Ibercaja Banco, S.A.
and subsidiaries

Consolidated annual accounts at 31 December 2016
and consolidated directors' report for 2016

(Free translation from the original in Spanish. In the event of a discrepancy, the Spanish-language version prevails)

IBERCAJA BANCO, S.A.

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND CONSOLIDATED DIRECTORS' REPORT

On 24 February 2017, the Board of Directors of Ibercaja Banco, S.A. have met in Zaragoza and, in compliance with prevailing legislation, have drawn up the consolidated annual accounts for 2016, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of recognised income and expense, the total statement of changes in consolidated equity, the consolidated cash flow statement and the notes to the consolidated annual accounts (Notes 1 to 45 and Appendices I to III) and the consolidated directors' report for 2016. These documents have been drawn up on official government paper and numbered correlatively.

To the best of our knowledge, the consolidated annual accounts for 2016, prepared in accordance with applicable accounting principles, express fairly the financial position, results and cash flows of the Entity and subsidiaries that make up the Ibercaja Banco Group. The consolidated directors' report for 2016 includes a fair analysis of the performance, results and position of the Entity and subsidiaries that comprise the Ibercaja Banco Group.

SIGNATORIES:

MR. AMADO FRANCO LAHOZ
National ID number:
Chairman

MR. JOSÉ LUIS AGUIRRE LOASO
National ID number:
1st Deputy Chairman

MR. JOSÉ IGNACIO MIJANGOS LINAZA
National ID number:
2nd Deputy Chairman

MR. VÍCTOR IGLESIAS RUIZ
National ID number:
Chief Executive Officer

MR. JESÚS BARREIRO SANZ
National ID number:
Secretary and Board Member

MR. JESÚS BUENO ARRESE
National ID number:
Board Member

Ms. GABRIELA GONZÁLEZ-BUENO LILLO
National ID number:
Board Member

MR. JESÚS SOLCHAGA LOITEGUI
National ID number:
Board Member

MR. JUAN MARÍA PEMÁN GAVÍN
National ID number:
Board Member

MR. EMILIO JIMÉNEZ LABRADOR
National ID number:
Board Member

MR. VICENTE CÓNDOR LÓPEZ
National ID number:
Board Member

MR. FÉLIX LONGÁS LAFUENTE
National ID number:
Board Member

MR. JESÚS TEJEL GIMÉNEZ
National ID number:
Board Member

Ibercaja Banco, S.A.
and subsidiaries

Consolidated annual accounts at
31 December 2016

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2016 AND 2015
(Thousand euro)

ASSETS	Note	31/12/2016	31/12/2015 (*)
Cash and cash balances at central banks and other demand deposits	6	**1,005,986**	**835,748**
Financial assets held for trading	7	**33,124**	**41,327**
Derivatives		32,435	40,637
Debt securities		689	690
Memorandum items: loans or pledged		-	-
Financial assets designated at fair value through profit or loss	8	**48,997**	**52,613**
Equity instruments		44,384	47,349
Debt securities		4,613	5,264
Memorandum items: loans or pledged		-	-
Available-for-sale financial assets	9	**11,476,251**	**15,599,216**
Equity instruments		434,891	441,904
Debt securities		11,041,360	15,157,312
Memorandum items: loans or pledged		*2,580,862*	6,124,738
Loans and receivables	10	**36,019,328**	**35,435,504**
Debt securities		2,602,217	2,141,045
Loans and advances		33,417,111	33,294,459
Credit institutions		*470,055*	*503,148*
Customers		*32,947,056*	*32,791,311*
Memorandum items: loans or pledged		*6,064,814*	6,083,916
Held-to-maturity investments	11	**4,545,574**	**2,662,571**
Memorandum items: loans or pledged		*2,520,964*	*1,919,326*
Derivatives- Hedge accounting	12.1	**285,111**	**357,452**
Changes in fair value of hedged items in portfolio hedges of interest rate risk		**-**	**-**
Investments in subsidiaries, joint business ventures and associates	13	**135,798**	**135,136**
Jointly-controlled entities		29,684	30,919
Associates		106,114	104,217
Assets under insurance or reinsurance contracts	14	**514**	**960**
Tangible assets	15	**1,092,388**	**1,163,734**
Property, plant and equipment		656,940	708,639
For own use		*633,473*	*693,940*
Assigned under operating lease		*23,467*	*14,699*
Investment property		435,448	455,095
Of which: leased out under operating leases		*209,719*	*191,783*
Memorandum items: Acquired under finance lease		-	-
Intangible assets	16	**198,837**	**203,571**
Goodwill		144,934	144,934
Other intangible assets		53,903	58,637
Tax assets	25	**1,397,012**	**1,407,620**
Current tax assets		24,351	32,153
Deferred tax assets		1,372,661	1,375,467
Other assets	17	**280,023**	**312,023**
Inventories		244,650	242,721
Other assets		35,373	69,302
Non-current assets and disposal groups of items classified as held for sale	18	**656,931**	**714,217**
TOTAL ASSETS		**57,175,874**	**58,921,692**

(*) Presented for comparative purposes only. The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

The accompanying Notes 1 to 45 and Appendices are an integral part of the consolidated balance sheet as at 31 December 2016.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2016 AND 2015
(Thousand euro)

LIABILITIES	Note	31/12/2016	31/12/2015 (*)
Financial liabilities held for trading	**7**	**31,255**	**35,970**
Derivatives		31,255	35,970
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Memorandum items: Subordinated liabilities		-	-
Financial liabilities at amortised cost	**19**	**46,352,735**	**48,581,317**
Deposits		43,499,051	45,991,223
Central banks		*3,366,566*	*2,053,035*
Credit institutions		*3,127,312*	*4,908,740*
Customers		*37,005,173*	*39,029,448*
Debt securities issued		2,147,252	1,972,853
Other financial liabilities		706,432	617,241
Memorandum items: Subordinated liabilities		*857,260*	*1,047,035*
Derivatives - hedge accounting	**12.2**	**176,172**	**330,474**
Changes in fair value of hedged items in a portfolio with hedged interest rate risk	**12**	**16,022**	**6,930**
Liabilities under insurance or reinsurance contracts	**20**	**6,858,907**	**6,382,222**
Provisions	**21**	**411,329**	**316,996**
Pensions and other post-employment defined benefit obligations		139,820	140,627
Other long-term employee remuneration		4,999	6,562
Lawsuits and litigation for outstanding taxes		11,540	10,340
Commitments and guarantees given		35,328	24,834
Other provisions		219,642	134,633
Tax liabilities		**231,874**	**350,115**
Current tax liabilities		1,454	5,498
Deferred tax liabilities	**25.4**	230,420	344,617
Other liabilities	**22**	**120,820**	**117,013**
Liabilities included in disposal groups of items classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**54,199,114**	**56,121,037**

(*) Presented for comparative purposes only. The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

The accompanying Notes 1 to 45 and Appendices are an integral part of the consolidated balance sheet as at 31 December 2016.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2016 AND 2015
(Thousand euro)

EQUITY	Note	31/12/2016	31/12/2015 (*)
Shareholders' funds	**23**	**2,753,123**	**2,634,057**
Capital		2,144,276	2,144,276
Paid in capital		*2,144,276*	*2,144,276*
Called-up capital		-	-
Memorandum items: uncalled capital		-	-
Share premium		-	-
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity items		-	-
Retained earnings		311,648	251,516
Revaluation reserves		3,329	3,304
Other reserves		150,973	150,838
Reserve or accumulated losses on investments in joint business ventures and associates		(63,455)	*(63,590)*
Other		214,428	*214,428*
(Treasury shares)		-	-
Profit/(loss) attributable to parent company's owners		142,897	84,123
(Interim dividend)		-	-
Other accumulated comprehensive results		**223,330**	**165,489**
Items that will not be reclassified to profit or loss		(21,758)	(18,502)
Actuarial gains /(losses) in defined benefit pension plans	*24.1*	*(21,758)*	*(18,502)*
Non-current assets and disposal groups of items classified as held for sale		-	-
Share of other recognised income and expenses in investments in joint business ventures and associates		-	-
Other valuation adjustments		-	-
Items that may be reclassified to profit or loss		245,088	183,991
Hedging of net investment in foreign transactions (effective portion		-	-
Currency translation		-	-
Hedging derivatives Cash flow hedges (effective portion)		-	-
Available-for-sale financial assets	*24.2*	*245,648*	*185,594*
Debt instruments		*166,637*	*127,730*
Equity instruments		*79,011*	*57,864*
Non-current assets and disposal groups of items classified as held for sale		-	-
Share of other recognised income and expenses in investments in joint business ventures and associates		*(560)*	*(1,603)*
Non-controlling interests	**23.2**	**307**	**1,109**
Other accumulated comprehensive results		-	-
Other items		307	1,109
TOTAL EQUITY		**2,976,760**	**2,800,655**
TOTAL EQUITY AND LIABILITIES		**57,175,874**	**58,921,692**
Memorandum items: off-balance-sheet exposures			
Guarantees granted	**27.1**	**640,174**	**608,480**
Contingent commitments granted	**27.3**	**3,190,784**	**2,814,313**

(*) Presented for comparative purposes only. The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

The accompanying Notes 1 to 45 and Appendices are an integral part of the consolidated balance sheet as at 31 December 2016.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousand euro)

	Note	2016	2015 (*)
Interest income	**28**	**832,867**	**1,065,640**
(Interest expense)	**29**	**265,664**	**434,064**
Expenses on share capital repayable on demand		**-**	**-**
NET INTEREST INCOME		**567,203**	**631,576**
Dividend income	**30**	**10,913**	**10,252**
Share of profit/(loss) of equity-accounted entities	**31**	**11,701**	**(2,178)**
Fee and commission income	**32**	**349,768**	**343,157**
(Fee and commission expenses)	**33**	**10,969**	**10,074**
Net gains(losses) on financial assets and liabilities	**34**		
Gain/(loss) on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net		152,621	83,411
Gain/(loss) on financial assets and liabilities held for trading, net		15,148	1,631
Gain/(loss) on financial assets and liabilities designated at fair value through profit or loss, net		573	1,514
Gain/(loss) from hedge accounting, net		1,185	(493)
Net exchange differences	**35**	**1,259**	**80**
Other operating income	**36**	**118,212**	**48,765**
(Other operating expenses)	**37**	**87,540**	**66,398**
Income from assets under insurance or reinsurance contracts	**20.2**	**1,330,367**	**992,563**
(Expenses from liabilities under insurance or reinsurance contracts)	**20.2**	**1,330,667**	**992,975**
GROSS INCOME		**1,129,774**	**1,040,831**
(Administrative expenses)		**599,858**	**601,835**
(Personnel expenses)	38	384,958	403,974
(Other administration expenses)	39	214,900	197,861
(Depreciation)	**15, 16**	**52,347**	**54,536**
(Provisions or (-) reversal of provisions)	**21**	**96,019**	**36,975**
(Impairment or (-) reversal of impairment on financial assets not carried at fair value through profit and loss)		**290,663**	**207,108**
(Financial assets carried at cost)	9	13,170	4,425
(Available-for-sale financial assets)	9	11,164	(373)
(Loans and other receivables)	10	266,323	203,056
(Held-to-maturity investments)	11	6	-
INCOME FROM OPERATING ACTIVITIES		**90,887**	**140,377**
(Impairment or (-) reversal of impairment of investments in joint business ventures or associates)		**-**	**-**
(Impairment or (-) reversal of impairment in non-financial assets)	**40**	**3,141**	**7,572**
(Tangible assets)		(728)	4,412
(Intangible assets)		189	-
(Other)		3,680	3,160
Gain/(loss) on derecognition of non-financial assets and shareholdings	**41**	**5,332**	**25,377**
Of which: investments in subsidiaries, joint business ventures and associates		*6,070*	*4,155*
Negative goodwill recognised on the income statement		**-**	**-**
Gain/(loss) from non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	**42**	**(22,308)**	**(39,945)**
PROFIT/(LOSS) BEFORE TAXES FROM CONTINUING OPERATIONS		**70,770**	**118,237**
(Expense or (-) income from taxes on income from continuing operations)	**25**	**(72,292)**	**34,158**
PROFIT/(LOSS) AFTER TAXES FROM CONTINUING OPERATIONS		**143,062**	**84,079**
Profit/(loss) after taxes from discontinued activities		**-**	**-**
PROFIT/(LOSS) FOR THE YEAR		**143,062**	**84,079**
Attributable to non-controlling interests		165	(44)
Attributable to the parent company's owners		142,897	84,123

(*) Presented for comparative purposes only. The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

The accompanying Notes 1 to 45 and Appendices are an integral part of the consolidated income statement as at 31 December 2016.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015
(Thousand euro)

