo transactions), since, according to accounting regulations, income arising from the application of negative interest rates is recognised in accordance with the nature of the item.The opposite occurs with deposits from credit institutions. Only the net balance between income and expense in both items has economic meaning.

Finance income was up 7.8% (EUR 91 million) versus the first six months of 2017 due to the positive impact of the integration of BMN. However, on a like-for-like basis, i.e. if we work on the assumption that BMN contributed earnings over the entire first half of 2017, finance income would have been down by an estimated 12% because of both prevailing rates (rotation of fixed income portfolios and mortgage repricings) and a reduction in volume (sales of fixed income portfolios in 2017 and the first half of 2018 and natural maturities of credit stock, which are still outpacing the growing contribution made by new loans).

The integration of BMN has pushed up the Group’s finance costs by EUR 39 million (+22.7%) versus the first half of 2017. Were we to include earnings at BMN in the first half of 2017, total finance costs on a like-for-like basis would have fallen by an estimated 21.5%, mainly in response to the reduction in the average price of arranging new term deposits.

The lower finance cost of retail savings, along with the lower impact of the euro yield curve on the Group´s credit stock, has remained stable the customer´s margin, which stood at 1.57% at 30 June 2018 after the integration of BMN, compared 1.59% at 30 June 2017.

The Group's net interest margin at 31 December 2017 stood at 1.01% at the end of June 2018, down 8 basis points on the level seen in June 2017.

- **Gross income**

Gross income for Bankia Group amounted to EUR 1,841 million, up 11.8% year on year. Were we to include earnings at BMN in the first half of 2017, we would see a negative adjustment in like-for-like terms of 7.5%. Net interest income and fee and commission income accounted for 85.9% of the Group’s gross income at 30 June 2018.

Net fees and commissions totalled EUR 534 million, 25.6% more than the first half of 2017 following an increase in business and customer engagement at the Group and the full integration of BMN. This healthy showing was largely down to collections and payments (cards and administration of demand accounts) and asset management activity (mainly sales of investment funds and insurance), which offset the reduction in fees generated from transaction structuring and design services, securities services and other less recurring transactions. Were we to include earnings at BMN in the first half of 2017, fee and commission income would have grown some 1.4% year on year.

NET FEES AND COMISSIONS - BANKIA GROUP

(millions of euros) (*)	jun-18 (1)	jun-17 (1)	Change June-17 Amount	Change June-17 %
Traditional banking	259	184	75	40.5%
Contingent liabilities and commitmentss	50	43	7	16.3%
Collection and payment services	209	142	68	47.9%
Banking financial product sales	172	143	29	19.9%
Investment funds	65	53	12	22.3%
Pensions funds	30	30	1	2.9%
Insurance and others	76	61	16	26.2%
Total fees and commissions and banking sales	**431**	**328**	**103**	**31.5%**
Other commissions income	**145**	**136**	**9**	**6.8%**
Security services	29	30	(1)	(2.1%)
Operations design and framing	15	25	(11)	(42.3%)
Recovered written off assets	4	5	(1)	(20.3%)
Claim of debtor positions	62	51	12	22.7%
Others	35	25	10	39.8%
Fees and commission income	**576**	**464**	**113**	**24.3%**
Fees and commission expenses	**42**	**39**	**4**	**9.8%**
Total net commissions	**534**	**425**	**109**	**25.6%**

(*) Financial Statement amounts rounded to millions of euros

(1) Commisions at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

Gains and losses on financial assets and liabilities contributed positively to the income consolidated statement in the first half of 2018, rising by 11% year-on-year to EUR 291 million. This increase was underpinned by the gains obtained on fixed-income sales, mostly in the first two quarters of the year based on the outlook for trends in market interest rates. In like-for-like terms, gains and losses on financial assets and liabilities would be down 6.4% on June 2017 if we include BMN's earnings for the first half of 2017.

Other operating income and expenses showed a net expense of EUR 74 million at 30 June 2018, an increase of EUR 9 million from the last year, driven by lower income contributed by non-financial Group companies, a larger contribution paid to the Single Resolution Fund (SRF) and higher tax on deposits following the integration of BMN.

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, totalling EUR 43 million at 30 June 2018, EUR 13 million more than the same period in 2017.

- **Operating expenses**

Operating expenses (administrative expenses and depreciation) amounted to EUR 944 million at 30 June 2018 up 23.6% year on year and showing the full integration of earnings of BMN in the first half of 2018. However, operating expenses in like-for-like terms (if we include expenses at BMN in the first half of 2017) would in fact be down 1.7% on June 2017, which is consistent with the objective of controlling costs and managing efficiency as a core element of the Group's strategy. Significantly, the synergies from the merger with BMN are already beginning to feed through to the Group's income statement, since at 30 June 2018 a large portion of the Group's planned structural changes had already materialised as part of a process that started in April.

The efficiency ratio (operating expenses/gross income) at 30 June 2018 stood at 51.3%.

ADMINISTRATIVE EXPENSES - BANKIA GROUP

			Change Jun-17	
(millions of euros) (*)	jun-18 (1)	jun-17 (1)	Amount	%
Staff costs	**596**	**461**	**135**	**29.3%**
Wages and salaries	457	335	122	36.4%
Social security costs	114	89	25	27.8%
Pension plans	10	24	(13)	(55.9%)
Others	15	13	2	14.8%
Other administrative expenses	**260**	**220**	**40**	**18.3%**
Real state, facilities and material	60	50	10	20.9%
IT and communications	95	79	15	19.4%
Advertising and publicity	25	24	2	7.7%
Technical reports	12	10	1	14.6%
Surveillance and security courier services	9	7	2	30.4%
Levies and taxes	14	11	2	19.6%
Insurance and self insurance premiums	2	3	(1)	(30.1%)
Other expensives	43	36	8	21.3%
Total administrative expensives	**856**	**681**	**176**	**25.8%**
Efficiency ratio	**51.3%**	**46.4%**	**+4.9 p.p.**	**10.6%**

(*) Financial Statement amounts rounded to millions of euros

(1) Administrative expenses at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

- **Pre-provision operating income**

The evolution of operating income and expenses placed pre-provision profit´s margin in EUR 897 million at 30 June 2018, up EUR 14 million (+1.5%) on the amount reported in the first half of 2017. Had the results of BMN been integrated back in June 2017, pre-provision profit would be down an estimated 13% in like-for-like terms.

- **Provisions and write-downs**

Provisions, which include provisions for legal issues, tax litigation, guarantees and commitments extended, registered a positive figure of EUR 36 million due to reversals of provisions for issuer risk and other contingent liabilities in the first half of 2018.

Impairment and losses on cash flow changes of financial assets not measured at fair value through profit or loss, which includes mainly provisions for credit losses, increased by EUR 33 million at 30 June 2018 (+19.2%) to EUR 208 million. This was the result of integrating the charges to provisions for BMN, which has added to the Group's balance sheet more than EUR 20,000 million in loans and advances to customers following the merger.

Impairment of non-financial assets, mainly goodwill, tangible assets, investment properties and inventories, was a negative EUR 9 million, in line with the balance at 30 June 2017. Impairment of investments in joint ventures and showing a positive EUR 41 million versus the negative EUR 3 million reported at 30 June 2017. This change is down to the release of provisions in the six-month period in relation to the stake in Caser after having an independent expert value the shares portfolio.

The trends in the various items of provisions and impairments resulted in total charges in the first half of 2018 of EUR 140 million, 22.8% lower than in the same period 2017. In the same period of 2017 despite the integration of BMN's balance sheet, revealing the progress made by Bankia in managing risks and improving the quality of its assets.

- **Other gains and other losses**

This item mainly includes impairment of the non-current assets held for sale (mainly, foreclosed real estate assets) of the Group and the extraordinary results of the sale of property and share stakes. At 30 June 2018, it shows a negative figure of the EUR 76 million, up on the negative EUR 10 million reported in the first half of 2017 after integrating and recognising impairment on BMN's real estate assets.

- **Attributable profit**

After the integration of BMN, the Bankia Group has generated a profit attributed to the dominant entity of EUR 515 million at 30 June 2018, which equals the one reached in the first half of 2017(+0.1%).

4. - ALTERNATIVE PERFORMANCE MEASURES

In addition to the financial information prepared in accordance with generally accepted accounting principles (IFRS), the Bankia Group uses certain alternative performance measures ("APMs") that are used habitually in the bank sector as indicators for monitoring the management of the Group's assets and liabilities and its financial and economic position. In compliance with the ESMA transparency directive for the protection of consumers, published in October 2015, the following tables present breakdowns of all the APMs used in this document and the reconciliation with balance sheet and income statement line items used in their calculation.

ALTERNATIVE MEASURES OF PERFORMANCE

PERFORMANCE MEASURE	DEFINITION	CALCULATION METHOD AND ACCOUNTING DATA USED	SECTION OF MANAGEMENT REPORT
Customers resources	Sum of customer deposits, wholesale issued, off-balance sheet customer resources	Balance sheet items: – Customer deposits Third-party resources managed and marketed by the Group (Estate F.22.02 excluding the discretionary portfolios managed by the customers): – Investment companies and funds – Pension funds	3.3
Total turnover	Sum of loans and advances –customers, customer deposits, wholesale issued, off-balance sheet customer resources	Balance sheet items: – Loans and advances - customers – Customer deposits – Debt securities issued Third-party resources managed and marketed by the Group (Estate F.22.02, excluding the discretionary portfolios managed by the customers): – Investment companies and funds – Pension funds	3.3
NPL ratio (%)	Relationship between non-performing loans and the total balance of customer credit risk and contingent risks	Gross balance (before provisions) of NPLs under loans and advances to customers and contingent risks divided by gross loans and advances to customers (before provisions) and contingent risks.	1.5 3.3 7.1
NPL coverage ratio (%)	Measures the degree of impairment of NPLs for which impairment allowances have been recognised	Impairment allowances for loans and advances to customers and contingent risks divided by gross NPLs under loans and advances to customers and contingent risks.	3.3 7.1
LTD ratio (%)	Relationship between loans granted to customers and deposits taken from customers	Loans and advances to customers divided by customer deposits plus funds raised through second-floor loans received from the EIB and ICO. – Loans and advances to customers less reverse repos. – Customer deposits less repos.	1.7 5
Financial operations result	Sum of the profit/ (loss) from management of the trading portfolios, financial assets available for sale, assets and liabilities at amortized cost and accounting hedges	Sum of the flowing items of the income statement: – Gains or (-) losses on financial assets and liabilities not measured at fair value through profit or loss, net. – Gains or (-) losses on financial assets and liabilities held for trading, net. – Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net – Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net. – Gains or (-) losses from hedge accounting, net.	3.5