	Note	2016	2015 (*)
PROFIT/(LOSS) FOR THE YEAR		**143,062**	**84,079**
OTHER COMPREHENSIVE INCOME	**23.1**	**57,840**	**(105,701)**
B.1) Items that will not be reclassified to profit or loss		**(3,256)**	**15,187**
Actuarial gains /(losses) on defined benefit pension plans		**(4,652)**	**21,696**
Non-current assets and disposal groups of items held for sale		**-**	**-**
Other valuation adjustments			
Corporate income tax relating to items not to be reclassified	**25.4**	**1,396**	**(6,509)**
B.2) Items that may be reclassified to profit or loss		**61,096**	**(120,888)**
Hedging of net investment in foreign transactions		**-**	**-**
Valuation gains/losses taken to Equity		-	-
Transferred to the income statement		-	-
Other reclassifications		-	-
Currency translation		**-**	**-**
Valuation gains/losses taken to Equity		-	-
Transferred to the income statement		-	-
Other reclassifications		-	-
Cash flow hedges		**-**	**140**
Valuation gains/losses taken to Equity		-	140
Transferred to the income statement		-	-
Transferred to initial carrying value of hedged items			
Other reclassifications		-	-
Available-for-sale financial assets		**80,257**	**(191,767)**
Valuation gains/losses taken to Equity		226,816	(61,232)
Transferred to the income statement	34	(146,559)	(130,535)
Other reclassifications		-	-
Non-current assets and disposal groups of items held for sale		**-**	**-**
Valuation gains/losses taken to Equity		-	-
Transferred to the income statement		-	-
Other reclassifications		-	-
Share of other recognised income and expenses in investments in joint business ventures and associates		**1,043**	**(4,070)**
Corporate income tax relating to items that may be reclassified to profit or loss	**25.4**	**(20,204)**	**74,809**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**200,902**	**(21,622)**
Attributable to non-controlling interests		164	(99)
Attributable to the parent entity		200,738	(21,523)

(*) Presented for comparative purposes only. The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

The accompanying Notes 1 to 45 and Appendices are an integral part of the consolidated statement of recognised income and expenses as at 31 December 2016.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN THE YEAR
YEAR ENDED 31 DECEMBER 2016
(Thousand euro)

												Non-controlling interests		
	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(Treasury shares)	Profit/(loss) attrib. to parent company's owners	(Interim dividend)	Other accumulated comprehensive results (Note 24)	Other accumulated comprehensive results	Other items	Total (Note 23)
I. Ending balance at 31/12/2015	**2,144,276**	**-**	**-**	**-**	**251,516**	**3,304**	**150,838**	**-**	**84,123**	**-**	**165,489**	**-**	**1,109**	**2,800,655**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**251,516**	**3,304**	**150,838**	**-**	**84,123**	**-**	**165,489**	**-**	**1,109**	**2,800,655**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**142,897**	**-**	**57,841**	**-**	**164**	**200,902**
Other changes in equity	**-**	**-**	**-**	**-**	**60,132**	**25**	**135**	**-**	**(84,123)**	**-**	**-**	**-**	**(966)**	**(24,797)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	(20,000)	-	-	-	-	-	-	-	-	(20,000)
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	80,132	25	3,966	-	(84,123)	-	-	-	-	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	-	-	(3,831)	-	-	-	-	-	(966)	(4,797)
III. Ending balance at 31/12/2016	**2,144,276**	**-**	**-**	**-**	**311,648**	**3,329**	**150,973**	**-**	**142,897**	**-**	**223,330**	**-**	**307**	**2,976,760**

The accompanying Notes 1 to 45 and Appendices are an integral part of the total statement of changes in consolidated equity at 31 December 2016.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN THE YEAR YEAR ENDED 31 DECEMBER 2015 (*)

(Thousand euro)

												Non-controlling interests		
	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(Treasury shares)	Profit/(loss) attrib. to parent company's owners	(Interim dividend)	Other accumulated comprehensive results (Note 24)	Other accumulated comprehensive results	Other items	Total (Note 23)
I. Ending balance at 31/12/2014	**2,611,730**	**-**	**-**	**-**	**(627,467)**	**3,308**	**413,825**	**-**	**150,653**	**-**	**269,020**	**55**	**472**	**2,821,596**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Adjusted opening balance	**2,611,730**	**-**	**-**	**-**	**(627,467)**	**3,308**	**413,825**	**-**	**150,653**	**-**	**269,020**	**55**	**472**	**2,821,596**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(2,115)**	**-**	**-**	**-**	**84,123**	**-**	**(103,531)**	**(55)**	**(44)**	**(21,622)**
Other changes in equity	**(467,454)**	**-**	**-**	**-**	**881,098**	**(4)**	**(262,987)**	**-**	**(150,653)**	**-**	**-**	**-**	**681**	**681**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	(467,454)	-	-	-	749,838	-	(282,384)	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	131,260	(4)	19,397	-	(150,653)	-	-	-	-	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	-	-	-	-	-	-	-	-	681	681
III. Ending balance at 31/12/2015	**2,144,276**	**-**	**-**	**-**	**251,516**	**3,304**	**150,838**	**-**	**84,123**	**-**	**165,489**	**-**	**1,109**	**2,800,655**

(*) Presented for comparative purposes only. The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

The accompanying Notes 1 to 45 and Appendices are an integral part of the total statement of changes in consolidated equity at 31 December 2016.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS THE YEARS ENDED 31 December 2016 AND 2015
(Thousand euro)

	Note	2016	2015 (*)
A)CASH FLOWS FROM OPERATING ACTIVITIES		**(1,505,263)**	**(2,855,798)**
Profit/(loss) for the year	**23**	**143,062**	**84,079**
Adjustments to obtain cash flows from operating activities		**468,086**	**537,142**
Depreciation	15 and 16	52,347	54,536
Other adjustments		415,739	482,606
Net increase/decrease in operating assets		**(428,413)**	**203,183**
Financial assets held for trading		8,203	14,505
Financial assets at fair value through profit or loss		3,616	8,934
Available-for-sale financial assets		(68,984)	(1,334,611)
Loans and receivables		(463,075)	1,275,994
Other operating assets		91,827	238,361
Net increase/decrease in operating liabilities		**(1,649,153)**	**(3,548,250)**
Financial liabilities held for trading		(4,715)	(12,492)
Financial liabilities at fair value through profit or loss		-	-
Financial liabilities at amortised cost		(2,014,715)	(2,581,316)
Other operating liabilities		370,277	(954,442)
Corporate income tax receipts/payments		**(38,845)**	**(131,952)**
B)CASH FLOWS FROM INVESTING ACTIVITIES		**1,867,406**	**2,499,308**
Payments		**(60,062)**	**(62,530)**
Tangible assets		(40,237)	(32,435)
Intangible assets		(8,241)	(8,288)
Investments in subsidiaries, joint business ventures and associates		(20)	-
Other business units		-	-
Non-current assets and liabilities classified as held for sale		(11,564)	(21,807)
Held-to-maturity investments		-	-
Other payments related to investing activities		-	-
Receipts		**1,927,468**	**2,561,838**
Tangible assets		70,435	54,577
Intangible assets		-	342
Investments in joint business ventures and associates		11,151	16,762
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		133,480	144,832
Held-to-maturity investments		1,712,402	2,345,325
Other receipts related to investing activities		-	-
C)CASH FLOWS FROM FINANCING ACTIVITIES		**(209,370)**	**482,748**
Payments		**(209,370)**	**(17,252)**
Dividends	4	(20,000)	-
Subordinated liabilities	19.4	(189,370)	(17,252)
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		-	-
Receipts		**-**	**500,000**
Subordinated liabilities		-	500,000
Issuance of own equity instruments		-	-
Disposal of own equity instruments		-	-
Other collections related to financing activities		-	-
D)EFFECT OF EXCHANGE RATE FLUCTUATIONS		**-**	**-**
E)NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**152,773**	**126,258**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**824,984**	**698,726**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**977,757**	**824,984**
MEMORANDUM ITEMS			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Of which: held by group companies but not available to the group		-	-
Cash	6	207,771	194,611
Cash equivalent balances in central banks	6	551,538	338,015
Other financial assets	6 and 19.2	218,448	292,358
Less: At sight reimbursable bank overdrafts		-	-

(*) Presented for comparative purposes only. The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

The accompanying Notes 1 to 45 and Appendices are an integral part of the consolidated cash flow statement as at 31 December 2016.

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated annual accounts for the year ended 31 December 2016

Contents

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated annual accounts for
the year ended 31 December 2016

1. Introduction, basis of presentation of the consolidated annual accounts and other information

1.1 Introduction

Ibercaja Banco, S.A. (Ibercaja Banco, the Bank or the Company) is a credit institution 87.8% owned by Ibercaja Banking Foundation (the Foundation) and subject to the rules and regulations determined by the Spanish and European Union financial and monetary authorities.

The Ibercaja Banking Foundation, which is the Ibercaja Group's parent entity, is a private not-for-profit organisation derived from the transformation of "Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja" (the Savings Bank), a social welfare institution founded by the "Real y Excma. Sociedad Económica Aragonesa de Amigos del País" and approved by a Royal Order of 28 January 1873, which commenced operations on 28 May 1876. On 17 June 2014 the Ordinary General Assembly of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja agreed to the transformation of the institution into a banking foundation. In September of that year, in compliance with the resolutions adopted by the General Assembly, the Savings Bank was transformed into the Ibercaja Banking Foundation and became the Foundation's principal trustee. The Ibercaja Banking Foundation was entered in the Register of Foundations of the Ministry of Education, Culture and Sport on 13 October 2014, under number 1689.

After analysing the changes in the Spanish financial system since 2010 - and, in particular, the legislative amendments and measures adopted to strengthen it - the Bank's General Assembly, during their extraordinary meeting of 26 July 2011, approved the creation of a new bank with the name Ibercaja Banco, to which all assets and liabilities for its financial activities were transferred. Following the split and transformation referred to above, Fundación Bancaria Ibercaja retained its Community and Cultural Projects, pawnshop services and historical and artistic assets.

Ibercaja Banco's registered office is located at Plaza de Basilio Paraíso 2. It is entered in the Mercantile Register of Zaragoza, volume 3865, book 0,sheet 1, page Z-52186, entry 1, and the Bank of Spain Special Register, under number 2085. It corporate webpage (electronic head office) is www.ibercaja.es, where its bylaws and other public information can be accessed.

Its corporate objects consist of the performance of all kinds of activities, operations, acts, contracts and services, associated with banking in general and which it is authorised to carry out under legislation in effect, including the rendering of investment and auxiliary services.

In addition to the operations carried out directly, the Bank is the parent of a group of subsidiaries that engage in various activities and together with it, make up the Ibercaja Banco Group (the Group or Ibercaja Banco Group).

The Foundation also prepares the consolidated annual accounts of the Group of which it is the parent (Ibercaja Group).

Note 45 contains the Bank's balance sheets, income statements, statements of recognised income and expenses, total statements of changes in equity and cash flow statements for the financial years ended 31 December 2016 and 2015, prepared in accordance with the same accounting principles and standards and measurement methods applied in the Group's consolidated annual accounts.

1.2 Basis of presentation of the consolidated annual accounts

The 2016 consolidated annual accounts of the Ibercaja Banco Group were prepared by the Company's Directors during the Board meeting held on 24 February 2017 and are pending approval by the General Shareholders' Meeting. Nonetheless, the Bank's Board of Directors expects these annual accounts to be approved without significant changes. The Group's consolidated annual accounts for 2015 were approved by the Bank's General Meeting of Shareholders held on 27 April 2016.

The consolidated annual accounts have been prepared taking into account all applicable accounting principles and standards, in accordance with the International Financial Reporting Standards adapted by the European Union (EU-IFRS) and Bank of Spain Circular 4/2004 (Circular 4/2004) to ensure that they present fairly the Group's equity and financial position at 31 December 2016 and the results of its operations and consolidated cash flows during the year then ended.

Circular 4/2004 on public and confidential financial reporting rules and financial statement formats for credit institutions aimed to modify the accounting regime of such entities by adapting it to the accounting environment arising from the adoption by the European Union of the International Financial Reporting Standards, in order to make this Circular fully compatible with regard to the underlying conceptual basis.

Note 2 contains a summary of the most significant accounting principles and standards and measurement methods applied to prepare the consolidated annual accounts.

These consolidated annual accounts have been prepared on the basis of the accounting records kept by the Company and the rest of the Group companies, unless otherwise stated. However, as the accounting principles and measurement methods applied to prepare the Group's 2016 accounts may differ from the ones employed by some of the Group companies, the necessary adjustments and reclassifications have been made during the consolidation process to ensure consistency and to bring them into line with the EU-IFRS applied by the Company.

1.3 Estimates made

Judgements and estimates have occasionally been used to quantify some of the assets, liabilities, revenues and commitments recognised in the consolidated annual accounts for 2016. These estimates relate basically to the following:

- impairment losses on certain assets and estimates of associated security (Notes 9 to 11, 13, 15 to 18),
- the assumptions used in actuarial calculations of liabilities and commitments relating to post-employment benefits and other long-term commitments with employees (Notes 2.13 and 38.2), as well as those used to calculate liabilities under insurance contracts (Note 20),
- measurement of goodwill and other intangible assets (Note 16)
- the fair value of assets, liabilities and contingent liabilities in the context of the allocation of the price paid in business combinations (Note 1.10.2),
- the useful lives of property, plant and equipment and intangible assets (Notes 2.15 and 2.16).
- the probability of occurrence of those events considered contingent liabilities and, if appropriate, the necessary provisions to cover these events (Notes 2.20 and 21),
- the fair value of certain unlisted financial assets (Note 26) and
- the recoverability of deferred tax assets (Note 2.14 and 25.4)

The above-mentioned estimates were made based on the best information available at 31 December 2016 in connection with the facts analysed; nonetheless, future events could generate adjustments in coming years, which would be made prospectively, in accordance with prevailing regulations, to recognise the impact of the change in the estimate on the consolidated income statement for the years in question.

1.4 Comparative information relating to 2015

As required under current legislation, the information contained in these annual accounts referring to 2015 is presented exclusively for purposes of comparison with the 2016 figures.

Bank of Spain Circular 5/2014 of 28 November 2014, which amended, inter alia, Circular 4/2004 of 22 December 2004 to credit institutions on public and confidential reporting requirements and financial statement templates, came into force in the second half of 2016. The objectives of this Circular Letter include bringing the content of information publicly disclosed by credit institutions into line with the standards for the preparation, terminology, definitions and formats of the statements known as FINREP in European Union legislation.

The consolidated annual accounts have been drawn up on the basis of the new structure laid down by the above rules and the successive Circulars published by the Bank of Spain which have amended Circular 4/2004, also adapting the comparative information at 31 December 2015.

The main reclassification for presentation purposes is on the assets side of the consolidated balance sheet in relation to demand deposits with credit institutions from “Loans and receivables” to “Cash, cash balances in central banks and other demand deposits” amounting to €303,121 thousand at 31 December 2015 (€343,497 thousand at 1 January 2015). Reclassifications in other headings of the consolidated annual accounts have not been material.

1.5 Agency agreements

The Company has not been party to any agency agreement during or at the end of 2016 in the form envisaged in Article 21 of Royal Decree 84/2015.

1.6 Equity investments in credit institutions

In accordance with Article 28 of Royal Decree 84/2015, at 31 December 2016 and during the financial year, the Group has not had any shareholdings in domestic and foreign credit institutions, directly or indirectly, that exceed 5% of their capital or voting rights.

1.7 Capital management and requirements

1.7.1 Regulatory framework

The Basel Committee on Banking Supervision leads the harmonisation of international financial regulation. This Committee introduced the first regulation on credit institutions which set a minimum capital of 8% on their risks as a whole (Basel I, 1988). Later, in 2004, Basel II improved the sensitivity of the risk estimation mechanisms and contributed two new pillars: capital adequacy and risk assessment for each entity (Pillar II) and market discipline (Pillar III). In December 2010, the Committee adopted a new regulatory framework (Basel III) increasing capital requirements with higher quality instruments, seeking consistency and uniform application by institutions and countries. The new agreement improves transparency and comparability of the capital ratios and incorporates new prudential tools in the area of liquidity and leverage.

The European Union brought those agreements (Basel III) into EU law under Parliament and Council Directive 2013/36/EU (CRD-IV) of 26 June 2013 relating to access to the business of credit institutions and prudential supervision of credit institutions and investment firms, and Parliament and Council Regulation (EU) No 575/2013 (CRR) of 26 June 2013 on prudential requirements for credit institutions and investment firms, applicable from 1 January 2014.

In order to adapt Spanish law to the regulatory changes in the international arena, Law 10/2014 on the organisation, supervision and solvency of credit institutions and Royal Decree 84/2015 which developed said Law were enacted, continuing the transposition initiated by Royal Decree-Law 14/2013 and Bank of Spain Circulars 2/2014 and 3/2014, which lay down the regulatory options for requirements applicable during the transitional period.

New legislation that supplemented Regulation (EU) No. 575/2013 (CRR) with respect to aspects such as Equity, Liquidity, Pillar I Risks and Capital Requirements, was brought in during 2015.

In addition, Bank of Spain Circular 2/2016 for credit institutions on supervision and solvency, which completed the adaptation of Spanish legislation to Directive 2013/36/EU and Regulation (EU) No. 575/2013, was published in February 2016.

The minimum capital requirements established in current legislation (Pillar I) is calculated based on the Group's exposure to credit risk, foreign currency risk, risk of financial assets and liabilities held for trading, market risk and operational risk. In addition, the Group must comply with risk concentration restrictions.

1.7.2 Quantitative information

As at 31 December 2016, the Ibercaja Banco Group easily meets the minimum capital requirement (Basel Pillar I) established by current banking regulations, as is detailed below:

	2016	2015
Capital ratios		
Common Equity Tier 1 (€'000) (a)	2,779,189	2,808,130
Additional Equity Tier 1 (€'000) (b)	-	-
Common Equity Tier 2 (€'000) (c)	517,004	576,525
Risk (€'000) (d)	23,169,135	23,500,580
Common Equity Tier 1 Ratio (CET 1) (A)=(a)/(d)	12.00%	11.95%
Additional Equity Tier 1 Ratio (AT 1) (B)=(b)/(d)	0.00%	0.00%
Tier 1 capital ratio (A)+(B)	12.00%	11.95%
Tier 2 capital ratio (C)=(c)/(d)	2.23%	2.45%
Total capital ratio (A)+(B)+(C)	**14.23%**	**14.40%**

	2016	2015
Leverage		
Capital Tier 1 (€'000) (a)	2,779,189	2,808,130
Exposure (€'000) (b)	51,734,325	54,387,408
Leverage ratio (a)/(b)	**5.37%**	**5.16%**

Under the requirements set out in Regulation CRR, credit institutions must comply with a CET1 ratio of 4.5%, Tier I ratio of 6% and a total capital ratio of 8% at all times. However, the regulators may require institutions to maintain additional capital levels.

In this respect, the European Central Bank (ECB) has notified its decision concerning the minimum prudential capital requirements for 2017 applicable to Ibercaja Banco following the supervisory review and evaluation process (SREP).

The decision requires Ibercaja Banco to maintain a phased-in CET1 ratio of 7.25% and a total capital ratio of 10.75%, on a consolidated level. These ratios include: the minimum required for Pillar 1 (4.5% of CET 1 and 8% of total capital), the requirement for Pillar 2 (1.5%) and the capital conservation buffer (1.25%).

At 31 December 2016, the ratios on a consolidated basis of Ibercaja Banco - CET1 ratio of 12.00% and total capital ratio of 14.23% - stood at 4.75 and 3.48 points, respectively, above the regulatory requirements for 2017. These ratios include a 70 basis points reduction due to the advance redemption of the contingent convertible bonds (CoCos) carried out by the Entity in December 2016 (Note 1.10.1.4).

The consolidated CET1 level that would restrict discretional distributions by Ibercaja in the form of dividends or variable remuneration (known as the MDA trigger) stands at 7.25%. Therefore, in accordance with the Entity's solvency situation, no regulatory restriction has been activated.

The reconciliation between regulatory equity and equity for accounting purposes is as follows:

	Thousand euro	
	2016	**2015**
Subscribed capital	*2,144,276*	*2,144,276*
Retained earnings	*311,648*	*251,516*
Revaluation reserves	*3,329*	*3,304*
Other reserves	*150,973*	*150,838*
Profit/(loss) attributed to parent entity	*142,897*	*84,123*
Shareholders' funds on public balance sheet	2,753,123	2,634,057
Other accumulated comprehensive results	*223,330*	*165,489*
Non-controlling interests	*307*	*1,109*
Equity on public balance sheet	**2,976,760**	**2,800,655**
Intangible assets	*(213,556)*	*(204,053)*
Deferred tax assets	*(121,062)*	*(37,601)*
Adjustments for non-qualifying valuation	*(77,561)*	*(160,423)*
Proposed distribution of dividends	*(35,725)*	*(20,000)*
Convertible contingent bonds	*223,600*	*407,000*
Differences public equity and prudential equity	*26,733*	*22,552*
Total adjustments and deductions	(197,571)	7,475
Total CET1	2,779,189	2,808,130
Preference shares	-	*3,489*
Other transitional adjustments to AT1	-	*(3,489)*
Total AT1	-	-
Total T1 capital	2,779,189	2,808,130
Subordinated financing	517,004	576,525
Total T2 capital	517,004	576,525
Total eligible capital	**3,296,193**	**3,384,655**

Set out below is a breakdown at 31 December 2016 and 2014 of the consolidating Group's eligible capital, indicating all components and deductions, analysed by CET1 instruments, AT1 instruments and T2 capital instruments:

	Thousand euro	
	2016	**2015**
TOTAL ELIGIBLE CAPITAL	**3,296,193**	**3,384,655**
T1 capital	**2,779,189**	**2,808,130**
CET1	**2,779,189**	**2,808,130**
Capital instruments paid	2,144,276	2,144,276
Retained earnings	468,162	406,162
Admissible results	107,172	64,120
Other reserves	3,329	3,303
CET1 instruments under previous regime	223,600	407,000
Non-controlling interests	143	190
Measurement adjustments available-for-sale portfolio	167,125	24,733
CET 1 instrument deductions	(334,618)	(241,654)
Intangible assets	*(213,556)*	*(204,053)*
Deferred tax assets contingent on future profits	*(121,062)*	*(37,601)*
AT1	**-**	**-**
AT1 instruments under previous regime	-	3,489
AT1 instrument deductions	-	*(3,489)*
T2 capital	**517,004**	**576,525**
Subordinated financing, subordinated loans and other	517,004	576,525

The "Report on information which is relevant for prudential purposes" posted on the Entity's corporate web site contains this information and more detailed explanations of regulatory capital and risk weighted assets.

1.7.3 Capital management

The objective of Basel Pillar II is to ensure an appropriate relation between the Group's risk profile and its actual capital resources. To this end, the Group carries out a recurring capital self-evaluation process in which:

- it applies procedures for identifying, measuring and aggregating risks;
- it determines the capital needed to cover them - in addition to the minimum capital requirement, it maintains a level of resources in line with the risks inherent to its business, the economic environment in which it operates, the management and supervision in place with respect to these risks, corporate governance and internal audit systems and its strategic business plan,
- it plans capital in the medium term, and
- it establishes target equity.

The Group sets a capital objective which allows it to remain comfortably above the Pillar I legal requirements, ensuring the correct relationship between its risk profile and its equity.

The total necessary capital for the Group has been estimated as the aggregate of the capital needs associated with each risk.

In order to adequately plan the Group's future capital needs, projections have been made of capital sources and consumption derived from expected performance of the business and income over a three year timeline.

The Group estimates the projected capital levels under stress scenarios.

1.7.4 Relevant information for prudential purposes

To comply with market reporting obligations, the Board of Directors approved the policy for disclosing information which is relevant for prudential purposes (Basel Pillar III). The Ibercaja Group will therefore post a "Report on information which is relevant for prudential purposes" on its web site when the consolidated financial statements for 2016 are approved and published.

1.7.5 Credit ratings

Credit ratings granted to Ibercaja Banco, S.A. are as follows:

	Date		**Short-term**		**Long-term**		**Outlook**	
Agency	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Standard&Poors	February 2017	December 2015	B	B	BB+	BB	Positive	Positive
Moody's	June 2016	November 2015	NP	NP	B1	B1	Stable	Stable
Fitch Ratings	May 2016	July 2015	B	B	BB+	BB+	Positive	Positive

1.8 National Resolution Fund and Deposit Guarantee Fund

1.8.1 National Resolution Fund

Law 11/2015 (18 June) together with the enabling regulations enacted by Royal Decree 1012/2015 transposed Directive 2014/59/EU into Spanish law and established a new framework for the resolution of credit institutions and investment service companies and regulated the creation of the National Resolution Fund.

In the context of the development of this legislation, on 1 January 2016 the Single Resolution Fund came into force, this being a financing mechanism available to the Single Resolution Board, which is the EU authority that will take decisions in the resolutions area to efficiently implement the resolution measures adopted. The Single Resolution Fund will be maintained via the contributions made by credit institutions and investment service companies subject to it.

According to Regulation (EU) 2015/63, the calculation of each entity's contribution takes into account the proportion they represent of the total aggregate liabilities of all entities, after deducting capital and reserves and guaranteed deposit amounts, adjusted based on the Entity's risk profile.

In 2016, the expense for the contribution made to this Fund amounted to €13,768 thousand (€11,730 thousand in 2015) (Note 37).

1.8.2 Deposit Guarantee Fund

The Entity is a member of the Deposit Guarantee Fund.

Royal Decree 2606/1996, amended by Royal Decree 1012/2015, establishes that the Management Committee of the Deposit Guarantee Fund shall determine the annual contributions of entities belonging to the Deposit Guarantee Fund for Credit Institutions.

In 2016, the Deposit Guarantee Fund Management Committee set the contribution to be made for member institutions of the deposit guarantee compartment at 1.6 ‰ of the amount of the deposits guaranteed at 30 June 2016. The calculation of each institution’s contribution is made based on the amount of guaranteed deposits and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, developed under Circular 5/2016 of the Bank of Spain. The contribution to the securities guarantee compartment has been set at 2‰ of 5% of the guaranteed amount of securities and other financial instruments at 31 December 2016.

The expense for the ordinary contributions referred to above accrues in full at the year end, and therefore at the year end the balance sheet reflects the liability for the contribution paid in the first quarter of the following year (€37,984 thousand and €33,327 thousand at 31 December 2016 and 2015, respectively - see Note 22).

On 30 July 2012 the Management Committee of the Deposit Guarantee Fund agreed to arrange an extraordinary contribution between member entities, payable by each entity through ten equal annual instalments. The extraordinary contribution to be made by the Bank amounts to €81,460 thousand (ten annual instalments of €8,146 thousand each).

In 2016, the expense for all contributions made to this Fund amounted to €46,382 thousand (€41,915 thousand in 2015). This amount is recorded in the headings “Other operating expenses” (€45,024 thousand in 2016 and €40,361 thousand in 2015 - see Note 37) and “Interest expense” (€1,358 thousand in 2016 and €1,554 thousand in 2015 - see Note 29).

1.9 Minimum reserve ratio

At 31 December 2016 and throughout 2016, the Company met the minimum reserve ratio. In accordance with the legal obligations established by the European Central Bank, the daily average of minimum reserves to be held at 31 December 2016 amounted to €300,285 thousand (€296,141 thousand at 31 December 2015).

1.10 Merger with Cajatres

1.10.1 Provisional merger agreement

1.10.1.1 Signing of merger protocol

On 27 November 2012 Ibercaja Banco, S.A.U. and Banco Grupo Cajatres, S.A. signed a merger protocol involving an acquisition by Ibercaja Banco, S.A.U. that established that it would take place after complying with certain conditions precedent, including the approval of a merger plan between Ibercaja Banco, S.A.U. and Banco Grupo Cajatres, S.A. by the competent national and European authorities.