PERFORMANCE MEASURE	DEFINITION	CALCULATION METHOD AND ACCOUNTING DATA USED	SECTION OF MANAGEMENT REPORT
Operating income before provisions	Gross margin less administrative expenses and depreciation	Sum of the flowing items of the income statement: – Gross Margin – Administration expenses – Depreciation	3.3 3.5
Customers margin (%)	Difference between the average interest rate charged on loans and advances to customers and the average interest rate paid on customer deposits	Average interest rate on loans and advances to customers: – Interest income on loans and advances to customers recognised in the year divided by the average month-end balance of loans and advances to customers in the year. Average interest rate paid on customer deposits: – Interest expenses on customer deposits recognised in the year divided by the average month-end balance of customer deposits in the year. Interest income and expense are annualised at the June accounting close.	3.5
Differences on the balance sheet (%)	Difference between the average return on assets and the average cost of liabilities and equity	Average return on assets: – Interest income in the year divided by average month-end balances of recognised assets. Average cost of liabilities and equity: – Interest expenses in the year divided by average month-end balances of total equity and liabilities in the year. Interest income and expense are annualised at the June accounting close.	3.5
ROA (%)	Measures the return on assets	Profit/(loss) for the year divided by average recognised assets at the end of the 12-month period. Earnings for the period are annualised at the June accounting close.	3.3 3.5
ROE (%)	Measures the return obtained from own funds	Profit/(loss) for the year attributable to owners of the Parent divided by average equity at the end of the 12-month period. Earnings for the period are annualised at the June accounting close.	3.3
RORWA (%)	Measures the return obtained from the risk-weighted average assets	Profit/(loss) for the year attributable to owners of the Parent divided by regulatory risk-weighted assets at the end of the year. Earnings for the period are annualised at the June accounting close.	3.3 3.5
ROTE (%)	Measures the return on equity excluding intangible assets	Profit/(loss) for the year attributable to owners of the Parent divided by average equity less intangible assets at the end of the 12-month period Earnings for the period are annualised at the June accounting close.	3.3
Efficiency ratio (%)	Measures operating costs as a percentage of gross income	Administrative + depreciation expenses divided by gross income.	3.3 3.5

CALCULATION OF ALTERNATIVE PERFORMANCE MEASURES AND ACCOUNTING RECONCILIATIONS

ACCOUNTING DATA (EUR million and %)	Jun-18 (1)	Dec-17
Resources managed by customers	**170,543**	**172,645**
– Customer deposits	128,696	130,396
– Marketable debt securities	17,451	19,785
– Investment companies and funds	17,724	15,726
– Pension funds	6,673	6,738
Total turnover	**292,077**	**295,670**
– Loans and advances - customers	121,534	123,025
– Customer deposits	128,696	130,396
– Debt securities issued	17,451	19,785
– Investment companies and funds	17,724	15,726
– Pension funds	6,673	6,738
NPL ratio (%)	**8.1%**	**8.9%**
- Doubtful risks of loans and advances to customers and contingent risks	10,809	12,117
- Total risks of loans and advances to customers and contingent risks	133,962	136,353
NPL coverage ratio (%)	**55.0%**	**50.8%**
- Loan impairment and customer advances and contingent risks	5,945	6,151
- Doubtful risks of loans and advances to customers and contingent risks.	10,809	12,117
LTD ratio (%)	**92.2%**	**93.9%**
- Loans and advances to customers	121,534	123,025
- Temporary Acquisitions of Assets	39	256
- Deposits of the customers	128,696	130,396
- Temporary Assignment of Assets	436	2,668
- Funds for mediation appropriations received from the EIB and ICO	3,527	3,007
Gains or losses on financial assets and liabilities (net)	**291**	**262**
– Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net.	270	217
– Gains or losses on financial assets and liabilities held for trading, net.	34	60
– Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
	-	-
– Gains or losses from hedge accounting, net	(13)	(15)
Operating income before provisions	**897**	**884**
– Gross income	1,841	1,648
– Administrative expenses	(856)	(681)
– Depreciation	(88)	(83)

Customer Margin (%)	**1.57%**	**1.59%**
Average interest rate on loans and advances to customers (%):	1.70%	1.69%
– Interest income on loans and advances to customers in period	1,018	871
– Interest income on loans and advances to customers annualized	2,052	1,757
– Average month-end balances of loans and advances to customers	120,749	103,725
Average interest rate paid on customer deposits (%):	0.13%	0.11%
– Interest expenses on customer deposits in the period	82	54
– Interest expenses on customer deposits annualized	166	109
– Average month-end balances of customer deposits	126,628	103,149
Balance sheet diferential (%)	**1.01%**	**1.09%**
Average return on assets:	1.22%	1.28%
– Interest income in the period	1,257	1,166
– Interest income in the period annualised	2,535	2,351
– Average month-end balances of recognised assets in the period	208,609	183,796
Average cost of liabilities and equity (%):	0.20%	0.19%
– Interest expenses in the period	210	171
– Interest expenses in the period annualised	423	345
– Average month-end balances of total equity and liabilities in the period	208,609	183,796
ROA (%)	**0.5%**	**0.6%**
– Profit/(loss) for the period	515	514
– Profit/(loss) for the period annualised	1,038	1,037
– Average value of recognised assets at the end of the first half of the year	208,609	183,796
RORWA (%)	**1.2%**	**1.4%**
– Profit/(loss) for the period	515	514
– Profit/(loss) for the period annualised	1,038	1,037
– Regulatory risk-weighted assets at the period end	83,631	74,628
ROE (%)	**8.3%**	**8.6%**
– Profit/(loss) attributable to owners of the Parent for the period	515	514
– Profit/(loss) attributable to owners of the Parent for the period annualised	1,038	1,036
– Average value of equity of the 12 months preceding the period end adjusted for expected dividends	12,478	12,113
ROTE (%)	**8.5%**	**8.7%**
– Profit/(loss) attributable to owners of the Parent for the period	515	514
– Profit/(loss) attributable to owners of the Parent for the period annualised	1,038	1,036
– Average value of tangible equity of the 12 months preceding the period end adjusted for expected dividends	12,230	11,888
Efficiency ratio (%)	**51.3%**	**46.4%**
– Administrative expenses	856	681
– Depreciation for the period	88	83
– Gross income	1,841	1,648

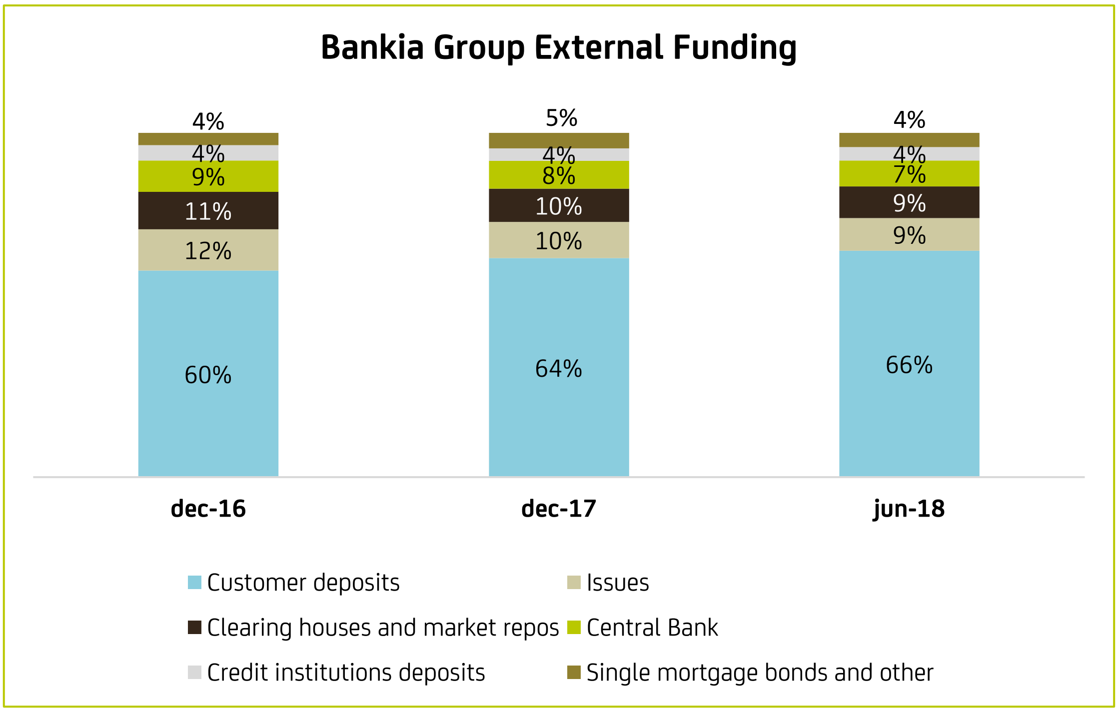
(1) Figures at 30 June 2018 are for the Bankia Group post-merger with BMN. Figures at 30 June 2017 do not include BMN, as the merger was effective for accounting purposes from 1 December 2017.

5.- FUNDING STRUCTURE AND LIQUIDITY

Note 3.2 to the financial statements for the period ended 30 June 2018 describes Bankia Group's liquidity management policies and provide details on maturities of financial assets and financial liabilities that allows as to project its liquidity balance at different maturities. Accordingly, this section refers to the performance of the Group's main liquidity indicators and funding sources in the first half 2018.

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 2018 the Group continued to maintain a very comfortable liquidity position, with no material changes with regards to its liquidity and funding management policies.

According to the retail business model underpinning its banking activity, the Bankia Group's main source of funding are strict customer deposits, which cover the whole of net loans and advances to customers at year end and provide great stability to the Group's funding structure. Strict customers deposits arise mainly from business with retail customers (79.8% of customer deposits come from retail banking). Funds obtained through customer deposits are complemented by wholesale funding gearing towards the medium and long term (issuances), repos arranged in the market, balances with the ECB and (non-marketable) single mortgage bonds.



In the first half of 2018, the Bankia Group's external funding needs were down EUR 4,068 million compared to 31 December 2017 thanks to the liquidity released from disposals of fixed-income securities and utilization of part of the funds held in the treasury account at the Bank of Spain.

FUNDING SOURCES- BANKIA GROUP

(Millions of euros) (*)	Jun-18	dec-17	Change Dec-17 Amount	Change Dec-17 %	% of the total Jun-18	% of the total dec-17
Strict customer deposit	**121,583**	**120,229**	**1,354**	**1.1%**	**65.8%**	**63.6%**
Public sector	6,970	5,678	1,293	22.8%	3.8%	3.0%
Other financial companies	8,822	9,336	(514)	(5.5%)	4.8%	4.9%
Current accounts	5,681	5,743	(62)	(1.1%)	3.1%	3.0%
Term deposits	3,141	3,593	(452)	(12.6%)	1.7%	1.9%
Non-financial companies	15,517	16,186	(669)	(4.1%)	8.4%	8.6%
Current accounts	12,920	12,408	512	4.1%	7.0%	6.6%
Term deposits	2,597	3,778	(1,182)	(31.3%)	1.4%	2.0%
Households	90,273	89,029	1,245	1.4%	48.8%	47.1%
Current accounts	57,570	53,677	3,893	7.3%	31.1%	28.4%
Term deposits	32,703	35,351	(2,648)	(7.5%)	17.7%	18.7%
Financiación mayorista	**24,669**	**26,521**	**(1,852)**	**(7.0%)**	**13.3%**	**14.0%**
Deposits and credit institutions (1)	7,217	6,736	482	7.1%	3.9%	3.6%
Debt securities issued	17,451	19,785	(2,334)	(11.8%)	9.4%	10.5%
Single mortgage bonds	**6,676**	**7,499**	**(823)**	**(11.0%)**	**3.6%**	**4.0%**
Repos	**17,086**	**18,225**	**(1,139)**	**(6.3%)**	**9.2%**	**9.6%**
Central banks	**13,856**	**15,356**	**(1,500)**	**(9.8%)**	**7.5%**	**8.1%**
Others	**960**	**1,067**	**(107)**	**(10.0%)**	**0.5%**	**0.6%**
Total external funding sources	**184,830**	**188,898**	**(4,067)**	**(2.2%)**	**100.0%**	**100.0%**

(*) Financial Statement amounts rounded to millions of euros

(1) Includes banc deposits, collateral deposits and other deposits in credit institutions

Customer funds reached EUR 121,583 million, 65.8% of the Group's external funding mix, compared to 63.6% in December 2017, with the following breakdown: (i) 48.8% households, (ii) 8.4% non-financial corporations, (iii) 4.8% other financial institutions and (iv) 3.8% public sector deposits. Customers continued to transfer savings to current accounts and short-term deposits in the first half of 2018, along with off-balance sheet products under management further illustrating the shift of funds by Bankia customers away from longer-term products earning lower interest.