1.10.1.2 Restructuring Plan

In accordance with the provisions of Chapter III of Law 9/2012 on the restructuring of Credit Institutions, the FROB was presented with the "Combination Plan for Grupo Ibercaja + Cajatres", dated 5 December 2012, which includes the restructuring plan of Banco Grupo Cajatres, S.A. and which was approved by the European Commission on 20 December 2012. This entailed a capital injection of €407 million through the subscription of contingent convertible bonds (CoCos) by the FROB (Note 1.10.1.4) and the exercising of hybrid securities management (assumption of losses by holders of subordinated debt and bonds). This financial support was contingent on the integration of Banco Grupo Cajatres, S.A. into Ibercaja Banco, S.A.U. and the fulfilment of certain measures specified in the Banco Grupo Cajatres Restructuring Plan.

Furthermore, the "Restructuring Plan Cajatres" set out certain measures to be taken by Banco Grupo Cajatres, S.A. in subsequent years during the course of its business as a credit institution, within the framework of its integration into Ibercaja Banco, S.A.U. These measures were reported to the European Commission (in the document entitled "Term Sheet of the Spanish authorities' commitments for the approval of the restructuring plan of Banco Cajatres by the European Commission") in order to obtain the aforementioned capital injection. These measures are summarised below:

- Closure of 187 branches and reduction of 592 employees in the Bank's workforce.
- Transfer of real-estate assets to the SAREB (Note 1.10.1.3).
- Divestment of non-strategic business lines.
- Burden sharing through the repurchase of subordinated liabilities, or swaps for equity instruments, at values lower than their carrying amounts.

The Company complied with all existing commitments.

1.10.1.3 Transfer of assets to the SAREB

Law 9/2012 provided that the FROB could force a credit institution to transfer certain categories of asset which figured in its balance sheet to an asset management company, or adopt the measures necessary for the transfer of assets figuring on the balance sheet of any entity over which the credit institution exercises control, in the terms of Article 42 of the Spanish Code of Commerce.

As mentioned in Note 1.10.1.2, one of the conditions imposed for the approval of the financial assistance was the transfer of certain assets related to the real-estate business to SAREB. Under those conditions, the criteria for selecting the assets to be transferred were basically the following:

- Repossessed properties recognised on the consolidated balance sheet of Banco Grupo Cajatres, S.A. at 30 June 2012 with an individual carrying value over €100,000.
- Loans and credits to property developers recorded under the consolidated assets of Banco Grupo Cajatres, S.A. at 30 June 2012 with a minimum exposure, in terms of carrying value, of €250,000.

Under the Asset Transfer Contract dated 25 February 2013, the price at which the assets were transferred by Banco Grupo Cajatres, S.A. was €2,212,085 thousand, determined by applying the criteria and rates set by the Bank of Spain as provided in law 9/2012 and Royal Decree 1559/2012, on the basis of estimated carrying value of the assets at the date of transfer. The price of the transfer breaks down as follows:

	Thousand euro	
	Transfer value/Price	**Gross value**
Foreclosure assets	293,080	826,283
Of which, foreclosure assets in Group companies	*241,301*	*722,596*
Credit risk:	1,919,005	3,491,988
With mortgage guarantee	1,790,704	3,133,907
No guarantee	128,301	358,081
	2,212,085	**4,318,271**

The transfer price may be adjusted if SAREB observes any of the following circumstances:

- Error in the classification of an asset, including for these purposes cases in which a financing agreement resulting from a legal foreclosure procedure is converted into a real-estate asset.
- Any of the assets being transferred had been transferred by Banco Grupo Cajatres, S.A.U. to a third party before the transfer date.
- The estimated valuation of an asset at 28 February 2013 on the basis of which the price was determined is erroneous.

The SAREB had 36 months (until 25 February 2016) to determine whether any of the above-mentioned situations has arisen. In addition, the price may be adjusted relative to the financing agreements with drawable funds available if the Bank of Spain, at the FROB's proposal, concludes that this has not been adequately considered in the calculation of the transfer price.

Additionally, under the Asset Transfer Agreement, the transferring companies made a number of representations and warranties, and undertook to indemnify the SAREB in the event of any nonfulfillment of the same.

Following the requisite analysis, on 26 February 2016 the Bank and the SAREB signed a public document for the correction of the Asset Transfer Agreement which annulled the transfer or changed the price of certain assets. As a result, the amount of the SAREB bonds received was adjusted, without this having a significant impact on the Entity's income statement.

In the Asset Transfer Agreement, Banco Grupo Cajatres, S.A.U. was authorised to receive the price on behalf of all the transferring entities, to be paid by means of fixed-income securities issued by the SAREB. Therefore, on 26 February 2013 the Bank signed a subscription agreement, whereby on 28 February 2013 it received bonds totalling €2,212 million. The bonds were issued at 100% of face value and are irrevocably guaranteed by the Spanish Government. A detail at 31 December 2016 and 2015 (Note 10.2) is as follows:

31 December 2016

			Thousand euro
Subscription	**Interest rate**	**Maturity date**	**Nominal amount**
SAREB 2015-2 Senior Bond	Euribor 3 months + 0.26%	28 February 2017	920,700
SAREB 2016-1 Senior Bond	Euribor 3 months + 0.29%	28 February 2017	647,200
SAREB 2016-2 Senior Bond	Euribor 3 months + 0.52%	28 February 2019	481,600
			2,049,500

31 December 2015

			Thousand euro
Subscription	**Interest rate**	**Maturity date**	**Nominal amount**
SAREB 2013-3 Senior Bond	Euribor 3 months + 2.46%	28 February 2016	484,700
SAREB 2015-1 Senior Bond	Euribor 3 months + 0.10%	28 February 2016	651,000
SAREB 2015-2 Senior Bond	Euribor 3 months + 0.26%	28 February 2017	976,400
			2,112,100

1.10.1.4 Issuance of contingent convertible bonds (CoCos)

At a meeting held on 15 February 2013, the shareholders of Banco Grupo Cajatres, S.A. approved the issuance of contingent convertible bonds (CoCos) convertible into Bank stock amounting to €407 million, to be subscribed by the FROB. The bonds are to be treated as core capital under Parliament and Council Regulation (EU) No 575/2013 (CRR) of 26 June 2013 on prudential requirements for credit institutions and investment firms, applicable from 1 January 2014. (Note 1.7). The bonds are to be issued at par (100% of face value). The unitary face value of the bonds is €100,000.

This issuance is classed as government financial support provided to the Bank under Law 9/2012, and within the framework of the Restructuring Plan (Note 1.10.1.2).

The initial nominal interest rate of the bonds is 8.5%, payable quarterly. The interest rate will increase by 25 basis points on completion of the first year and after completion of the second year it will be increased annually by 50 basis points.

The Bank of Spain may require the cancellation of the cash payment of the interest based on the financial and solvency situation of the entity or its consolidated group. In such cases, the Bank shall pay the FROB such interest by means of a volume of CoCos or Bank shares which is equivalent to the cash value of the interest that should have been paid.

Unless they have been repurchased and redeemed or converted, the bonds shall be perpetual in nature, without a specific amortisation date. However, under Law 9/2012, the Bank must repurchase or redeemed the bonds as soon as it is able to do so in the terms set out in the Restructuring Plan (Note 1.10.1.2).

The order of seniority of the bonds is as follows:

- Behind all creditor, subordinated or otherwise;
- Behind holders of preference equity instruments;
- In the same order of seniority as other convertible preference instruments or other comparable convertible securities;
- Before ordinary shares.

The conditions for any conversion of the CoCos into ordinary shares are regulated by Articles 32 and 34 of Law 9/2012 and the provisions of State Aid No. SA.35489 –Spain Restructuring of Banco Grupo Cajatres, S.A.

On 12 May 2013, the issuance, subscription and payment of the CoCos, in the amount of €407 million, was executed in a public deed. The bonds were subscribed and paid in full by the FROB through the delivery to the Bank of fixed income securities issued by the European Stability Mechanism (ESM), pertaining to the issuance of 5 February 2013.

In March 2016, 5% (€20 million) of this issuance was redeemed. In addition, on 28 December 2016 the European Central Bank authorised the Entity to redeem in advance 40% of the CoCos, envisaged for March 2017. The accelerated redemption amounted to €163 million. Although the redemption of these securities has led to a reduction in the phased-in capital ratios, at 31 December 2016 the Entity's capital ratios on a consolidated basis are above those required by the European Central Bank for 2017 (Note 1.7.2).

The reimbursement of other capital aid (55%) is set for December 2017.

1.10.2 Definitive merger

On 23 May 2013, the markets were informed that Ibercaja Banco, S.A.U., Banco Grupo Cajatres, S.A. and their shareholders had agreed to the merger of the banks through a share swap and subsequent merger consisting of the absorption of Banco Grupo Cajatres, S.A. by Ibercaja Banco, S.A.U.

On 25 July 2013, after meeting the suspensive conditions and obtaining the requisite administrative exemptions and authorisations, Ibercaja Banco achieved the ownership of 100% of the share capital of Banco Grupo Cajatres, S.A. For this purpose, it carried out a capital increase of € 325.5 million which was subscribed by the shareholders of Banco Grupo Cajatres, S.A. in exchange for this entity's entire share capital. The new shareholders obtained a joint holding of 12.20% in the share capital of Ibercaja Banco.

The consideration for the business of Banco Grupo Cajatres, S.A. amounted to €258,139 thousand (acquisition cost of the holding in Banco Grupo Cajatres, S.A. totalling €325,500 thousand less the cost of the cancellation of the liabilities issued by Ibercaja Banco).

The merger balance sheet at 1 July 2013, the acquisition date for accounting purposes, reflecting the fair value of the consolidated assets and liabilities of Banco Grupo Cajatres, S.A. and certain intangible assets that were not recognised by the acquired entity and after eliminating the financial instruments relating to the liabilities issued by Ibercaja Banco mentioned above, included equity of €130,074 thousand, excluding non-controlling interests.

Goodwill amounting to €128,065 thousand was recognised in the consolidated financial statements due to the difference between the consideration for the acquired business and the sum on the acquisition date of the fair value of assets and liabilities and the amount of non-controlling interests. This goodwill takes into account, among other factors, future results, expected synergies of the combined operations of the acquiree and acquirer and other intangible assets which do not fulfil the conditions for separate recognition.

Current accounting legislation establishes a one year period during which the measurement of the assets and liabilities acquired is not considered to be definitive as the acquirer needs one year to obtain the necessary information to measure them correctly. Once that period expired, the Company did not need to change the initially recognised goodwill.

1.10.3 Full merger

On 1 October 2014 the deed recording the merger by absorption between Ibercaja Banco, S.A. (acquiring entity) and Banco Grupo Cajatres, S.A.U. (target entity) involving the dissolution without liquidation of the target entity and the transfer in bloc of all its assets and liabilities to the acquiring company was notarised.

Following the merger, Ibercaja Banco, S.A. assumed all the liabilities and was subrogated to all the rights and interests of Banco Grupo Cajatres, S.A.U. In particular, without limitation, Ibercaja Banco, S.A. was subrogated to the position of issuer of all outstanding securities (other than shares) issued by Banco Grupo Cajatres, S.A.U.

The merger did not have any effect the consolidated annual accounts for 2014.

1.11 Events after the reporting date

Between the year-end date and the date of preparation of these consolidated annual accounts, no event has taken place other than that mentioned in Note 13.1 that could have a significant effect on them.

1.12 Changes in accounting policies and estimates

1.12.1 Changes in accounting policies

During 2016 amendments have been made to accounting legislation applicable to the Group with respect to that applied in the previous period. Set out below is a list of the changes that may be considered to be significant:

Mandatory standards, amendments and interpretations for all years starting 1 January 2016 are as follows:

- **IAS 19 (Revised), "Employee benefits. Employee contributions to defined benefit plans."**

  IAS 19 (Revised 2011) distinguishes between employee contributions related to the service provided and those not linked to the service. The current amendment further distinguishes between contributions linked to the service only in the year in which they arise and those linked to the service in more than one year. The amendment allows the contributions linked to the service that do not vary over the duration of the service to be deducted from the cost of benefits earned in the year in which the related service is provided. Contributions related to the service that vary according to the duration of the service must be apportioned over the duration of the service using the same allocation method that is applied to the related benefits. This amendment applies to the years starting on or after 1 February 2015 and is applied retrospectively.

- **IFRS 11 (Revised) "Accounting for acquisitions of interests in joint ventures".**

  Requires the application of accounting principles for business combinations to an investor that acquires an interest in a joint venture that constitutes a business. Specifically, it will have to measure the identifiable assets and liabilities at fair value; recognise costs related to the acquisition as an expense; recognise the deferred tax; and recognise the residual value as goodwill. All other accounting principles for business combinations apply, unless they conflict with IFRS 11.

- **IAS 16 and IAS 38 (Revised) "Clarification of acceptable depreciation and amortisation methods"**

  This amendment clarifies that it is not appropriate to use revenue-based methods to calculate the depreciation of an asset because the revenue generated by an activity that involves the use of an asset generally reflect factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that it is generally presumed that ordinary income is an inadequate basis for assessing the consumption of economic benefits embodied in an intangible asset.

- **IAS 1 (Revised) "Disclosure initiative".**

  The amendments to IAS 1 encourage enterprises to apply professional judgment in determining what information to disclose in the financial statements. The amendments clarify that materiality applies to the financial statements as a whole and that the inclusion of immaterial information may hamper the usefulness of the financial information. In addition, the amendments clarify that entities should use professional judgment to determine where and in what order the information is to be presented in the financial statements.