Wholesale funding stood at EUR 24,669 million at 30 June 2018, representing 13.3% of external funding, down from 14% at 31 December 2017, and comprising mainly mortgage-backed securities and deposits from credit institutions. The decrease of EUR 1,852 million is explained by maturities during the half year mainly mortgage-backed securities.

Repos arranged through clearing houses and in the market stood at EUR 17,086 million, representing 9.2% of the Bankia Group's external funding at June 2018 compared to 9.6% in 2017. This activity forms part of the Group's strategy to diversify its funding sources, to reduce costs, and to maintain alternative external funding secured by liquid assets, , other than that of the ECB.

ECB financing was down EUR 1,500 million on the close of 2017 to reach EUR 13,856 million at 30 June 2018. As a result, the weight of central banks on the Bankia Group's funding structure stands at 7.5% of external funding compared to 8.1% in December 2017. The total funding from central banks held by the Bankia Group at 30 June 2018 was related to funds obtained in the ECB TLTRO II programme.

Lastly, non-marketable mortgage-backed securities included in loans and advances to customers and other funding sources have reached EUR 7,637 million in the first half of 2018. They are a residual component of the Group's funding structure, representing 3.6% and 0.5% of the Bankia Group's external funding.

Core liquidity metrics remain at comfortable levels. The commercial gap, i.e. the difference between loans (excluding reverse repos) and strict customer deposits, plus funds received from the EIB and ICO to extend second-floor loans, was a negative EUR 3,615 million at the end of June 2018 compared to a negative EUR 467 million at 31 December 2017. The "Loan to deposits" or LTD ratio (net loans less reverse repos divided by strict customer deposits less reverse repos plus funds received for second-floor loans) ended at 30 June 2018 in 92.2%, reflecting the balance achieved by the Group in funding its credit stock through customer deposits.

The Group has a comfortable debt maturity profile, with EUR 280 million of debt issues falling due in 2018 and EUR 4,764 million in 2019, of which EUR 2,764 million are mortgage-backed securities. To cover these maturities and scheduled redemptions in the coming years, the Group had EUR 30,089 million of available liquid assets at June 2018, equivalent to a 14.4% of the Group's assets and covers its entire wholesale debt maturities.

Therefore, with manageable debt maturities in coming quarters and a favorable capital markets environment, Bankia has a great deal of flexibility to meet its short- or medium-term funding needs, enabling it to maintain a solid balance sheet structure.

LIQUIDITY RESERVE - BANKIA GROUP

			Change dec-17	
(Millions of euros) (*)	**jun-18**	**dec-17**	**Amount**	**%**
Highly liquid available assets [1]	15,215	19,703	(4,488)	(22.8%)
Undrawn amount on the facility	14,460	10,918	3,542	32.4%
Cash [2]	414	2,206	(1,792)	(81.2%)
TOTAL	**30,089**	**32,827**	**(2,738)**	**(8.3%)**

(*) Financial Statement amounts rounded to millions of euros

(1) Market value cut by ECB

(2) Bills, coins and Central Banks accounts reduced minimal reserves

6.- 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 part of the Strategic Planning process to ensure that the capital plan in consistent, coherent and aligned with the strategic objectives, the Group's Risk Appetite Framework and the rest of the tactical plans comprising the financial plan for the forecast macroeconomic environment. The Financial Plan and the Capital Plan -as an integral part thereof- are updated annually by the management committee and submitted to the Board of Directors. Additionally, the capital planning process includes hypothetical stress scenarios created by applying a combination of adverse impacts to the projected situation, enabling the possible impacts on earnings and capital to be quantified in the event of an economic crisis. 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.
- **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.

These documents are reviewed at least annually to update the definition, number and calibration of the capital indicators to include the findings of the Internal Capital Adequacy Assessment Process (ICAAP) report submitted to the supervisor in April 2018.

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.

With a monthly base, 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. Actual performances of these metrics and indicators are presented to the Group's governing bodies at least quarterly.

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 Group 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.

Solvency levels

In December 2017, the ECB notified the Bankia Group the minimum capital requirements of its SREP applicable to 2018 on a Phase-in basis (scheduled applied to capital buffers) of a minimum Common Equity Tier 1 ratio of 8.563% of its risk-weighted assets, comprising 4.5% of Pillar 1, plus a 2% Pillar 2 requirement plus a combined buffer requirement of 2.063%, and a minimum Total Capital ratio of 12.063% of its risk-weighted assets, comprising 8% of Pillar 1,plus a 2% Pillar 2 requirement plus a combined buffer requirement of 2.063%. The minimum CET 1 Phase-in ratio at 31 December 2017 was 7.875% and the minimum Total Capital ratio was 11.375%, both of which taking into account transitional arrangements, i.e., on a Phase-in basis.

Regarding the combined buffer requirements, in addition to the capital conservation buffer common to all banks, Bankia Group was identified by the Bank of Spain as another 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 75% of this buffer in 2018 (50% in December 2017); i.e. 0.1875% (0.125% in December 2017). Lastly, the Group’s counter-cyclical capital buffer, calculated according to the geographical location of exposures, and set by Bank of Spain, has been 0% for the first half of 2018

In June 2018, the Bankia Group achieved a Common Equity Tier 1 BIS III Phase In ratio of 14.01% (14.15% at 31 December 2017) and a Total Capital BIS III Phase In ratio of 17.18% (16.84% at 31 December 2017). These capital levels imply surpluses above the 8.563% minimum Common Equity Tier 1 capital ratio requirement for 2018 of EUR 5,559 million, and above the 12.063% minimum Total Capital ratio requirement of EUR 4,284 million.

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 2018 and 31 December 2017 applying the phase-in schedule for each period and includes profit or loss for each period to be taken to reserves.

BANKIA GROUP Solvency Basilea III

Eligible capital	June 2018 (*) (**)		December 2017 (*)	
Common Equity Tier I	11,720	14.01%	12,173	14.15%
Equity tier I	12,470	14.91%	12,856	14.94%
Equity tier II	1,902	2.27%	1,632	1.90%
Total Equity BIS III	**14,372**	**17.18%**	**14,487**	**16.84%**

Risk weighted assets BIS III	Jun. 2018 (**)	Dec. 2017 (**)
Credit risk (include CVA)	75,732	77,958
Operational risk	6,476	6,476
Market risk	1,426	1,608
Total risk weighed assets BIS III	**83,634**	**86,042**

Excess/(Minimal regulatory defects)	June 2018 (*) (**)		December 2017 (*) (**)	
		minimun		*minimum*
Excess Common equity Tier I BIS III	**4,559**	**8.563%**	**5,398**	**7.875%**
Total Equitt Bis III	**4,284**	**12.063%**	**4,700**	**11.375%**

(*) Including the amount of net profit for 2017 earmarketed for reserves

(**) Estimated at 30/06/2018

In the first half of 2018, Common Equity Tier I capital dropped by 14 bps, with organic generation of 37 bps, which largely absorbed the impact of full implementation of IFRS 9 and the effect of early application. In the first half, the Bankia Group once again employed an organic CET1 generation model that allows it to offset the negative impact of regulatory changes on solvency, while continuing to meet the CET1 target set in the Corporate Risk Appetite and Tolerance Framework.

The main factors explaining CET1 Phase-In capital performance in the first half of 2018 are the following:

- The **calendar effect** has had an impact of **-25 bps on CET1**.

- **Full implementation in solvency** of the equity impact of the entry into force of **IFRS 9** on 1 January 2018, which implies an impact of **-26 bps** in phase-in CET1. The Bankia Group has not applied the transitional arrangements contemplated in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017.

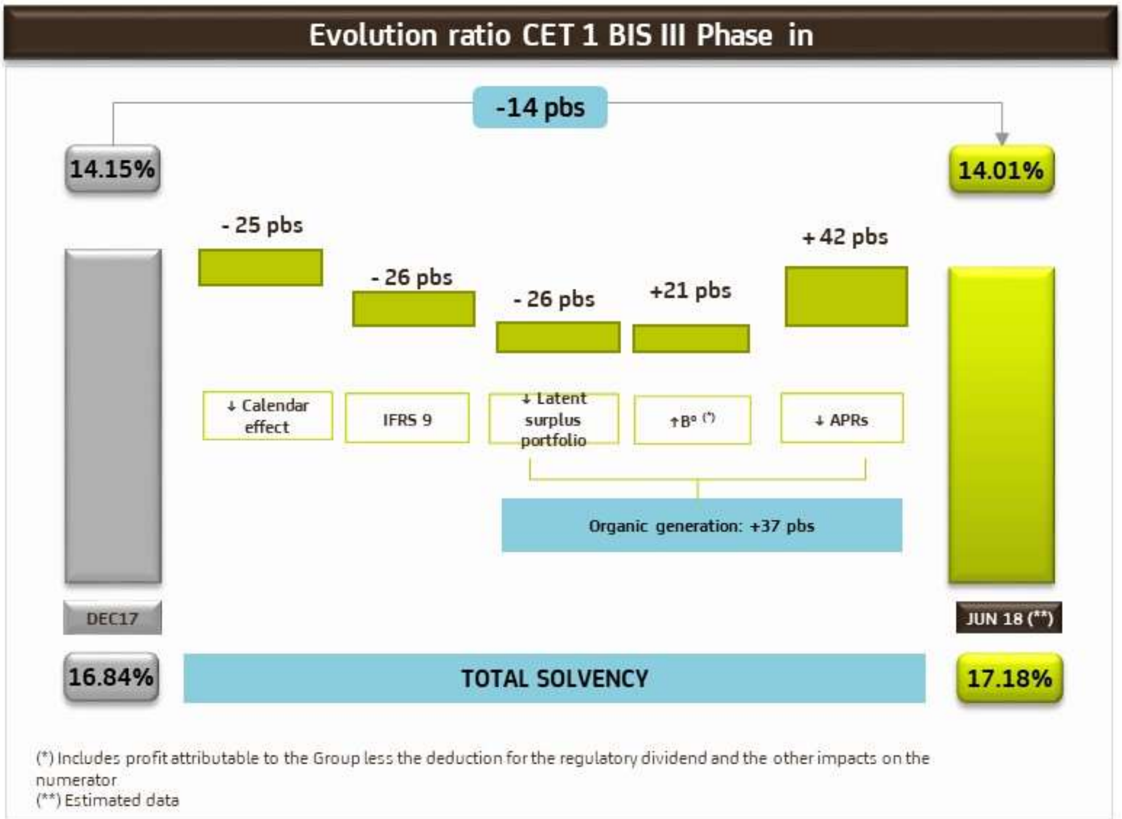
- **Decrease in unrealised gains** on financial assets at fair value, with a negative impact of **-26 bps.**

- **Profit attributable to the Group (EUR +515 million)** net of the deduction for the **regulatory dividend (EUR -215 million)** and other impacts on the numerator (e.g. prudent valuation adjustment, tax credits, accrual of AT1 coupon, etc.) have generated **+21bps in CET 1**.