The application of these standards has not had a significant impact on the Group's consolidated annual accounts.

At the date of preparation of these consolidated annual accounts, the following standards, amendments and interpretations have been published by the IASB and IFRS Interpretations Committee and have not come into effect either because their effective date is subsequent to the date of these consolidated annual accounts because they have not yet been adopted by the European Union. Having assessed the resulting impacts, the Group has decided not to exercise its option to adopt early.

Approved for application in the EU

- **IFRS 9 "Financial Instruments"**

  In July 2014, the IASB published the complete version of IFRS 9. The date of first application is 1 January 2018. This standard, which will replace the current IAS 39 "Financial Instruments: Recognition and Measurement", lays down the accounting requirements for the recognition and measurement of financial assets and liabilities.

  With regard to the classification and measurement of financial assets, the approach in IFRS 9 is based on considering together both the characteristics of the cash flows deriving from the instruments and the business model under which they are managed, reducing in practice the number of portfolios and impairment models currently envisaged in IAS 39, including the classification of "financial assets available for sale" and "Investments held to maturity". Financial assets whose cash flows represent only payments of principal and interest and which are held in a business model whose objective is to receive said flows, will be carried at amortised cost. In contrast, if the objective of the business model is to both receive and sell the flows, these assets should be carried at fair value and any valuation changes should be recognised under equity. The remaining financial assets, including those with embedded derivatives, must be fully measured at fair value with changes in profit or loss.

  The part of IFRS 9 relating to impairment based on expected losses has undergone the greatest changes compared with the current IAS 39 model, based on the recognition of losses incurred due to credit risk. In particular, IFRS 9 requires an entity to base its measurement of loss allowances using an impairment approach that distinguishes three stages. The measurement of expected losses depends on whether there has been a significant increase in credit risk since initial recognition or whether the asset has been impaired, in such a way that: (i) the expected loss in a 12-month timeframe (stage 1) applies to all assets (since initial recognition) provided that there is no significant increase in credit risk, (ii) the expected loss for the effective life of the assets must be recorded when said significant increase in credit risk has occurred, measured on an individual or joint basis (stage 2), or when the assets are deemed to be impaired (stage 3). For financial assets classified in stage 3, interest will accrue on the carrying amount.

  The assessment of whether there has been a significant increase in credit risk should be based on reasonable and sustainable information that is available without disproportionate cost or effort, which is indicative of increases in credit risk since initial recognition and which reflects historical, current and forward-looking information.

  From a comparison between the new expected loss model envisaged in IFRS 9 and the current incurred loss model included in IAS 39, the following should be noted:

  - Under IFRS 9 losses for credit risk are recognised for all typical credit and lending activities originated by the Group and for all fixed income securities (sovereign or otherwise) that are acquired, independently of their credit rating, at the time of initial recognition.

  - There will be an increased in the judgement needed to determine the forward-looking information and scenarios that may occur over the life of operations, and how these scenarios are incorporated into the assessment of the expected loss.

  - There will be larger factors that can lead to variability in expected loan losses, for example, the introduction of reclassification mechanisms for financial assets from stage 1 to 2.

In relation to financial liabilities, the categories under IFRS 9 are similar to those currently contained in IAS 39 and their measurement will not change except for the requirement to record the changes in fair value related to own credit risk as a component of equity in the case of recording financial liabilities to which the fair value option has been applied.

For hedge accounting (excluding the part relative to portfolio hedges), the granularity of the current requirements under IAS 39 has been replaced by a new model that better reflects internal risk management activities in the financial statements. There are changes from IAS 39 in various aspects such as hedged items, hedging instruments, accounting for the time value of options and evaluation of effectiveness. However, the greatest improvements refer to the possibility of hedging non-financial risks, and therefore they will be particularly applicable to non-financial institutions.

The Group initiated a project on the implementation of the standard at the end of 2014. This project covers three years (2015, 2016 and 2017) and is transversal as it impacts Group processes and systems as well as governance and financial reporting controls.

The project is led by an Internal Project Committee whose main objective is to perform the tasks necessary for the implementation of IFRS 9 in all areas of the Bank involved, so that compliance is ensured on the date of first application, and potential quantitative and qualitative impacts can be evaluated sufficiently well in advance and thus be managed more efficiently.

The Committee's main tasks include the following:

- Defining the approach to identify key aspects of IFRS 9 and create a plan of action in order to ensure the implementation of the standard.
- Ensuring the identification and proper planning of all quantitative and qualitative needs.
- Ensuring the capacity to calculate the impact prior to the date of first application.

The Committee, led by the Control Area Management and in coordination with Credit Risk Management and other Company management units, is the liaison with the Group Steering Committee and governing bodies.

The project is made up of teams from the Accounting, Credit Risk, Internal Control and Validation, Management and Organisation Information Systems, Management Control, Capital Markets and Legal Counsel areas, among others. These teams are responsible for the daily management of the project.

A number of milestones have been defined to ensure that the operational developments relating to the classification and measurement of financial instruments and the provisions model are completed by the fourth quarter of 2017.

Specifically, in relation to financial assets and liabilities the type of portfolios and the business model are being analysed to determine their definitive classification and valuation, and therefore the quantitative impact that could arise.

With regard to the provisions model based on expected losses, the Entity is adapting impairment indicators to determine the accounting classification of operations and the process for building statistical models to estimate hedges.

No significant impacts derived from the entry into force of this standard are expected on hedge accounting.

The Group considers that the application of IFRS 9 does not entail a substantial change in the tools and methods available to manage and monitor losses due to financial asset impairment, although it does imply the need to evaluate the way in which the new aspects of the standard should be incorporated into the Group's existing processes and systems.

The different lines of work in the project to adopt IFRS 9 are progressing in line with the plan and implementation dates envisaged. As mentioned above, the Group is currently evaluating alternatives for the practical application of some of the new requirements under IFRS 9 and therefore the assessment of its impact will vary depending on the decisions that are finally taken. At the date of these annual accounts, therefore, the Group does not yet have a sufficiently accurate estimate of the effect that the first application of this standard will have on the consolidated annual accounts.

- **IFRS 15 "Revenue from contracts with customers"**

  In May 2014, the IASB and the FASB jointly issued a converged standard regarding the recognition of revenue from contracts with customers. Under this standard, revenue is recognised when a customer obtains control over the good or service sold, i.e. when it has the capacity both to direct the use and to obtain benefits from the good or service. This standard includes new guidelines to determine whether to recognise revenue over time or at a particular time. IFRS 15 requires extensive information on both recognised revenue and revenue expected to be recognised in the future in relation to existing contracts. Quantitative and qualitative information is also required about the significant judgments made by management in determining recognised revenue, as well as any changes in these judgments.

  In April 2016, the IASB published amendments to this standard which, while not modifying the main principles, clarify some of the more complex issues.

  IFRS 15 will be effective for financial years starting on or after 1 January 2018; early application is permitted.

  Given the Group's main activities and the fact that the standard is not applicable to financial instruments and other contractual rights or obligations under the scope of IAS 39 (IFRS 9 when it comes into force), the Group does not expect any significant impact from the future application of this standard.

<u>Not approved for application in EU</u>

- **IFRS 15 (Revised) Clarifications to IFRS 15 "Revenue from contracts with customers".**

  The IASB has amended IFRS 15 in order to:

  - Clarify the guidelines for identifying performance obligations, accounting for intellectual property licences and evaluating principal v. agent (presentation of net v. gross ordinary income).
  - Include new or updated illustrative examples for each of these areas of the guidelines.
  - Provide additional practical resources related to the transition to the new standard.

  These changes do not alter the essential principles of IFRS 15 but they do clarify some of the most complex aspects of the standard.

  This amendment will be effective for financial years starting on or after 1 January 2018.

- **IFRS 10 and IAS 28 (Revised) "Sale or contribution of assets between an investor and its associate or joint venture"**

  These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associates and joint ventures which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognise the full gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition for a business, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture.

Originally, these amendments to IFRS 10 and IAS 28 were prospective and applicable for years starting on or after 1 January 2016. However, at the end of 2015 the IASB decided to postpone the effective date of the amendments (without setting a new date) as it is planning a broader revision that could result in a simplification of the accounting treatment of these transactions and other aspects of the recognition of associates and joint ventures.

- **IFRS 16 “Leases”.**

In January 2016, the IASB published a new standard on leases which supersedes IAS 17 "Leases", as a result of a joint project with the FASB. The IASB and FASB have reached the same conclusions in many areas related to lease recognition, including the definition of a lease, the requirement, as a general rule, to reflect leases on the balance sheet and the measurement of lease liabilities. The IASB and the FASB also agreed not to incorporate substantial changes into the accounting treatment by the lessor, maintaining requirements that are similar to those of the former standards. However, there are still differences between the IASB and FASB regarding the recognition and disclosure of expenses related to leases in the income statement and in the cash flow statement.

This standard will be applicable for financial years starting on or after 1 January 2019. Early adoption is permitted if IFRS 15 "Revenue from contracts with customers” is also adopted.

In addition, the Ibercaja Group is analysing the impacts of IFRS 16 derived from lease agreements in which it is the lessee. However, the Group estimates that the impact of this standard on equity will not be material.

- **IAS 12 (Revised) “Recognition of deferred tax assets due to unrealised losses”.**

The changes to IAS 12 clarify the requirements to recognise deferred tax assets for unrealised losses. The changes clarify the accounting treatment of deferred tax when an asset is carried at fair value and this fair value is lower than the asset's tax base. Other aspects of the accounting treatment of deferred tax assets are also clarified.

These amendments are applicable for financial years starting on or after 1 January 2017.

- **IAS 7 (Revised) “Disclosure initiative”.**

Companies are required to disclose information that enables users to understand the changes in liabilities that arise from financing activities. This includes changes that arise from:

- Cash flows, such loan drawdowns and repayments; and
- Non-monetary changes, such as acquisitions, disposals and unrealised gains on exchange.

The liabilities that arise from financial activities are liabilities for which cash flows were or will be classified in the cash flow statement as cash flows from financing activities. New information to be disclosed also includes changes in financial assets (for example, assets that hedge liabilities arising in financing activities) if the cash flows of those financial assets were included or the future cash flows will be included in cash flows from financing activities.

The amendment suggests that the disclosure requirement would be fulfilled by including a reconciliation between the opening and closing balances for liabilities that arise in financing activities, although it does not lay down a specific format.

These amendments are applicable for financial years starting on or after 1 January 2017.

- **IFRS 2 (Revised) “Classification and measurement of share-based payments”.**

  The amendment to IFRS 2 which was developed through the IFRIC clarifies how to account for certain kinds of share-based payments. In this respect, it provides requirements for the recognition of:

  - The effects of vesting and non-vesting conditions in the valuation of share-based payments settled in cash;
  - Share-based payment transactions with net settlement features for obligations to withhold taxes; and
  - A modification in the terms and conditions of a share based payment which changes with the classification of the transaction from cash-settled to equity-settled.

  The amendment will be effective for financial years starting on or after 1 January 2018; early application is permitted.

- **IFRS 4 (Revised) “Application of IFRS 9 “Financial Instruments” with IFRS 4 “Insurance contracts””.**

  The amendments to IFRS 4 published by the IASB in September 2016 introduce two optional approaches for insurance companies:

  - A temporary exemption until 2021 with respect to IFRS 9 for companies that meet specific requirements (applied on a reporting entity level); and
  - The “overlay” approach: this will provide all insurance companies with the option of recognising the volatility that could arise when IFRS 9 “Financial Instruments” is applied before the new standard on insurance contracts is published in other comprehensive income instead of profit/(loss) for the year.

  IFRS 4 (including recent amendments) will be replaced by the forthcoming standard on insurance contracts. As a result, both the temporary exemption and the overlay approach are expected to cease being applied when the new insurance standard comes into effect.

- **IAS 40 (Revised) “Transfers of investment property”.**

  This amendment clarifies that to transfer to or from investment properties, there must be a change in use. To conclude that there has been a change in use, it must be assessed whether the property meets the definition of an investment property. This change must be duly evidenced. The IASB confirmed that a change in intent, on an isolated basis, is not sufficient to support a transfer.

  This amendment will be effective for financial years starting on or after 1 January 2018. Early application is permitted.

- **IFRIC 22 “Transactions and advance payments in foreign currency.”**

  IFRIC 22 concerns how to determine the transaction date when applying IAS 21 on transactions in foreign currency. The interpretation applies when an enterprise pays or receives consideration in advance for contracts denominated in foreign currency.

  The transaction date determines the exchange rate to be used in the initial recognition of the relevant asset, expense or income. This matter has arisen because IAS 21 requires the application of the exchange rate in force on the “transaction date”, which is defined as the date on which the transaction first qualifies for recognition. The question, therefore, is whether the transaction date is the date on which the asset, expense or revenue is initially recognised or the first date on which the advance consideration is paid or received, resulting in an advance payment or deferred income.

  The interpretation provides guidelines for when a single payment is made or received and for situations in which there are multiple payments or receipts. The aim of the guidelines is to reduce diversity in practice.

The interpretation will be effective for financial years starting on or after 1 January 2018; early application is permitted.

The Group is analysing the potential impact of these standards and amendments on the consolidated financial statements, which will depend on the content of the standards eventually approved by the European Union and on the composition of the Group and its business when they are applied.

1.12.2 Changes in accounting estimates

On 27 April 2016, the Bank of Spain issued Circular 4/2016 which amended Circular 4/2004 (22 December) to credit institutions on public and reserved reporting standards and model financial statements, and Circular 1/2013 (24 May) on the Risk Information Centre.

The purpose of this Circular is to update Circular 4/2004, mainly with regard to Appendix IX, to bring it into line with the latest developments in banking regulations, maintaining its compatibility with the IFRS accounting framework.

The update of Appendix IX brought in by this Circular seeks to analyse in detail the application of the current accounting framework by strengthening the criteria that concern: i) policies, methods and procedures for credit risk management, including those relating to guarantees received, in accounting-related matters; ii) the accounting classification of operations on a credit risk basis, and iii) individual and combined estimates of provisions. Criteria for estimating the recoverable amount of repossessed assets or assets received as debt settlements are also introduced.

In 2016 the Group revised the procedures followed to calculate impairment and strengthened the criteria and information used to make individual and combined estimates of losses due to insolvency and the recoverable amount of repossessed assets or assets received in settlement of debts, in compliance with IAS 39 and taking into account the provisions of Appendix IX of Bank of Spain Circular 4/2004 resulting from the entry into force of Bank of Spain Circular 4/2016. Notes 2.3 and 2.18 detail the accounting policies and methods for measuring the impairment of financial assets and the recoverable amount of repossessed assets or assets received in settlement of debts, taking into account the amendments introduced by said Circular.

Under transitional provision one of this Circular, its first application has been treated prospectively as a change in accounting estimates. The application of the new standard has led to an increase in impairment of loans and receivables and repossessed assets or assets received in settlement of debts of €60 million, which has been recorded by charge to the consolidated income statement for 2016.

2. Accounting principles and policies and measurement methods applied

The following principles, accounting policies and measurement criteria have been applied in the preparation of the Group's consolidated financial statements for 2016.

2.1 Consolidation and business combinations

2.1.1 Subsidiaries

“Subsidiaries” are those in which the Entity has the capacity to exercise control. This is generally, though not exclusively, reflected by the direct or indirect ownership interests of over 50% of the voting rights or, if lower, or where no voting rights are held, by other circumstances or agreements that give control to the Entity. In accordance with prevailing legislation, control is deemed to be the power to direct an entity’s financial and operational policies in order to benefit from its activities.

Appendices I and II provide relevant information on these entities.

Subsidiaries' financial statements are consolidated using the full consolidation method, as defined under current legislation. Accordingly, all balances derived from the transactions between fully consolidated companies and regarded as material are eliminated on consolidation. In addition, the third party interests in:

- The Group's equity is presented in "non-controlling interests" in the consolidated balance sheet.

- Consolidated results for the year, are presented in "Profit for the year attributable to non-controlling interests" in the consolidated income statement.

Results generated by subsidiaries acquired by the Group during the year are consolidated taking into account only the amounts for the period running from the acquisition date to the year end. Results generated by subsidiaries sold during the year are consolidated taking into account only the amounts for the period running from the beginning of the year to the date of sale.

2.1.2 Jointly-controlled entities

Jointly-controlled entities are entities which are not subsidiaries, with respect to which joint-control contractual agreements have been entered into under which the decisions on the relevant activities are taken unanimously by the entities that share control, holding rights to its net assets.

These interests are measured using the equity method (Note 2.1.3.).

Appendices I and II provide relevant information on these entities.

2.1.3 Associates

Associates are those entities where the Entity is able to exercise significant influence although they do not form a decision-making unit with the Entity and are not under joint control. Generally, though not always, significant influence accompanies a direct or indirect shareholding of 20% or more of the associate's voting rights.

Associates' are accounted for in the consolidated financial statements by the equity method, as defined in current legislation.

Should an associate reflect negative equity as a result of losses, the consolidated balance sheet shows a zero balance, unless the Group is required to provide financial support. in which case a provision would be established for third party liabilities under "Provisions" on the liabilities side of the balance sheet.

Appendices I and II provide relevant information on these entities.

2.1.4 Structured entities

A structured entity as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

In cases in which the Group has an interest in or sets up entities for the transfer of risks or in order to provide access to certain investments, it is determined whether control exists and therefore whether the created entities should be consolidated, bearing in mind the following main factors:

- Analysis of the Group's influence over the entity's activities that are relevant for determining its returns.
- Implicit or explicit commitments to provide financial support to the entity.
- Significant exposure of the Group to variable income derived from the entity's assets.

These entities include asset securitisation funds consolidated by the Group due to the existence of contractual agreements to provide financial support (which are commonly used in the securitisation market). In practically all the securitisations performed by the Group, the risks transferred cannot be eliminated from assets on the balance sheet and the issuances of securitisation funds are recognised under liabilities on the Group's balance sheet.

The companies, investment funds and pension funds managed by the Group do not meet the regulatory requirements of the regulatory framework to be regarded as structured entities and therefore they are not consolidated.

Details of the Group's structured entities are disclosed in Note 27.5.

2.1.5 Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities, where the acquirer obtains control of the other entity or entities.

On the date of acquisition the acquirer incorporates into its financial statements the assets, liabilities and contingent liabilities of the acquiree, including any intangible assets not recognised by the acquiree, all of these being initially recognised at fair value.

Any excess of the cost of the investments in companies over the corresponding underlying carrying amounts acquired, adjusted at the date of first business combination, is allocated as follows:

- If the differences can be assigned to specific assets of the acquired entities, they are accounted for by increasing the value of any assets or reducing the value of any liabilities whose market values are above or below, respectively, the fair values at which they were recorded on the acquiree's balance sheet, provided that their accounting treatment has been similar to the treatment that would be afforded to those same assets or liabilities by the group.
- If they are assignable to specific intangible assets they are accounted for by explicit recognition in the consolidated balance sheet provided that their fair value at the acquisition date can be reliably determined.
- Remaining differences that cannot be specifically recognized which may not be recorded as goodwill and assigned to one or more specific cash-generating units.

Negative differences, once they have been quantified, are recognised in the income statement.

Any purchases of non-controlling interests after control of an entity has been taken are recognized as increases in the cost of the business combination.

Insofar as the cost of the business combination or fair values assigned to the acquiree's identifiable assets, liabilities or contingent liabilities cannot be definitively determined, the initial accounting treatment of the business combination is considered provisional. In any event, the process should be completed within a maximum of one year of the acquisition date and take effect on that date.

2.2 Financial instruments

2.2.1 Initial recognition of financial instruments

Financial instruments are initially recorded on the consolidated balance sheet when the Group becomes a party to the contract that originates them, according to the contract terms. Specifically, debt instruments such as loans and cash deposits are recorded on the date on which the legal right to receive or the legal obligation to pay arises. For their part, financial derivatives are generally recognised on the date on which they are arranged.

Purchases and sales of financial assets under conventional contracts are recognised as from the date on which the owner's profits, risks, rights and obligations are transferred to the acquiring party which, depending on the type of financial asset purchased or sold, could be the contract date or the settlement or delivery date. Specifically, transactions effected in the spot market are recognised at the settlement date, transactions effected using equity instruments traded in Spanish securities markets are recorded at the contract date and transactions effected using debt instruments traded in Spanish securities markets are recognised at the settlement date.

2.2.2 Derecognition of financial instruments

Financial assets are derecognised when one of the following occurs:

- The contractual rights to the cash flows generated expire; or
- The financial asset and substantially the risks and rewards attached to it is transferred (Note 2.8).

Similarly, financial liabilities are derecognized when the obligations generated by the liabilities have expired or are reacquired by the Group.

2.2.3 Fair value and amortised cost of financial instruments

The fair value of a financial instrument on a specific date is understood as the amount for which it could be purchased on sold on that date between knowledgeable, willing parties in an arm's length transaction. The most objective and commonly used reference for fair value of a financial instrument is the price that would be paid in an organised, transparent and deep market (quoted price or market price).

In the absence of a market price for a particular financial instrument, its fair value is estimated on the basis of recent transactions involving similar instruments and, failing that, on valuation models sufficiently tested by the international financial community, bearing in mind the specific peculiarities of the instruments to be measured and, above all, the different types of associated risks.

Specifically, the fair value of the financial derivatives traded on organised, transparent and deep markets included in trading portfolios is taken to be the daily share price. If, for exceptional reasons, it is not possible to establish the price on a given date, methods are used similar to those employed to value financial derivatives not traded on organised markets.

The fair value of derivatives not traded in organised markets or traded in organised markets which are neither deep nor transparent is taken to be the sum of the future cash flows originated by the instrument, discounted at the valuation date ("present value") using methods recognised by financial markets: net present value, models for calculating option prices, etc.

Amortised cost is the acquisition cost of a financial asset or liability adjusted for capital and interest repayments and, where applicable, for the portion (recognised in the consolidated income statement applying the effective interest method) of the difference between the initial amount and the repayment value of the financial instruments. The amortised cost of financial assets also includes impairment adjustments.

The effective interest rate is the discount rate that matches the initial value of a financial instrument to all its estimated cash flows of all kinds through its residual life, without taking in account future credit risk losses. For fixed rate financial instruments, the effective interest rate agrees with the contractual interest rate set at the time of their acquisition, adjusted, where appropriate, for the fees and transaction costs which, under current legislation, must be included in the calculation of that effective interest rate. In variable rate financial instruments, the effective interest rate is stimated in the same way as for fixed rate transactions, and is recalculated on each contractually established interest rate review date on the basis of any changes that have taken place in the future cash flows derived from the transaction.

2.2.4 Classification and measurement of financial assets and liabilities

Financial instruments are classified in the Group's consolidated balance sheet under the following categories:

- **Financial assets and liabilities at fair value through profit or loss:** this category includes the following financial instruments:

  - **Financial assets and liabilities held for trading**: those acquired in order to be realised in the short term, which form part of a portfolio of financial instruments managed individually or together for which there is evidence of recent actions taken to obtain short-term gains, and derivative financial instruments not designated as hedge instruments, including instruments segregated from hybrid financial instruments in accordance with applicable regulations.

    Short positions in securities arising from sales of assets acquired under non-optional repurchase agreements and loans of securities are also regarded as belonging to the trading portfolio.

  - **Other financial assets and liabilities at fair value through profit or loss:** In order to avoid differences between the policies for measuring assets and associated liabilities, the Group classifies in this portfolio the assets (mainly shares in investment funds) that are managed jointly with liabilities under insurance contracts ("Unit linked") measured at fair value.

  Financial instruments at fair value through profit or loss are initially measured at fair value. Changes in their fair value arising from the return (or charges) obtained on the financial instrument are recognised under “Interest income”, “Interest expense” or “Dividend income” in the consolidated income statement, depending on their nature. The returns on debt instruments included in this category are calculated using the effective interest method. Other variations in fair value are recorded with a balancing entry in the headings “Gain/(loss) on financial assets and liabilities held for trading, net” and “Gain/(loss) on financial assets and liabilities at fair value through profit or loss, net” on the consolidated income statement.

  Derivatives classified both as financial assets and liabilities held for trading and as hedging derivatives are managed on the basis of their net credit risk exposure, and therefore their fair value is estimated taking into account such net exposure in accordance with Paragraph 48 of IFRS 13.

- **Held-to-maturity investments**: this category includes debt securities traded on an active market having fixed maturities and identified or identifiable cash flows from their acquisition and at any subsequent date based on the intention and financial capacity to hold them to maturity. There is financial capacity when the Group has funds available to finance the investments to maturity.

  Debt securities included in this category are stated initially at fair value, adjusted by the amount of transaction costs directly attributable to the acquisition of the financial asset.

  Subsequently, they are measured at amortised cost and the interest accrued on these securities, calculated using the effective interest method, is recognised in the caption “Interest income” in the consolidated income statement.

- **Loans and receivables**: this category includes debt securities which are not traded on an active market, financing provided to third parties arising from the Entity’s ordinary credit and loan activities, and debts incurred by asset buyers and by service users. This also includes finance lease transactions in which the Entity is the lessor.

  Financial assets included in this category are stated initially at fair value, adjusted by the amount of fees and transaction costs directly attributable to the acquisition of the financial asset. Following their acquisition, the assets included in this category are carried at amortised cost using the effective interest rate method.

Assets acquired at a discount are recorded in the cash amount paid and the difference between the repayment value and that cash amount is recognised as financial income applying the effective interest method during the period to maturity.

The interest accrued on these assets, calculated using the effective interest method, is recognised in Interest income in the consolidated income statement.

In general, the consolidated entities intend to hold the loans and credits granted to their final maturity dates and they are therefore carried at amortised cost in the consolidated balance sheet.

- **Available-for-sale financial assets**: this category includes debt securities not classed as “Investments held to maturity”, “Loans and receivables” or “Financial assets at fair value through profit or loss”, and equity instruments relating to non-dependent entities, multi-group entities or associates, which have not been classed as “Financial assets at fair value through profit or loss”.

  The instruments included in this category are initially carried at fair value, as adjusted for transaction costs directly attributable to the asset's acquisition, which are recognised in the consolidated income statement to maturity using the effective interest rate method. Following acquisition, the financial assets included in this category are carried at fair value.

  The above notwithstanding, equity instruments whose fair value cannot be determined with sufficiently objectivity are carried in these financial statements at cost, net of any impairment, calculated on the basis of the criteria explained in Note 2.3.

  Any changes in the fair value of financial assets classified as available for sale relating to accrued interest or dividends are recognised with a balancing entry in “Interest income” and “Dividend income”, respectively, in the consolidated income statement.

  The remaining changes in fair value are recorded, net of the tax effect, with a balancing entry in Group equity under “Equity – Other accumulated comprehensive income - Items that may be reclassified to profit or loss - Available-for-sale financial instruments” until the financial asset is written off, this being when the balance under said heading is taken to the income statement under the heading “Gains/(losses) on financial assets and liabilities not designated at fair value through profit or loss, net” or “Gains/(losses) on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations” in the case of equity instruments classified as available for sale which are strategic investments.