- **Reduction in risk-weighted assets ex-IFRS 9 effect** of EUR -2,596 million over the course of the first half of the year, generating **+42bps of CET1**. The decline in RWAs was centered on credit risk (EUR -2,415 million) associated with balance-sheet deleveraging and the active management of the composition and improved quality of the Group's loan portfolio. Additionally, due to the review of the models, RWAs for market risk decreased by EUR -181 million thanks to the gradual recovery on the add-on set by the Supervisor.

In the first half of 2018, the Bankia Group increased its Phase-in Total Capital ratio by +34 bps, factoring in the calendar effect (-15 bps). The implementation of IFRS 9 had a neutral impact on total solvency as the negative effect on CET1 was offset by the rise in eligible provisions in Tier 2 capital.

The following chart shows the trend in capital ratios:



It also presents reconciliation of equity in the balance sheet to regulatory capital, including profit for the year earmarked for reserves.

BANKIA GROUP reconciliation between Equity and Eligible Capital BIS III

(millions of € y %)

Eligible elements	Jun. 2018 (**)	Dec. 2017	Variation	% Variation
Own funds	12,894	13,222	(328)	(2%)
Other comprehensive accumulated income	299	366	(67)	(18%)
Non controlling interests	15	25	(10)	(39%)
Total Equity (Public Balance)	**13,209**	**13,613**	**(405)**	**(3%)**
Adjustment between public and regulatory balance	0.4	0.4	0	1%
Total Equity (Regulatory balance)	**13,209**	**13,614**	**(405)**	**(3%)**
Elementos patrimonio contable no computables	**(74)**	**(137)**	**63**	**(46%)**
Ineligible valuation adjustments as CE T-1	(20)	(104)	83	(80%)
Non controlling interests	(16)	(20)	5	(23%)
Regulatory autoportfolio adjustmets	(38)	(12)	(25)	207%
Regulatory capital deductions	**(1,415)**	**(1,304)**	**(112)**	**9%**
Intangible assets and other deductions (regulatory balance)	(360)	(342)	(18)	5%
Deferred tax assets	(803)	(587)	(217)	37%
Valuation adjustments due to prudent requirements (AVA)	(38)	(35)	(2)	7%
Dividends	(215)	(340)	126	(37%)
Common Equity Tier I	**11,720**	**12,173**	**(454)**	**(4%)**
Additional Equity Tier I	**750**	**682**	**68**	**10%**
Equity Tier II	**1,902**	**1,632**	**270**	**17%**
TOTAL REGULATORY EQUITY (*)	**14,372**	**14,487**	**(115)**	**(1%)**

(*) Including the amount of net profit earmarketed for reserves.
(**) Estimated at 30/06/2018.

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

At 30 June 2018, the capital requirements for credit risk, including equity and CVA, amounted to EUR 6,059 million (EUR 6,237 million December 2017). At present, the requirements for credit risk are calculated using both the standardised and internal rating-based approaches. As for the calculation of the Group's capital requirements using internal models, the ECB's Supervisory Board has initiated a Targeted Review of Internal Models (TRIM) with the aim of standardising current differences across entities in the average risk weightings they apply to their exposures that are not attributable to their risk profiles but rather stem from their calculation models, all framed by a standardised supervisory model. This review takes in around 70 European financial institutions, including the Bankia Group, and the work will span the period elapsing between 2016 and 2018.

Currency and market risk exposures were calculated using internal models. However, these calculation models were being reviewed by the supervisor, during which the market risk requirements are higher that would correspond strictly by its market activity. At 30 June 2018 capital requirements for this concept amounted to EUR 114 million (EUR 129 million at December 2017).

Finally, the Bankia Group used the standardised approach to calculate the capital requirements for operational risk, totalling EUR 518 million at June 2018 (same amount as in December 2017).

Leverage ratio

The leverage ratio was implemented by 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 with the aim of including the leverage ratio as a binding Pillar I requirement.

The CRR does not require to comply with a minimum level, and there is only an indicative 3% of CET1 which was set by the BCBS starting January 2014. CRR proposed amendments set also a minimum required leverage ratio of 3% of CET1.

The Bankia Group's (phase-in) leverage ratio at 30 June 2018 stood at 5.93% (6.02% at 31 December 2017), above the 3% minimum reference level set by the Basel Committee.

In the first half of 2018, the leverage ratio fell by -9 bps due to the decrease in Tier I capital, leading to a drop of -17 bps in the ratio, which was partly offset by the reduction in exposures (mainly on-balance-sheet), which had a positive impact of +8 bps. In terms of Tier I capital, it should be highlighted that the impact on the leverage ratio of early application associated with Tier I was -6 bps and the effect of the full implementation of the entry into force of IFRS 9 added up to -9 bps.

The following table provides a breakdown of the leverage ratio at 30 June 2018 and 31 December 2017 along with a reconciliation of total assets on the balance sheet and leverage exposure measure:

BANKIA GROUP leverage ratio

Items (Millions of euros and %)	Jun. 2018 (*) (**)	Dec. 2017 (*)
Tier 1 Capital	12,470	12,856
Exposure	210,399	213,505
Leverage ratio	**5.93%**	**6.02%**
Reconciliation between Public Balance sheet and exposure for leverage ratio		
Total Assets Public Balance	**208,208**	**213,932**
(+/-) Adjustments difference between Public and Regulatory Balance	15	9
(-) Items already deducted from Tier 1 capital	(1,167)	(1,003)
(-) On-balance sheet derivatives assets	(8,710)	(9,765)
(+) Derivative exposure	724	210
(+) Add-ons for counterparty risk in securities financing transactions (SFTs)	3,860	3,255
(+) Off-balance sheet items (including use of CCFs)	7,469	6,867
Total exposure leverage ratio	**210,399**	**213,505**

(*) The data has been estimated based on Delegated Regulation 2015/62.
Including the amount of net profit earmarketed for reserves.

7. - RISK MANAGEMENT

Risk management is a strategic cornerstone in the organisation which primary objective 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 past due exposures.

Note 3 to Bankia Group's financial statements for the period ended 30 June 2018 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 the first half of 2018.

7.1. - 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 Group's customers.

The variables the Bankia Group 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 Group’s risk profile shows far greater exposure to credit risk than the other risks to which its business is inherently exposed.

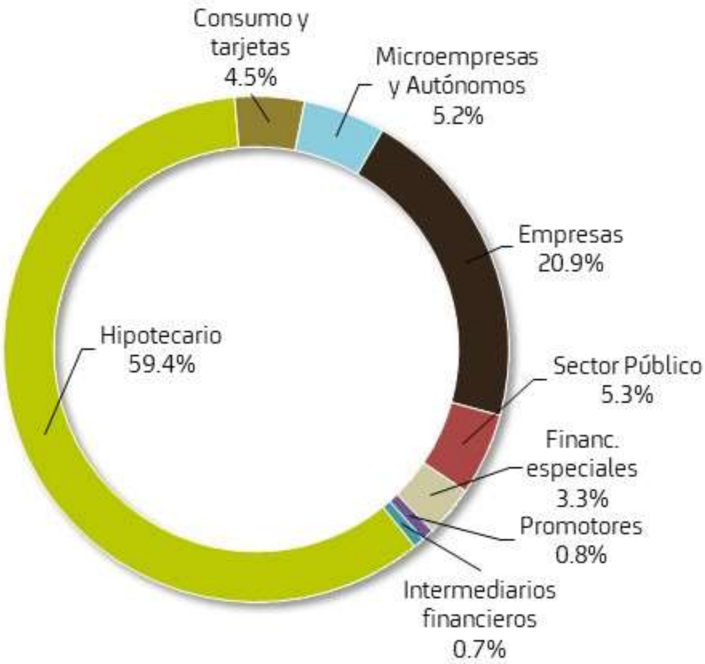
The main characteristics of the Group’s credit risk profile and its performance in the first half of 2018 according to data from the audited portfolio (does not include positions in financial investees) are as follows:

– In the breakdown of loans and advances to customers, the weight of the retail segment increased from 67% December in 2017 to 69% at June 2018, to the detriment of the weight of the wholesale segment (including the public sector), which dropped from 33% in December 2017 to 31% at the end of the first half of 2018.

– The weight of the real estate portfolio over total loans is below 0.8%.

– The mortgage portfolio accounts for 59,4% of total loans and receivables. The second largest portfolio corresponds to companies representing 20,9% of the total, followed by loans to public institutions and bodies and loans to micro-enterprises and self-employed professionals accounting for 5,3% of the total portfolio.

– As of June 2018 39% of non-performing loans was classified as such for subjective criteria or are in the "curing" period. This means that no loans in this portfolio are past-due and imply subjective arrears, or refinancing agreements have been reached with the customers and, therefore, there is an apparent willingness to paythat must be verified over a period of at least twelve months, but can be extended to the entire grace period when applicable.



The following table shows the distribution by portfolio of expected loss and regulatory capital for credit risk of Bankia Group at 30 June 2018:

MM€	Jun-18	
Segment name	**Regulatory Capital**	**Expected Loss**
Entities	47.1	121.1
Banks and financial intermediaries	214.1	32.9
Companies	1,678.7	2,121.5
Promoters	88.4	574.8
Retailer:	2,672.3	3,247.9
Mortgage	2,081.9	2,477.8
Consumption	*233.7*	*151.5*
Cards	*88.1*	*46.3*
Micro-enterprises and self-employed professionals	*268.6*	*572.2*
Equity	25.2	0.8
TOTAL	**4,725.7**	**6,098.9**

The maturity profile of credit exposure is detailed in Note 3.3 to the condensed consolidated interim financial statements for the first half of 2018 (table on residual maturities). A significant portion of loans and advances to customers (60.3%) 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 2018.

At 30 June 2018, the Group's doubtful exposures fell further, by 10.8% (EUR 1,309 million) from the end of 2017 to EUR 10,809 million at June 2018. This improvement is explained mainly by the gradual decrease in inflows of NPLs, stronger efforts in monitoring and recovery management and, to a lesser extent, the sale of portfolios of doubtful and extremely doubtful assets in the year. As a result, the NPL ratio improved further, to 8.1% at 30 June 2018, 0.8 percentage points lower on a same-scope basis than at 31 December 2017.

At 30 June 2018, Bankia Group had counted a portfolio of refinanced operation of EUR 11,005 million in gross terms. The 57.9% of the refinanced credits had been classified as doubtful with a NPL ratio of 43.8%.

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. Maintaining the cost of risk under control.