  An investment in equity instruments is regarded as strategic when it has been performed for the purpose of establishing or maintaining a long-term operational relationship with the investee company concerned, in accordance with the cases provided for in current legislation.

- **Financial liabilities at amortised cost**: This category of financial instruments relates to financial liabilities that are not classed in any of the previous categories.

  Financial liabilities in this category are stated initially at fair value, adjusted by the amount of transaction costs directly attributable to their issue. They are subsequently carried at amortised cost, calculated using the effective interest rate method.

  The interest accrued on these securities calculated using said method, is recognised under Interest income on the consolidated income statement.

The above notwithstanding, financial instruments that must be treated as non-current assets held for sale under current regulations are disclosed in the consolidated financial statements based on the criteria explained in Note 2.18.

2.3 Financial asset impairment

Financial assets are regarded as impaired and therefore their carrying value is adjusted when there is objective evidence of events that lead to:

- in the case of debt instruments (loans, credit facilities and debt securities), a negative impact on future cash flows estimated when the transaction was formalised.

- In the case of equity instruments, their carrying amount cannot be fully recovered.

Adjustments to the carrying value of financial instruments due to impairment are made against the consolidated income statement for the period in which such impairment arises and the recovery of previously recorded impairment losses is recognised in the income statement for the period in which such impairment is eliminated or reduced. However, the recovery of previously recorded impairment losses related to equity instruments classified as financial assets available for sale are recognised under "Other accumulated comprehensive income" in equity.

The calculation of the impairment of financial assets is based on the type of instrument and other circumstances that may affect them, after taking into account the guarantees received. The Company recognises both corrective accounts when loan-loss provisions are recorded to cover estimated losses, and direct write-downs against assets when recovery is estimated as remote. In general, the recognition on the income statement of the accrual of interest on the basis of contractual terms is interrupted for all debt instruments classified as impaired. If the interest concerned is subsequently recovered, the amount received is recognised in the income statement.

The methods applied by the Company to determine potential impairment losses in each category of financial instrument and the method applied to calculate the provisions made for such impairment are as follows.

2.3.1 Debt instruments measured at amortised cost

Within the framework of EU-IFRS, International Accounting Standard 39 "Financial Instruments: Recognition and Measurement ", in which the valuation and impairment of financial assets measured at amortised cost are regulated, the connection between credit risk monitoring policies and the accounting recognition of provisions under IFRS is considered important.

Credit risk management is a priority for the Group in order to facilitate sustainable and balanced growth, ensure the Group's financial strength at all times and optimize the risk/return ratio. These principles are contained in the Manual of Credit Risk Management Accounting Policies.

In order to determine impairment losses, the Group monitors debtors individually, at least for all those that are significant, and collectively, for groups of financial assets that have similar credit risk characteristics which are indicative of the debtors' capacity to pay their outstanding amounts. When an instrument cannot be included in any group of assets with similar risk features, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss.

The Group has policies, methods and procedures for estimating losses that may be incurred as a result of credit risk due to insolvency attributable to counterparties or due to country risk. These policies, methods and procedures are applied when granting, studying and formalising debt instruments and off balance sheet exposures and in identifying their possible impairment and, where appropriate, in calculating the amounts necessary to cover estimated losses.

The Group has policies in place for identifying borrowers with weaknesses or objective evidence of impairment, and classifying them on the basis of their credit risk.

The following paragraphs describe the classification principles and methodology used by the Group.

Definition of classification categories

Debt instruments not included in the portfolio of financial assets held for trading, as well as off-balance sheet exposures, are classified, on the basis of credit risk due to insolvency, under:

- Performing exposures:
    - Operations that do not meet the requirements to be classified under another category.

- Performing exposures under special vigilance: operations which do not meet the criteria for being individually classified as doubtful or non-performing but which have weaknesses that could entail losses higher than those on other similar operations classified as performing exposure.

- Doubtful exposures:

  - Due to debtor default: operations in which some part of the principal, interest or contractually agreed expenses is overdue, in general, for more than 90 days, unless they meet the requirements to be classified as non-performing. This category also includes guarantees granted when the guaranteed party has defaulted in the guaranteed operation. It also includes all of a debtor's operations when, in general, transactions involving sums that have been outstanding for over 90 days make up more than 20% of the total amounts outstanding.
  - For reasons other than debtor default: operations in which the requirements for classification as doubtful or non-performing due to debtor default are not met but there is reasonable uncertainty as to full repayment in the contractually agreed terms; and off-balance-sheet exposures not classified as doubtful due to debtor default the payment of which by the Group is probable and the recovery of which is doubtful.

- Non-performing exposures:

Operations in which, following an individualised analysis, recovery is regarded as remote due to serious impairment or because the solvency of the transaction or the debtor cannot be recovered. This category includes risks relating to customers undergoing insolvency proceedings in which a liquidation stage has been or will be approved, and operations classed as doubtful due to default outstanding for more than four years, except for balances with sufficient efficient guarantees. It also includes operations which do not meet the above description but which have become seriously and irrecoverably impaired. In these situations, the Group derecognises from the consolidated balance sheet any amounts recorded along with their provisions, notwithstanding any measures that might be undertaken to seek collection until the right to payment is definitively extinguished, due to a statute of limitations, debt remission or another reason.

Transaction classification policies

The Group uses a variety of criteria for classifying borrowers and transactions in different categories according to their credit risk. These include:

- Automatic criteria;
- Specific refinancing criteria; and
- Criteria based on indicators.

The automatic factors and the specific refinancing criteria make up the classification and cure algorithm and are applied to the entire portfolio.

In order to enable early identification of weaknesses and impairment in transactions, the Group has defined a number of indicators, differentiating between significant and nonsignificant borrowers, which include all default events and evidence on the basis of the composition of the relevant portfolio. This methodology is based on the Group's credit risk management experience, the composition of the portfolio and the default events identified by the Group, and it seeks to proactively anticipate the potential existence of impairment events. Specifically, nonsignificant borrowers that, having passed the automatic classification algorithm, do not meet any of the conditions for being classified as doubtful or under special vigilance, are assessed using indicators aimed at identifying weaknesses that could entail losses higher than in other similar operations classified as being performing exposures. These indicators are based on the current best estimate of the probability of reclassification to doubtful associated with each operation.

Having identified possible evidence of impairment, the Group carries out an individualised analysis of each borrower in this situation to conclude as to whether evidence of impairment actually exists or not.

Operations classified as doubtful are reclassified to performing exposures when, as result of the partial or full collection of outstanding amounts in the case of doubtful exposure due to debtor default, or because the cure period has been completed in the case of doubtful exposures for reasons other than default, the reasons that gave rise to the classification of the operation as doubtful no longer apply, unless reasons subsist for maintaining it in this category.

As a result of these procedures, the Group classifies its borrowers in the categories of “performing exposures under special vigilance” or “doubtful exposures due to debtor default”, or maintains them under performing exposures.

Individual classification

The Group has established an exposure threshold for considering borrowers as significant, based on EAD (exposure at default) levels.

On the basis of credit risk management and monitoring criteria, the Company has identified the following as individually significant borrowers:

- Borrowers with EAD in excess of €3 million.
- Borrowers classified as doubtful for reasons other than default due to non-automatic factors.
- Borrowers without appreciable risk classified as doubtful for accounting purposes, irrespective of EAD.

For significant borrowers an indicator system is established to enable the identification or weaknesses or impairment evidence. A team of expert risk analysts analyse borrowers with activated indicators to conclude on the existence of weaknesses or objective evidence for impairment and, in the event of impairment evidence, whether the event or events causing the loss have any impact on estimated future cash flows from the financial asset or group of assets.

The indicator system for significant borrowers is automated and takes into account the specific characteristics of the differentiated behaviour segments in the loan portfolio. The issues to be identified by the indicator system are as follows:

- Significant financial difficulty faced by the issuer or obligor;
- Breach of contract terms, default or delay in interest payments.
- For financial difficulties, the borrower is granted concessions or benefits that would not otherwise be taken into account.
- Probability of borrower insolvency: cases where there is a high probability that the borrower will be declared insolvent or will have to be restructured.

The Group carries out an annual review of the reasonableness of the thresholds and coverage used in the individual analyses, unless the borrower's financial situation changes substantially, making a review of that situation necessary.

According to the defined levels, a volume of borrowers that allows a reasonable coverage of the total credit exposure is above the significance threshold, which requires them to be subjected to an individual expert analysis.

Collective classification

For borrowers that do not exceed the significance threshold and which additionally have not been classified as doubtful or under special vigilance by the automatic classification algorithm, the Group has defined a synthetic indicator through which it identifies exposures that reveal weaknesses which could entail losses that are higher than those in other similar operations classified under performing exposures. In this respect the Group has laid down thresholds which, once exceeded, entail an automatic classification as performing exposure under special vigilance due to the associated weaknesses.

Refinancing and restructuring

Once an operation has been identified as refinancing, refinanced or restructuring, it may only be classified as doubtful or under special vigilance.

The following refinancing or restructuring operations are classified as doubtful:

- Operations reclassified from doubtful exposures or which are refinanced to avoid their classification as doubtful due to default
- Operations with a grace period exceeding 24 months.
- Operations with reductions higher than the impairment that would be applicable if they were classified under exposures subject to special vigilance.
- Operations with unsuitable payment schedules, either because they have been repeatedly breached or because they have been changed to avoid noncompliance.

For a refinancing or restructuring to be reclassified from doubtful to special vigilance, the following is required:

- One year must elapse from the date of refinancing or restructuring.
- Accrued principal repayments and interest payments must be met, reducing the rescheduled capital. Therefore, there can be no overdue payments in the operation concerned.
- The principal and interest due at the time of the refinancing or which were written off as a result thereof must be paid, or other objective criteria evidencing the borrower's payment capacity must be attested to.
- The borrower must not have any other operations involving amounts overdue by more than 90 days on the date of the potential reclassification.

Refinancing or restructuring operations that do not meet the above conditions for classification as doubtful will be classified as exposures under special vigilance. They must remain under special vigilance for a trial period, until the following requirements are met:

- A minimum of two years elapse from the formalisation of the operation or from reclassification from doubtful exposures.
- The principal and interest accruing since the date of the refinancing or since the date of reclassification from doubtful exposures, if later, have been paid.
- The principal and interest due at the time of the refinancing or which were written off as a result thereof must be paid, or other objective criteria evidencing the borrower's payment capacity must be attested to. The presence of contractual terms that delay repayment, such as grace periods, will imply that the operation remains under special vigilance.
- The borrower must not have any other operations involving amounts overdue by more than 30 days at the end of the trial period.

During the trial period described, a new refinancing or restructuring of the refinanced or restructured operations, or the existence of amounts overdue by more than 30 days, will entail the reclassification of these operations to doubtful exposures for reasons other than default, provided that they were classified as doubtful before the trial period.

Credit risk management procedures applied by the Group guarantee detailed monitoring of borrowers, indicating that provisions need to be recorded when there is evidence of impairment in a borrower's solvency. The Group records any bad-debt provisions that may be necessary in transactions in which the borrower's situation thus requires, before restructuring or refinancing operations are formally approved.

For refinanced operations, the algorithm provides for their initial classification on the basis of their characteristics, mainly the existence of financial difficulties for the borrower and certain contractual terms, such as lengthy grace periods; subsequently, the algorithm changes the initial classification on the basis of the cure periods established.

See the refinancing, restructuring, renewal and renegotiation policies laid down by the Group in Note 3.1.5.2.

Determination of provisions

Once the classification of a borrower and its operations has been determined, the relevant provision is calculated. This provision may be obtained through an individual or collective analysis.

The operations of borrowers for which the individual analysis determines there is no objective evidence of impairment are included (whether or not significant) in a group of operations with similar credit risk characteristics and are tested for impairment collectively.

In contrast, individually significant borrower operations regarded as doubtful are not included in the collective impairment test.

The criteria for selecting portfolios for creating internal models in the collective evaluation of impairment involve the principles of significance and complexity, and provide results that are in line with the real situation of the operations in the current economic environment.

If the Group does not develop internal methods for collective estimates, the estimates made by the Bank of Spain on the basis of its experience and information on the Spanish banking sector as used as an alternative.

The Group applies the following policies for calculating credit risk loss provisions.

Operations identified as not having appreciable risk (essentially operations with central banks, public administrations and companies, and financial institutions, all belonging to the European Union or certain countries regarded as non-risk) are given a percentage of 0%, except for operations classed as doubtful, in which an individual impairment estimate is carried out. In this estimate, the amount of the provisions required for the credit risk allocable to the debtor and for the relevant country risk are calculated. When it is necessary to provide for both the debtor's credit risk and the country risk, more demanding provisioning criteria are applied.

The Group's exposure metric for provisioning purposes considers currently drawn down balances and the estimate of the amounts that are expected to be disbursed in the event that off-balance-sheet exposures become doubtful, through the application of a Credit Conversion Factor or CCF.

For doubtful operations the losses incurred are estimated, these being understood as the difference between the current exposure and the estimated future cash flows, as described further on.

The Group uses shorter time-frames in certain segments when there is evidence that the reclassification procedures ensure that the loss events are detected earlier.

Subsequently, these cash flows are restated at the average weighted effective interest rate of all the borrower's operations (if the contractual interest rate is a fixed rate) or at the effective contractual interest rate on the date of the restatement (when the rate is variable).

The various Group methodologies are described in the following paragraphs.

Individualised provision estimates

The following are estimated on an individual basis:

- Provisions for doubtful operations of individually significant borrowers.
- If appropriate, operations or borrowers having characteristics that do not allow a collective impairment calculation.
- Provisions for operations identified as having no appreciable risk classified as doubtful.