NPL and Coverage - BANKIA GROUP

			Change Dec - 17	
(Millions of euros and %) (*)	**jun-18**	**dec-17**	**Amount**	**%**
NPLs	10,809	12,117	(1,309)	(10.8%)
Total risk	133,962	136,353	(2,391)	(1.8%)
Total NPL Ratio (1)	**8.1%**	**8.9%**	**(0.8) p.p.**	**(9.2%)**
Total provisions	**5,945**	**6,151**	**(207)**	**(3.4%)**
Watchlist	824	475	349	73.6%
Standard	268	316	(48)	(15.3%)
Specific	4,839	5,340	(501)	(9.4%)
Country risk	4	6	(2)	(37.5%)
Fixed income	9	14	(5)	(32.9%)
Hedging ratio	**55.0%**	**50.8%**	**+4.2 p.p.**	**8.3%**

(*) Financial Statement 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) and collateralisation for the market value of the derivatives or offsetting of derivatives.

At 30 June 2018, there were 2,001 netting and 245 guarantee agreements (132 derivatives, 78 repos and 35 securities loans). The main figures regarding quantification of the derivatives activity at that date are as follows:

- Original or maximum exposure: EUR 17,167 million.
- Exposure applying mitigation techniques through netting: EUR 5,529 million.
- Net exposure after applying all mitigation techniques: EUR 1,652 million.

As shown, counterparty risk in derivatives trading is reduced by 90.37% by applying derivatives netting and guarantee agreements.

7.2. - 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 Group 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 and 3.3 Bankia Group's 2018 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 2018 and 31 December 2017.

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 Group'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. At 30 June 2018, the regulatory LCR (155% for Bankia on a standalone basis) was at levels that are demonstrably higher than the regulatory requirements for 2018 (100%). The net stable funding ratio (NSFR), is required from 1 January 2018 with a requirement of at least 100%. This ratio is still being assessed and has yet to be fully defined, even though its tentative implementation date was January 2018. However, as with the LCR, it is expected to be applied gradually.

7.3. - 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 Group’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 Group’s level of risk tolerance.

Trends in interest rates depend on certain factors that are beyond the Bankia Group's control, such as financial sector regulation, monetary policies applied by the ECB, and the political and international environment.

Like other risks, structural interest rate risk management is predicated on a clear system of separation of roles and responsibilities. The principles, metrics and limits approved by the Board of Directors are monitored by the Structural Risks Department under the Market and Operational Risks Department, which is part of the Corporate Risk Department.

Each month, information on risk in the banking book is reported to the ALCO in terms of both economic value (sensitivities to different scenarios and VaR) and interest margin (net interest income projections in different interest-rate scenarios for horizons of 1 and 3 years). At least quarterly, the Board of Directors is informed through the Risk Advisory Committee on the situation and monitoring of limits. Any excesses are reported immediately to the Board by the Risk Advisory Committee. In addition, information prepared by the ALCO is reported by the Global Risk Management Division, along with other risks, to the Group's senior management.

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**

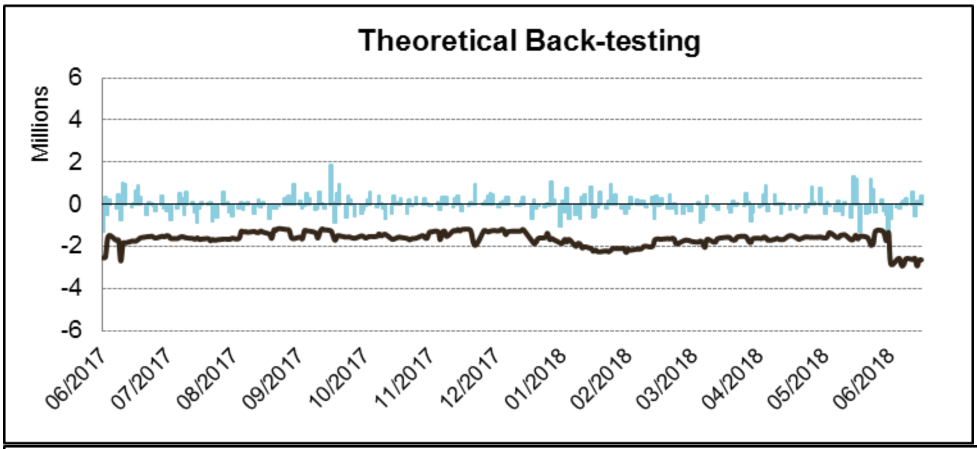
For market risk measurement used two metrics: VaR (value at risk), which provides a prediction of the maximum loss that can suffer in a time interval with a certain level of confidence and sensitivity, which expresses the impact on the valuation of financial instruments to the changes in various risk 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.

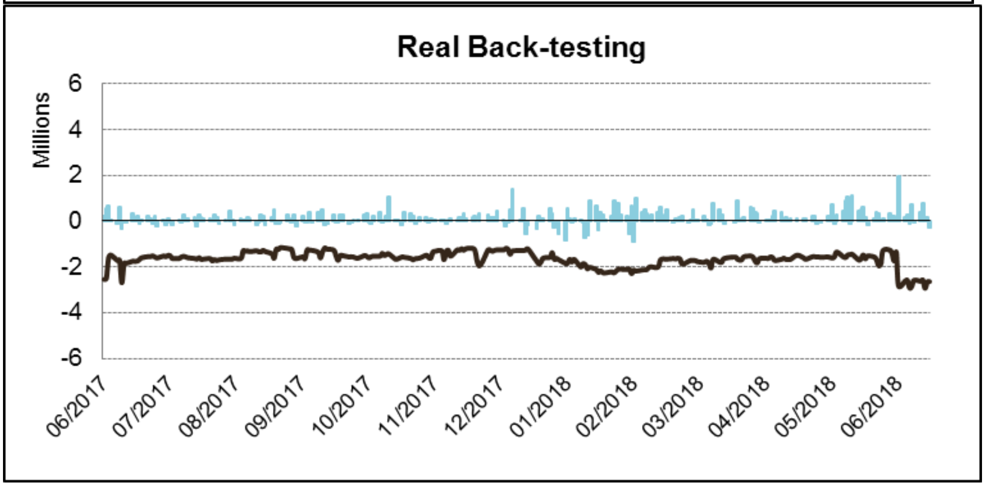
Control of market risk is based on a system of fixed limits in terms of maximum exposure to market risk, which are approved annually by senior management and distributed across the various business areas and centres.

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 checks carried out in the first half of 2018 confirm the effective operation of the model used by the Bankia Group to measure VaR in accordance with the assumptions used, with no breaches in the year.

The scope of authorisation by the Bank of Spain of internal models lies in the measurement of market risk of the trading portfolio and exchange risk. The regulatory capital figure is calculated by the internal model as the linear sum of the value at risk (VaR), stressed value at risk (SVaR) and incremental risk (IRC) regulatory capitals.

– Value at Risk. The calculation method used to measure VaR is historical simulation with 99% confidence level and a time horizon of 1 day. A time window of 250 daily observations is used. On a daily basis two calculations of VaR are performed. One applies an exponential decay factor that lends greater weight to observations nearer the date of the calculation. The other applies the same weight to all observations. The total value at risk figure is calculated conservatively as the sum of the VaRs by risk factor (interest rate, exchange rate, equity investments, credit margins, commodity prices and volatility of the foregoing).

– Stressed Value at Risk. Stressed value at risk (sVaR) uses the same calculation methodology as the VaR, with two differences. The observation period must include a period of market stress and no exponential weights are applied to observations. The stress period is determined for the entire portfolio as the period that provides the highest VaR figure, calculated as the sum of the values at risk by factor.

– Incremental risk. The methodology for calculating incremental risk (IRC) considers the risk of default and the risk of migration of the interest rate products contemplated for the calculation of the specific risk within the VaR. It is based on measurements of the distribution of losses. The distribution is generated by Monte

Carlo simulation based on the risk parameters deriving from the internal credit risk model (IRB). The IRC is calculated using a confidence level of 99.9%, with a constant level of risk over a time horizon of one year and a liquidity horizon of one year.

The integration of BMN will not have a significant effect on the VaR metric.

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 the first half of 2018**

Bankia Group maintained an average VaR in the first half of 2018 of EUR 1.43 million, with a maximum of EUR 2.28 million and a minimum of EUR 0.36 million.

VaR	Financial assets and liabilities held for trading (Millions of euros)
Average	1.43
Maximum	2.28
Minimum	0.36

Distribution of VaR by risk category *(Millions of euros)*				
Risk category	**Punctual**	**Average**	**Maximum**	**Minimum**
Interest rate	0.34	0.80	1.31	0.28
Equity instrument	0.02	0.02	0.11	0.01
Exchange rate	0.22	0.60	0.84	0.05

- **Trading 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. The VaRs for the first half of 2018 are as follows:

VaR of derivatives activity *(Millions of euros)*	**Fixed income**	**Equity**	**Exchange rate**	**Total**
Average	0.76	0.03	0.65	1.43
Maximum	1.13	0.18	0.91	1.99
Minimum	0.11	0.01	0.04	0.24

- **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 2018 was marginal due to the largely domestic bias of its operations, recognising a provision in this connection of EUR 4 million.

7.4. - 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.

The Bank uses different tools to analyse and monitor the concentration of risks. First, as part of the calculation of economic capital, it identifies the component of specific economic capital as the difference between systemic economic capital (assuming maximum diversification) and total economic capital, which includes the effect of the concentration. This component provides a direct measure of concentration risk. An approach similar to that used by ratings agencies is applied, paying attention to the weight of the main risks on the volume of capital and income-generation ability.

At 30 June 2018, 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 Group 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:

- The Bankia Group's operational and IT risk management not only covers the recognition of loss events and accounting of the losses, but also promotes control to minimise the potential negative impacts through continuous improvement to processes and the strengthening of operating controls.
- Promote the implementation of more relevant operational risk mitigation plans as set out in the Risk Appetite Framework.
- Define and approve the policies and procedures for the management, control and oversight of this risk.
- Conduct regular reviews of management information.
- Approve and oversee implementation of operational and IT risk mitigation plans.
- Operational and IT risk management must be implemented throughout the entity to help achieve the institution's targets through the management, prevention and mitigation of the related risks.
- Maintain a control environment and culture that ensures that all groupings are aware of the risks to which they are exposed, establish an adequate control environment and assume the responsibilities in this respect.
- Supervise on an ongoing basis compliance with the Entity's risk policies and procedures.
- Put in place procedures that guarantee compliance with current and future legal requirements.
- Guarantee that all internal risk information is duly documented and available to the oversight bodies and areas involved.

Operational risk control is overseen by the Operational and IT Risks Department under the Market and Operational Risks Department, which is part of the Corporate Risks Department. As of March 2017, the Operational Risk Department took responsibility for acting as the second line of defence in the management of IT and cybersecurity risk, changing its name to the Operational and IT 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 use of own resources trends in real and expected loss data, all the operational risk management actions carried out, meanwhile, on 30 March 2017 the Board of Directors approved the IT and Cybersecurity Risk Policies and Procedures Manual. According to this manual, these risks are managed by the Operational Risk Department, which has changed its name to Operational and IT Risk Department. The new committee expanded its oversight competencies in this area and changed its nature, becoming an executive committee meeting monthly, rather than quarterly. It held meetings, at which the use of own resources, trends in real and expected loss data, and all operational risk management actions carried out 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.

In 2017, Bankia Group used the standardised approach to measure its operational risk for the fifth consecutive year, consolidating the management aspects associated with the implementation of this method. As set out in the regulations, based on the related risk. The Bankia Group's capital requirement for operational risk at 31 December 2017 after the merge of BMN amounted to EUR 518.10 million.

The Bankia Group's capital requirement for operational risk at 30 June 2018 amounted to 518.10 million euros (same amount as December 2017).

- **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.

In December 2017, the Basel Committed published a series of measures aimed at amending the regulatory framework established by BIS III. This ushers in a new era of regulatory reform focused on enhancing comparability in banks' calculations of risk-weighted assets, expected to become effective in 2022. The Bankia Group is taking measures to pre-empt and manage the potential impacts of these measures on its capital levels.

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. Regarding the mechanism for internal loss-absorption, a minimum requirement for own funds and eligible liabilities with loss-absorbing capacity (MREL) has been established, which institutions must maintain to prevent relying on public assistance if they are no longer viable. 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 November 2106, the European Commission proposed legislative amendments whereby it aims to review the prudential framework of BIS III and the framework for resolution of the BRRD. Nevertheless, the amendments would not become effective before 2019.

On the Spanish legislative front, Royal Decree Law 11/2017 on urgent measures in financial matters was enacted on 23 June 2017. Among other things, the legislation created a new category of senior non-preferred debt, with a lower ranking relative to other preferred claims or ordinary senior debt, and established the requirements for classification in this category to guarantee loss-absorption capacity in the event of resolution. Enactment of this Royal Decree takes non-preferred ordinary claims to a legal status, in line with other EU Member States and the regulatory proposals being put forward in Europe in this respect.

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**

Since 2016, following the Board of Directors' approval of the Reputational Risk Management Policies Manual (which is reviewed annually), Bankia has included reputational risks in its risks model, and meets regulatory and supervisory requirements for the management of this extra financial risk.

The Basel Committee on Banking Supervision defines reputational risk as "the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding".

Since the end of 2015, and in line with the Good Governance Code recommendations included in the Responsible Management Plan 2016-2018 approved by the Board of Directors, the Entity is carrying out a corporate-wide non-financial risk identification, evaluation and control exercise with a view to improving the management of reputational risk and complying with new regulator and supervisor requirements.

Sustainable management of reputational risk is crucial for carrying out the Bankia Group's long-term plans and achieving its objectives. It considers reputation not only as past performance, but also as a possibility and future opportunity. The Bankia Group attaches great importance to managing its reputation, as one of its objectives, since one of its objectives is to achieve trust, loyalty and the best possible valuation on the part of its interest groups to pass on an improvement of its competitiveness.

Spurred by these requirements, in year 2016, the Board of Directors approved the Reputational Risk Management Policies Manual which allow Bankia manage actively those events that could result in greatest reputational risk.

By drawing up a reputational risk map, Bankia is able to manage risk events, which are classified according to probability and financial impact by management centres and reputational risk coordinators. The identification of these centres also enables the reputational risk culture to be prioritised internally in business and management areas that are more sensitive due to their exposure to the events identified.

Bankia also has a synthetic indicator for regular monitoring of reputation capable of identifying the main risk events both within the entity and the sector that could result in a deterioration in reputation, as well as the quality of Bankia's control environment to prevent or mitigate them.Through this indicator, the Board of Directors is able to assess Bankia's level of reputational risk and decide whether there is a need to implement measures or make any decisions relating to its internal management processes or its relations with stakeholders.

8. - 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 2018 at EUR 2,973 million (EUR 4,760 million gross), representing just 1.4% of the Group's assets. Most of the foreclosed properties are held by Bankia, S.A. and entail liquid assets (68.7% gross terms), mainly existing and newly built homes, which makes the disposal easier.

FORECLOSED AND ACQUIRED ASSETS OF BANKIA GROUP- SPAIN BUSINESS

	June 2018			
(Millions of euros) (*)	Carrying amount	Valuation adjustments	Gross amount	Coverage (%)
Real estate assets from construction and development	772	309	463	40.0%
Of which: finished buildings	370	113	257	30.5%
Of which: buildings under constructions	48	22	26	45.2%
Of which: land	354	174	179	49.3%
Property assets from loan for house purchase	2,902	1,237	1,666	42.6%
Other real estate assets	1,086	241	845	22.2%
Total foreclosed assets	**4,760**	**1,786**	**2,973**	**37.5%**

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

(1) Data for the resulting entity of the merger between Bankia and BMN.

The Group'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 Real Estate to manage, administer and sell its foreclosed assets under the supervision of the property Management Division. In a bid to improve its cost-to-income ratio following the merger with BMN, on 26 April 2018 Bankia terminated the service contracts in effect between BMN and a number of companies for the management of unpaid debts and certain real estate assets. Haya Real Estate is now solely responsible for managing all of Bankia's real estate assets. On 27 April 2018, Bankia and Haya Real Estate signed a novation to the agreement for the purchase and sale of the real estate management business and a further novation to the service contract for the administration and management of those assets.

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 30 June 2018 for foreclosed assets from Bankia Group's business in Spain amounted to EUR 1,786 million, implying financial coverage of 37.5% since the adjudication.

The Bankia Group continued to pursue its strategy of reducing problem assets by selling a total of EUR 298 million in foreclosed real estate assets in the first half of 2018, up 40.5% on total proceeds from sales completed in the first half of 2017. This increase was down to a more buoyant real estate market, in which both demand and prices have continued to rise.

9. - INFORMATION ON CREDIT RATINGS

At 30 June 2018 the ratings granted to Bankia Group by different rating agencies include the following:

Ratings Emisor BANKIA				
	STANDARD & POOR'S	FitchRatings	DBRS	SCOPE
Long Term	BBB-	BBB-	BBB (high)	BBB+
Short Term	A-2	F3	R-1 (low)	S-2
Perspective	Stable	Positive	Stable	Stable
Date	06/04/2018	06/02/2018	04/07/2018	30/11/2017

Ratings Cédulas Hipotecarias BANKIA	STANDARD & POOR'S	Fitch Ratings	DBRS	SCOPE
Rating	AA-	A	AAA	AAA
Perspective	Positive	Positive	---	Stable
Date	27/03/2018	23/03/2018	22/09/2017	12/07/2018

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 2018 include the following:

- The process of integrating BMN's technology platform was completed in just two and a half months from obtaining all the necessary regulatory authorisations. Following the technological integration, BMN customers are now able to enjoy Bankia products and associated terms and conditions.

- On the subject of Spain's sovereign rating, S&P Global Ratings ("S&P"), Fitch Ratings ("Fitch") and DBRS Ratings Limited ("DBRS") upgraded their ratings for Spain by one notch to "A-", "A-" and "A", respectively. The outlooks assigned by S&P and DBRS remain at Positive and Stable following their respective reviews on 23 March and 6 April, while Fitch raised its outlook from Stable to Positive on 19 January. All three agencies cited the strong economic recovery and progress made in recent years in reducing the fiscal deficit and believe that the structural improvements in the Spanish economy have increased the prospect of sustainable growth. Meanwhile, Scope Ratings ("Scope") upheld its rating for Spain at "A-/Stable" on 16 May.

S&P took the following rating actions on Bankia during the first half of 2018:

- On 6 April, it upgraded Bankia's long-term rating from "BBB-" to "BBB", with a Stable outlook. The move was prompted by the perceived improvement in the "economic climate and the state of the banking sector" in Spain, following the upgrade in Spain's sovereign rating. The agency is confident that Bankia's capital will continue to improve on the back of organic capital generation and the issuance of hybrid instruments. It is also confident that problem assets will continue to fall over the coming two years, while recurring profit should improve following the integration of BMN.

- The agency affirmed the "A-2" short-term rating, which it upgraded from "A-3" on 9 February 2017.

- Regarding the rating of Bankia's mortgage covered bonds (cédulas hipotecarias), on 27 March, after the upward revision to its rating outlook on Spain on 23 March, S&P affirmed its rating on Bankia's mortgage covered bonds at "AA-", revising its outlook from stable to positive. The outlook for Spanish mortgage covered bonds reflects the outlook for Spain's sovereign rating.

Highlights regarding **Fitch**'s rating for Bankia include:

– On 6 February, it upgraded Bankia's outlook from Stable to Positive, while holding the rating at "BBB-". According to the agency, Bankia's ratings reflect an improved domestic franchise following the merger with BMN, solid capital post-merger, adequate liquidity and funding sources and an experienced management team adept at mergers.

– On the same date, Fitch affirmed Bankia's short-term rating at "F3" and its subordinated debt rating at "BB+".

– Regarding the rating of Bankia's mortgage covered bonds (*cédulas hipotecarias*), on 23 March, following an industry-wide review of the covered bond programmes it rates in Spain, Fitch affirmed its A rating for Bankia's *cédulas hipotecarias*, outlook positive.

Turning to the ratings assigned by DBRS, the rating agency affirmed Bankia's rating at "BBB (high)/Stable" and its short-term rating at "R-1 (low)" on 4 July 2018, following the close of the first half of 2018 and after completing its annual review of Bankia's credit profile.

Regarding Bankia's mortgage covered bonds, on 22 September 2017, after the review carried out as part of the agency's ongoing monitoring, DBRS upgraded its rating by one notch from AA (high) to AAA rating. It said the action was underpinned mainly by the improvement in the level of overcollateralisation of the mortgage portfolio.

With regard of Scope Ratings, Bankia keeps on maintaining the same ratings, all with stable outlooks from 30 November 2017:

– Issuer rating of BBB+
– Ratings of senior unsecured debt (not eligible for MREL) at BBB+
– Ratings of senior unsecured debt (eligible for MREL) at BBB
– Short-term debt rating at S-2

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

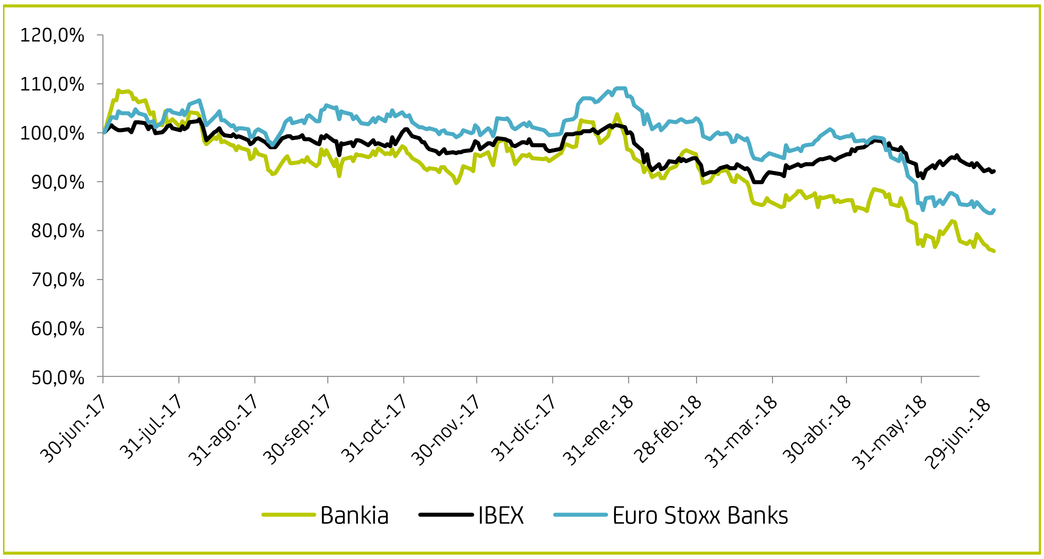
Finally, and again after the reporting period, Scope completed its annual review of Bankia's mortgage-covered bonds (cédulas hipotecarias) and on 12 July 2018 affirmed its rating of "AAA" with Stable outlook.

10. - SHARE PRICE PERFORMANCE AND SHAREHOLDER STRUCTURE

The equity markets turned in a negative performance in the first half of 2018, riled by the trade war following the new tariffs imposed by the United States and political tensions in certain EU countries, notably Spain and Italy. Meanwhile, the monetary policy being pursued by the European Central Bank, which has taken a different approach to the Fed, means we will not see any interest rate hike until summer 2019 at the earliest. As a result, analysts have continued to lower their estimates of share earnings at banks, which has impacted their quoted prices.

Against this backdrop, the Euro Stoxx Banks index shed -15.35% while the Spanish IBEX reported a -4.19% dip. Bankia's share price ended the period at EUR 3.207, down 19.56% from last year's closing price. Average daily trading volume was 9.20 million shares, equivalent to an average cash amount of EUR 34.58 million per trading session.

SHARE PRICE



The consensus target price among the 33 analysts who cover Bankia's share was EUR 3.97/share at 30 June 2018, illustrating the share's impressive resilience in the face of obvious market turbulence.

The main highlights regarding Bankia's share price in the first half of the year were as follows:

- On 27 February 2018, the Group unveiled its strategic plan for the 2018-2020 horizon, revealing Bankia's intention to distribute over EUR 2,500 million among shareholders.

- A cash dividend of 11.02 euro cents per share was paid on 20 April 2018 out of 2017 profit, giving a total outlay of EUR 340.1 million, gross.

Moving to Bankia's share capital, a total of 205,630,814 shares were registered in the first half of 2018 as a result of the rights issue completed following the merger with BMN. Share capital now amounts to 3,084,962,950 euros, represented by 3,084,962,950 registered shares each with a par value of EUR 1. At the end of June 2018, Bankia had a total of 189,897 shareholders. BFA remained the Group's main shareholder with a stake of 61.25%.

11. - INFORMATION ON TREASURY SHARES

Group trading in treasury shares pursues the following objectives:

- To provide liquidity or supply securities to investors, as appropriate, adding breadth and minimising temporary mismatches between supply and demand in trading in Bankia shares.

- To take advantage, in the benefit of all shareholders, of weakness in share price relative to the medium-term outlook.

- To implement, as appropriate, share buybacks approved by the Board of Directors or in execution of resolutions adopted by the General Meeting of Shareholders and, in particular, to afford Bankia access to shares that enable it to meet its obligations for the delivery of shares undertaken previously in respect of issuances of convertible or exchangeable securities and other corporate transactions, such as remuneration or loyalty plans for shareholders, directors, managers or employees.

- To comply with other legitimate commitments previously undertaken.

- Any other purposes permitted under applicable regulations.

Discretionary trading over treasury shares refers to the purchase or sale of own shares on electronic trading platforms of official markets, multilateral trading systems and any other organised trading platform which is ordered by Bankia, directly or indirectly. Transactions in Bankia shares ordered by companies which are controlled by Bankia are also considered in this definition. Discretionary trading over treasury shares may not be carried out to distort price discovery and may not be carried out if the unit in charge of executing the trade possesses inside or price sensitive information.

Transactions involving treasury shares are performed by Treasury Share Management, a separate unit protected by the appropriate Chinese walls within the general departments determined by the Board of Directors and the General Meeting of Shareholders, which also list the risk limits for the treasury share policy. No other Group unit may trade in treasury shares, except for the repurchase of own shares for hedging market risk or to facilitate brokerage or hedging for customers. This may be carried out by units other than Treasury Share Management.

At 31 December 2017, Bankia held 20,023,158 treasury shares, with a par value of EUR 1 each and a combined carrying amount of EUR 79.8 million. During the first half of 2018, a total of 16,162,011 shares were acquired while 16,296,096 shares were sold, bringing the total number of treasury shares held at 30 June 2018 to 19,889,073, with a par value of EUR 1 each and a combined carrying amount of EUR 74.8 million.

Treasury shares held at the end of June 2018 represented 0.64% of Bankia's share capital at that date. The following table summarises the treasury share transactions carried out by the Bankia Group in the first half of 2018:

TREASURY STOCK OPERATIONS - BANKIA GROUP

SHARES ACQUIRED IN THE FIRST SEMESTER

Communication date	Number of shares acquired	Nominal value per action (€)	Nominal value (€ Mn)	% on the share capital (*)
January	1,369,070	1.0	1.4	0.04%
February	2,629,926	1.0	2.6	0.09%
March	3,866,532	1.0	3.9	0.13%
April	1,482,640	1.0	1.5	0.05%
May	3,428,702	1.0	3.4	0.11%
June	3,385,141	1.0	3.4	0.11%
TOTAL	**16,162,011**		**16.2**	**0.52%**

(*) Percentage calculated on share capital at the close of each month. The percentage of total acquisitions is calculated on the share capital at the end of June.

TREASURY STOCK OPERATIONS - BANKIA GROUP

SHARES SOLD IN THE FIRST SEMESTER

Communication date	Number of shares acquired	Nominal value per action (€)	Nominal value (€ Mn)	% on the share capital (*)
January	2,801,079	1.0	2.8	0.09%
February	3,759,042	1.0	3.8	0.12%
March	2,120,326	1.0	2.1	0.07%
April	1,164,432	1.0	1.2	0.04%
May	3,217,735	1.0	3.2	0.10%
June	3,233,482	1.0	3.2	0.10%
TOTAL	**16,296,096**		**16.3**	**0.53%**

(*) Percentage calculated on share capital at the close of each month. The percentage of total acquisitions is calculated on the share capital at the end of June.

12. - DIVIDEND POLICY

The distribution of dividends is voted on by the General Meeting of Shareholders based on proposals made by the Board of Directors.

Pursuant to the decision by the European Commission of 20 July 2012, Bankia suspended dividend payments to shareholders until 31 December 2014. Therefore, the Entity did not pay any dividends in 2011, 2012 or 2013. The restriction on dividend payments ended on 31 December 2014. Accordingly, at the General Meeting of Shareholders of Bankia held on 22 April 2015, approval was given to distribute a gross dividend of EUR 201.6 million out of 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 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.

Finally, pursuant to the resolutions adopted at the General Meeting of Shareholders of 24 March 2017, on 31 March 2017, Bankia paid a final dividend out of 2016 profit for a total amount of EUR 317.42 million gross, 5% higher than the dividend paid last year.

Lastly, and further to the resolutions adopted at the General Meeting of Shareholders held on 10 April 2018, on 20 April 2018 Bankia paid a total gross dividend of EUR 340.1 million out of profit for 2017, up 7.2% on the amount of the dividends paid out of 2016 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.

13. - RESEARCH, DEVELOPMENT AND TECHNOLOGY

In the first half of 2018, following the merger agreement signed last year between Bankia and BMN, the technological integration of the two entities was completed, marking a sector milestone for the short time taken. This project is structured on several lines of work, the most significant of which are: identifying existing gaps and developing measures to address these; preparing interfaces for integration; and adapting the entities' applications and infrastructures.

The implementation of the Projects Plan for 2018 was started at the same time. This plan is based on the different technology strategic lines, regulatory projects and those aimed at covering the needs of the Bank's different units. The projects have been designed within the framework of Bankia's existing innovation and transformation policy, which aims to foster digital transformation and improve its commercial, business and risk management activities.

A summary of the most significant projects in the first half of 2018 is provided below:

- **Process redesign plan**: Started in 2014 and running until 2018, the main focus of this plan has been to improve "efficiency" and "operational streamlining" to make the branches more flexible and decrease administrative red tape, "document management" to enable compliance with regulatory requirements on documentation, and leveraging the possibilities of the multi-channel customer relationship. In the first half of 2018, the most notable improvements implemented were as follows:
    - Support for the developer business. At year-end 2017 the restrictions on financing for real estate projects imposed by the European Commission in its 2012 Restructuring and Recapitalisation Plan were lifted.
    - Processes for asset products (loans, credit accounts, guarantee lines and COMEX)
    - Operating workshops identified for the branch network.
- **New business processes document model:** This project involves the restructuring at functional, operational and technological level of the entire document chain: document map and control over the status of documents during process implementation, digitalization and data collection, management and

storage. The work carried out in 2018 has focused on improving performance and transactional processes and developing the role of document manager.

- **Multichannel Transformation Plan:** In July 2015, the Bank's Management Committee approved the Multichannel Transformation Plan, which establishes the road map, guidelines and the set of initiatives behind Bankia's digital transformation in the 2016-2018 period. In the first half of 2018, new functions were added to Bankia online for retail customers (generation of ownership certificates, review of pension plan receipts, improvements in the process for contracting pre-arranged loans and the transfer process, and the creation of a section named "Tu crédito disponible" (Your available credit). Work was also carried out on setting up a datamart and dashboard for commercial activity.

- **Open Banking:** In 2018, work is being done on three lines of action to develop products, applications and services focused on business development through third-party channels:

    - Data aggregation (AISP), involving the development of a financial aggregation app with an early-warning system for customers.

    - Payment initiation (PISP), integration of payment aggregators and functional development of Bankia's online payment systems to develop its payment solutions in stores (including contracting processes).

    - Distribution with partners: Development of new combined products and upgrade of systems to provide technological cover for the contracting process.

- **Upgrade of digital channels**: In line with the Entity's transformation strategy, to cover the needs of the various business divisions, work is being carried out to upgrade digital channels (public portal, Apps, BOL-E and BOL) and the contracts management tool, in addition to the sale management engine and business intelligence unit. In the first half of 2018, many new products were added in the different sales channels in addition to the associated post-sales services (immediate transfers, pre-arranged loans, search engines, etc.). Work is being performed to include PayPal services in Bankia's distribution channels to increase the share of Bankia payment methods used. Further, the channel software for the financial terminal and framework window is being overhauled.

- **Roboadvisor - Bankia Expert Management:** in 2018 work is being done to install a financial advisory service on Bankia online that will offer customers a variety of different transactions (sales, mobilization of funds, movement enquiries, overall position, etc.).

- **Cybersecurity Plan:** in order to continually improve Bankia's security and achieve a higher level of maturity in the CSF (CyberSecurity Framework) mode, security measures are being further strengthened in remote channels, developing prevention, detection and response mechanisms. In the first half of 2018, the implementation of the initiatives started in 2017 to develop the fraud prevention model and relating to Big Data for security analytics was completed. Additionally, many developments are being worked on, which will be gradually rolled out over the second half of the year, and which are linked to compliance with regulation PCI-DSS, the ATM Security Plan (PC-ATM encryption and BIOS protection), through the installation of apps in the password management tool for privileged users, CyberArk, etc.

- **Redesign of information systems:** The objective of the project to redesign information systems is to organize the Entity's information repositories, align information management with best practices, implement corporate information governance, optimize procurement and standardize operations. To meet these targets, in the first half of 2018, the extension of the new corporate information repository was defined, including adaptations to the EBA and Bank of Spain regulations governing financial reporting and management control (FinRep, UEMs, FIs, PIs, Is, Anacredit and COREP). Work is also ongoing in relation to the reporting of management information (analytical accounting) and a self-service datamart has been distributed.

- **Search engines:** A group-wide project to develop a technological solution to provide Bankia with a business search engine to meet the browsing requirements of each of the Entity's front lines (financial terminal, Intranet, corporate websites, etc.). In 2018, the customer search engine has been implemented in the financial terminal and the flexibility of the searches improved.

- **Big Data:** The initial objective of this project was to establish a benchmark architecture containing an applied system with the capacity to integrate innovative "Big Data" type technologies required for other projects such as the redesign of information systems or the multichannel transformation plan. In the first half of 2018, work continued on initiatives started in previous years (management of security information and Big Data monitoring), new functions have been included and improvements made to Big Data engines. Integration has been made for the use of Power Users, enabling independent access to the environment. A Big Data catalogue portal has also been set up for the different business areas. At the same time, a corporate cognitive platform has been installed, with a global focus, to accommodate all cases where artificial intelligence is used within the Bank, successfully implementing the first case in which this technology was used to validate asset documents. New applications were also created for the platform.

- **Payment and collection system:** Bankia has been working for several years to design, develop and evolve an information system that encompasses all its payment and collection facilities (debits, transfers, cheques, promissory notes, deposits, etc.). The new system involves the development of a global operating system to handle all payment and collection processes: source and application of transactions, contracting, delivery and receipt, settlement and execution, and monitoring and control. It also aims to provide both customers and the Bank's groupings with the information required. Lastly, the project seeks to develop advanced information protection mechanisms for payment cards.

  In 2018, the new Mandate Renewal system was implemented, and work has been started on upgrades to change the routing of payments, so that all transfers are executed in the most efficient manner by default, according to timetables and restrictions on amounts, without the customer having to indicate specific execution formats, regardless of the channel used. Work is also being carried out to enable mass payment files to be processed immediately from the second half of the year.

  A project is underway to extend the interoperability of the ASI6 basic service with the ECB's TIPS service to provide greater access for SNCE entities in the SEPA area to the SCT Inst scheme (immediate transfers).

- **Transaction optimisation:** In 2017, a project was initiated to develop monitoring, optimisation and control systems for certain Operations processes: four of which are linked to payments and collections (debits, transfers, pensions and unemployment benefits), and another two are connected with payment methods (registration of POSs and cards).

In 2018, the phase was embarked on to define automation of processes and transactions that currently incur operational risk and increase control over BPOs (monitoring systems and process control; various automation initiatives in the transfer process and automation and control of the COMEX invoicing process; continuation of automation through RPAs, etc.). The CAU is also being developed along these lines, with the implementation of Chatbot with numerous operating services.

- **Insurance platform:** Design and development of an insurance platform to provide support for Bankia's Insurance Banking operator through the management and control of the Insurance Business, centralising relations with different insurance companies and providing support for Bankia's different marketing channels.

  In the first half of 2018, work continued to perform the necessary upgrades relating to the application of the new Roosear/Lossear insurance law and corresponding regulation.

  Also in the area of insurance, endeavours are being made to unify and standardize marketing and customer services processes in Bankia's various channels, while improvements are being made to the life insurance portfolio and non-life portfolios are being maintained. Further improvements are being made to the operating model and insurance marketing systems.

- **Regulatory projects:** Over the past few years, investment in regulatory projects has increased substantially. This trend has continued in 2018, with a significant number of projects of this type. A total of 37 development projects have been started, including:

  - Compliance with RDA (Risk Data Aggregation) regulations following the integration of the different systems in RSI, based on the individual analysis of each of the calculation engines.

  - A module has been implemented to provide a solution for BCBS (Basel Committee on Banking Supervision) standards on minimum capital requirements for market risk.

  - Mifid II: This project mainly has an impact in three areas: investor protection (advisory service, suitability, appropriateness, etc.), corporate activities (registration of transactions, improvements in the execution of derivatives, derivatives approval procedure, etc.) and markets (transparency and reporting systems).

  - Developments have been carried to comply with the GDPR.

  - Further amendments are being made as a result of the application of IFRS (International Financial Reporting Standard) 9 on credit risk analysis, coverage and provisions under Circular 4/2017. Investment in this area has been focused on management, reporting and analysis activities associated with this regulation.

  - Systems are also being adapted to comply with regulations governing various other activities such as insurance (Insurance Distribution Directive (IDD)); public and confidential financial reporting rules and formats (Bank of Spain Circular 4/2017); Basel IV, under both advanced internal-rating based (IRB) and the standardised approach; amendments to the Swift message standard coming into force in November 2018; adaptation of the new mortgage law; or, in relation to cash management, identification of the denominations of bills in customer transactions; etc.

– **Other technological innovation:** various projects are being developed as part of the Digital Transformation Plan to provide Bankia customers with the latest generation tools. In the first half of 2018, work was completed on projects initiated in 2017 for BIZUM (alignment of the processing of payments originating in value-added services of the Bizum platform (C2C and C2eR) with the definitive format (through the Basic Service), established in the European Payments Council rule book, which in November will require these to be made via the SEPA instant transfer scheme (SCT Inst). Two developments being rolled out this year are linked to e-commerce payments (for both the customer and store). The integration of Bankia cards in Apple Pay is underway. This process will use the Hub Digital and Price infrastructure supplied by Redsys. Apple, Visa and Mastercard certifications have been obtained. Further, to foster the use of hybrid cloud technology, midrange system applications are gradually being migrated (computing and storage) and/or new applications for transformational projects and new technologies are being implemented. Lastly, applications are being developed for the MADTRCON ecosystem, the business services bus in AAD architecture.

14.- FORECASTS AND BUSINESS OUTLOOK

- **Economic overview**

The outlook remains largely positive for the global economic landscape as we move through the latter half of 2018 (with growth likely to progress at current levels), although the threat of protectionism (generating considerable microeconomic uncertainty) and widespread caution across the financial markets (increasing risk aversion) are causing more pessimistic sentiment and downside risks are now rife, especially in emerging economies and Europe. We expect to see growth of around 2.5% in the United States and more muted growth in the EMU of between 1.5% and 2.0% (Italy and the threat of protectionism are undermining expected growth levels). Meanwhile, we expect inflation to peak in July/August at close to current levels (roughly 3.0% in the United States and 2.0% in the EMU), before dropping from September onward as the effect of rising oil prices over the last year steadily dissipates.

The Fed and the ECB will continue to distance themselves on the subject of monetary policy. The Fed is expected to carry out two further hikes to bring interest rates to 2.25%-2.50%, while the ECB is expected to pursue a more cautious approach. Yields on public debt should continue to normalize, while rising slowly (IRR on the 10-year US Treasury Bond at just above 3% and the German bund to climb past 0.55% on the path to levels of around 1%).

In Spain, the short-term outlook is one of stable growth, although we still expect to see a moderate slowdown in GDP over the coming quarters due to the prevailing balance of risks and other factors. The expansionary inertia is losing steam and tailwinds are petering out, such as the boost from tourism, demand curtailed during the crisis and the positive knock-on effect from other European economies. Rising oil prices are also a concern, although fiscal policy, which is expected to be less restrictive than initially expected, will help matters by pulling in the opposite direction. On balance, we expect GDP growth to reach 2.9% for the year as a whole, slightly below the figure reported in 2017 (3.1%).

In this business environment, considerable challenges lie ahead for the financial sector, as institutions' business margins in 2018 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 2017 already registered significant growth, especially in loans to households and SMEs.

- **Business outlook for the Bankia Group**

As regards, in 2018, 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. The Group's objectives are now enshrined in its new 2018-2020 Strategic Plan, which was approved by its Board of Directors on 22 February 2018.

The new Strategic Plan seeks to increase the Group's earnings by driving sales and commercial activity, while continuing to improve quality and the balance sheet and ultimately paying more to shareholders. To accomplish these objectives, the 2018-2020 Strategic Plan targets four key areas:

- **Synergies arising from the merger with BMN**. Both Bankia and BMN have a business model focused on retail banking, with a similar customer profile. This promises considerable synergy potential through the reduction of redundant costs and limited integration risk. Specifically, the reduction in recurring costs (before tax) is estimated to reach EUR 190 million by 2020. Meanwhile, the Strategic Plan envisions higher revenue generation, mostly in net interest income and fee and commission income, since BMN boasts a leading franchise in regions where Bankia has a relatively small presence, such as Murcia, Granada and the Balearic Islands, and this should drive a major increase in scale and customer bases in these areas. The technological integration of BMN's processes and transactions was completed on 19 March 2018, just two and a half months from obtaining the necessary regulatory authorisations.

- **Efficiency and cost control**. Having posted provisions in 2017 to cover the restructuring costs incurred from BMN's integration, the new Strategic Plan envisions an improvement in the Group's efficiency (cost-to-income) to below 47% by 2020 once the cost synergies have been unlocked from the merger with BMN, as discussed previously (EUR 190 million, up 23% on the EUR 155 million initially envisaged).

- **Driving income through increased sales of high-value products**. Over the next three years, the Bankia Group aims to continue growing lending activity in the mortgage, consumer finance and business loan segments. It also intends to increase fees and commissions on high-value products (mutual funds, payment services and insurance) as a means of boosting income and margins in a bid to increase market shares while keeping the cost of risk under control. To help it achieve this objective, the Group may roll out new lines of business now that the restrictions set out in the Restructuring Plan no longer apply, since the plan ended in December 2017. These activities include lending to real estate developers, long-term financing to large corporations through placements on the capital markets both in and outside Spain, and other fee-bearing products (project finance and M&A funding).

- **Drive to reduce problem assets.** Another pillar of the new Strategic Plan is to continue reducing problem assets organically and via the sale of portfolios. The aim here is to free up liquidity and funds with which to grant loans and new credit in segments where Bankia intends to increase its lending activity and market shares. The increase in lending will be accompanied by further reductions in non-performing loans and foreclosed assets (EUR 8,800 million projected for 2018-2020). According to the estimates contained in the new Strategic Plan, this will bring the Group's problem assets ratio (gross NPLs + gross foreclosed assets / total risks + gross foreclosed assets) to below 6% by year-end 2020 (12.5% in 2017) and the NPL ratio to 3.9%.

Accomplishing the objectives set out in the Strategic Plan will allow the Bankia Group to continue generating strong organic capital, while keeping its capital adequacy ratio at above 12% (fully-loaded CET1).

The Bankia Group has embarked 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 to rise to the challenge of a new growth stage, against a background that will continue be tough for the banking industry in 2018, owing to stiffer capital requirements in response to regulatory pressure, low interest rates, and fierce competition.

15.- SUBSEQUENT EVENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30 2018

After obtaining clearance from the competition authorities and notice of no-objection from the Directorate General for Insurance and Pension Funds (Dirección General de Seguros y Fondos de Pensiones), on 10 July 2018 Bankia, S.A. completed its acquisition of a 50% stake in insurance firms Caja Granada Vida Compañía de Seguros y Reaseguros, S.A. (from Ahorro Andaluz, S.A.) and Cajamurcia Vida y Pensiones de Seguros y Reaseguros, S.A. (from Aviva Europe, SE). The purchase price was set at EUR 226 million.

With the deal now complete, Bankia, S.A. owns all the share capital of the two companies, thus ending its bancassurance alliance with Aviva Europe, SE.

These agreements are part of the wider process of restructuring the bancassurance business initiated by Bankia following its merger with BMN.

In the period between 30 June and the Bankia Group intermediate financial statements formulation date, no different subsequent event of the above has been occurred.