The Group has developed a method for estimating said provisions, calculating the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future loan losses that have not been incurred), discounted at the borrower's current average effective interest rate. In addition, the calculation of the present value of future estimated cash flows from a secured financial asset will reflect the cash flows that could result from the enforcement of the relevant guarantee, less the costs for the obtention and sale of the guarantee, irrespective of whether its enforcement is probable or not.

Two methods for calculating the recoverable amount of assets assessed individually have been established:

a) Generation of cash flows by the activity itself (going concern): this will be applied for borrowers with respect to which it is estimated that future cash flows can be generated in the course of business, which will allow the repayment of part or all of the debt concerned. In addition, these flows could be supplemented by potential sales of equity assets that are not essential for the generation of said cash flows.

b) Enforcement of guarantees (gone concern): this will be applied for borrowers that are not capable of generating cash flows in the course of their business, the only means of recovering the investment being the foreclosure and liquidation of their assets.

Collective provision estimates

The following are estimated on a collective basis:

- Exposures classified as performing (including under special vigilance) where the Company considers that a loss has been incurred but has not been disclosed, as the relevant impairment in individually analysed operations has not emerged.
- Exposures classified as doubtful that are not assessed through individualised provision estimates.

The criteria for selecting portfolios for creating internal models involve the principles of significance and complexity, and provide results that are in line with the real situation of the operations in the current economic environment.

The Company has conducted a prior study of the operations used in the collective calculation of provisions. As a result of this study, the Bank has chosen the following portfolios to be used in the development of internal methodologies:

- Home purchases.
- SMEs.
- Sole traders.

The following portfolios are excluded from the utilisation of internal models:

- Specialised financing and large companies: they do not represent uniform risk groups with behaviour linked to similar default events.

- Consumer loans: the complexity generates excessive risk in the model and in view of the low exposure an alternative solution has been opted for.

When calculating the collective impairment loss, the Group mainly takes into account, based on best market practices and regulatory requirements, the following aspects:

- The impairment estimate process takes into account all loan exposures except non-doubtful loans with no appreciable risk for which Bank of Spain methods are used based on statistical data and models that aggregate the average behaviour of Spanish banking institutions. The Company recognises an impairment loss equal to the best available estimate under internal models, bearing in mind all available relevant information on conditions at the end of the period to which the calculation relates.
- In order to make a collective impairment evaluation, financial assets are grouped on the basis of similarity in characteristics related to credit risk, in order to estimate specific risk parameters for each uniform group. This segmentation differs according to the estimated risk parameter. The segmentation takes into account historical loss experience observed for a uniform group of assets (segment), once the present economic situation has been analysed, which is representative of the unreported losses incurred that will take place in that segment. This segmentation distinguishes risk, and is aligned with management and is being used in the Group's internal models, having been applied on various occasions by the internal control units and the supervisor. Finally, it is subjected to backtesting and the regular update and review of estimates to include all available information.

The Group has developed internal models for the collective calculation of impairment losses in which the aggregate amount of a credit risk loss is determined on the basis of the following parameters:

- Probability of impairment (PI): probability of an asset becoming impaired (corresponding to a borrower or uniform borrower group) within a specific time frame (appropriate to the period for the identification/emergence of impairment).
- Probability of Recovery: probability of asset being recovered expressed as a percentage, in the event of the impairment event occurring (determined using the PI parameter).
- Discounting of guarantees: percentage loss in value of guarantees.
- Exposure at the time of default: Group's exposure when the borrower impairment materialises (on the basis of which the above-mentioned probability of impairment is determined).

<u>Classification and Provision for credit risk due to country risk</u>

Country risk is considered to be the risk arising in counterparties resident in a specific country due to circumstances other than ordinary commercial risk (sovereign risk, transfer risk or risks arising from international financial activity). The Group classifies transactions with third parties in different groups depending on economic developments in the countries concerned, their political, regulatory and institutional framework and their payment capacity and record, assigning to each of them a loan-loss provision percentage in line with current legislation.

Doubtful assets due to country risk are considered to be those transactions with ultimate debtors resident in countries with a record of protracted difficulties in debt servicing, where recovery is regarded as doubtful, and off balance-sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

Provision levels for this risk are not significant in relation to the impairment provisions recognised by the Group.

Guarantees

In-rem and personal guarantees are regarded as efficient when the Group has demonstrated their validity in mitigating credit risk. The analysis of guarantee efficiency takes into account the time required to enforce the guarantees and the Group's capacity and experience in this respect.

Guarantees whose efficiency depends substantially on the credit quality of the debtor or corporate group to which the debtor belongs are not regarded as admissible as efficient guarantees.

The Group's measurement policies for guarantees relating to real-estate assets located in Spain are in line with current regulations. Specifically, the Group applies policies for selecting and engaging valuation companies which aim to ensure their independence and the quality of the valuations. All the valuation companies and agencies used are entered in the Special Valuation Companies Register of the Bank of Spain and the valuations are conducted in accordance with the provisions of Order ECO/805/2003 on rules for valuing real estate and certain rights for certain financial purposes.

Real-estate guarantees in loan operations and properties are appraised at the time they are granted or acquired, the latter by purchase, adjudication or dation in payment, and when an asset suffers a significant decline in value. In addition, minimal updating criteria are applied that guarantee an annual frequency in the case of impaired assets (special vigilance, doubtful and repossessed assets or assets received in settlement of debts), or on a three-yearly basis for very large debts performing normally without any symptoms of latent risk. Statistical methods are used to update the appraisals only for the above assets when exposure is low, although a complete ECO appraisal is carried out at least every three years.

The Company is approaching completion of its adaptation to this legislation, for which the deadline is 31 December 2017.

Overall verification of credit risk provisions

The Group has implemented backtesting methods for estimated and actual losses.

As a result of these analyses, the Group makes changes to internal methodologies when regular backtesting brings to light significant differences between estimated losses and actual losses.

The backtesting methods and analyses are revised by the internal control department.

2.3.2 Available-for-sale debt instruments

The impairment loss is equivalent to the positive difference between acquisition cost, net of any amortisation of the principal, and fair value after deducting any impairment loss previously recognised in the consolidated income statement.

For impairment losses arising due to the insolvency of the issuer of debt instruments classified as available for sale, the procedure followed by the Group to calculate the losses coincides with the policy explained above in 2.3.1. for debt instruments measured at amortised cost.

When there is objective evidence that the negative differences arising on the measure of these assets is due to impairment, the assets cease to be recorded in "Equity – Other accumulated comprehensive income - Items that may be reclassified to profit or loss - Available-for-sale financial instruments", and are recorded at the entire amount accumulated up to that time in the consolidated income statement. If all or part of the impairment loss is subsequently recovered, the relevant amount is recognised in the consolidated income statement for the period in which such recovery takes place.

2.3.3 Available-for-sale equity instruments

The impairment loss is equivalent to the positive difference between acquisition cost and fair value after deducting any impairment loss previously recognised in the consolidated income statement.

The criteria for recognising impairment losses on equity instruments classified as available for sale are similar to those applicable to debt instruments (as explained in Note 2.3.2.), except for the fact that any recovery of these losses is recognised in equity under "Equity – Other accumulated comprehensive income - Items that may be reclassified to profit or loss - Available-for-sale financial instruments".

For quoted equity instruments, taking into account the best practices recommended by supervisors (ESMA and CNMV), the Company calculates percentage or time ranges for declines in the share price over cost, as a result of which it concludes that there is objective evidence of impairment as a result of a significant or prolonged decline in the share price. These ranges are a 40% drop in share prices or a situation of continuous losses over a period exceeding 18 months. The Company also considers as evidence of impairment situations in which the issuer has entered into, or is likely to enter into, an agreement with creditors or has significant financial difficulties.

There are no other ranges that represent prior evidence of impairment, although the Company makes an individualised analysis of all investments in which there may be some indication of impairment other than a decrease in share price, irrespective of whether the above-mentioned ranges have not been exceeded.

2.3.4 Equity instruments measured at cost

Impairment losses are accounted for as the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Such impairment losses are recognised in the consolidated income statement for the period in which they arise and directly reduce the cost of the financial asset. The amount involved may not be recovered except in the event of their sale. These losses can only be recovered subsequently in the event of the sale of the assets.

2.4 Accounting hedges

The Group employs derivative financial instruments as part of its strategy to reduce exposure to interest rate and foreign exchange risks, where the transactions in question fulfil applicable legal requirements.

The Group designates a transaction as a hedge from inception. In the documentation relating to hedge operations, the hedged and hedging instruments are identified along with the nature of the risk to be covered and the criteria or methods followed by the Group to appraise their efficiency over the term of the operation.

The Group considers hedging operations to be those which are highly efficient throughout their term. A hedge is regarded as being highly efficient if the fluctuations arising in the fair value attributed to the hedged risk over the duration of the hedge are almost entirely offset by the fluctuations in the fair value of the hedging instruments.

To assess whether a hedge is effective The Group analyses whether, from inception to the finalisation of the term defined for the operation, it may be expected prospectively that any changes in the fair value of the hedged item that are attributable to the hedged risk are almost entirely offset by changes in the fair value of the hedging instrument and that, retrospectively, the gains or losses on the hedge operation are within a range of 80% to 125% of the gains or losses on the hedged item.

The Group contracts fair value hedges of financial assets and liabilities or of firm commitments not yet recognised, or of an identified portion of such items, attributable to a specific risk, provided the consolidated income statement is affected. Differences in both hedging instruments and hedged items, with respect to the type of risk hedged, are recognised directly in the consolidated income statement.

As well as the above hedging operations, the Group carries out fair value hedges of foreign exchange risk for a certain amount of financial assets (or financial liabilities) which form part of the instruments in its portfolio, but not specific instruments, which in accounting terms are usually called macro-hedges.

The accounting technique known as a macro-hedge requires the periodic assessment of its efficiency and therefore efficiency is verified on a quarterly basis by checking that the net position of assets and liabilities that mature or are repriced in the corresponding time band is higher than or equal to the amount hedged (sum of the hedging instruments in that band). Therefore, inefficiencies arise when the amount hedged is higher than the net asset and liabilities in the same time band. The fair value of the inefficient portion is immediately recognised in the consolidated income statement.

The Group interrupts hedge accounting when the hedging instrument expires or is sold, when a hedge no longer meets the criteria for hedge accounting or when the transaction ceases to be classed as a hedge.

Where fair value hedge accounting is interrupted as stated in the preceding paragraph, the value adjustments made for hedge accounting purposes are recognised in the income statement until the maturity date of the hedged items, applying the effective interest rate as recalculated on the interruption date.

2.5 Foreign currency transactions

2.5.1 Functional currency

The Group's presentation and functional currency is the euro. All balances and transactions denominated in currencies other than the euro are therefore foreign currency balances and transactions.

The equivalent value of the main asset and liabilities balances on the consolidated balance sheet recorded in foreign currency breaks down as follows based on the nature of the items making them up and the most significant currencies in which they are denominated:

	Equivalent value in thousand euro			
	2016		2015	
	Assets	Liabilities/ Equity	Assets	Liabilities/ Equity
Breakdown by portfolio type				
Financial assets/liabilities at fair value through profit or loss	24,007	(928)	25,588	(301)
Loans and receivables /Liabilities at amortised cost	66,125	51,900	78,144	55,393
Rest	-	16,564	-	5,387
	90,132	**67,536**	**103,732**	**60,479**
Breakdown by currency type				
US dollars	60,208	49,090	69,158	52,459
Pound sterling	5,553	1,794	18,948	1,199
Swiss francs	3,517	772	2,414	686
Japanese yen	18,185	16,596	1,694	38
Canadian dollar	159	8	7,798	5,561
Rest	2,510	(724)	3,720	536
	90,132	**67,536**	**103,732**	**60,479**

2.5.2 Foreign currency translation methods:

Transactions in foreign currencies are initially recognised at the equivalent value in euro based on the exchange rates prevailing at the date of the transactions. Monetary balances denominated in foreign currency are subsequently converted to the functional currency at the exchange rate ruling on the date of issue of the financial information.

In addition:

- Non-monetary items valued at historical cost are translated into the functional currency at the exchange rate prevailing on the date of acquisition.
- Non-monetary items stated at fair value are translated into the functional currency at the exchange rate prevailing on the date on which the fair value is determined.

2.5.3 Recognition of exchange differences

Exchange differences that arise when translating balances in foreign currency to the entities' functional currency are recorded in general at net value under Differences on exchange (net) on the consolidated income statement, with the exception of exchange differences on financial instruments recognised at fair value through profit or loss, which are recorded on the consolidated income statement under “Gain/(loss) on financial assets and liabilities held for trading, net” and “Gain/(loss) on financial assets and liabilities at fair value through profit or loss, net”, without differentiating them from other fair value fluctuations.

However, exchange differences arising from equity instruments in foreign currency whose fair value is adjusted with a balancing entry in equity are recognised under the equity heading “Other accumulated comprehensive income - Items that may be reclassified to profit or loss - Currency translation”.

At 31 December 2016 and 2015 there is no balance in that caption since equity instruments denominated in foreign currencies are hedged against foreign exchange risks by means of fair value hedges in which the hedging instruments are interbank deposits, allowing changes in value caused by foreign exchange fluctuations to be recognised in the income statement.

2.6 Recognition of income and expenses

Set out below is a summary of the most significant accounting policies employed by the Group to recognise income and expense:

2.6.1 Income and expenses on interest, dividends and similar items

In general, interest income and expense and similar items are accounted for on an accruals basis, using the effective interest rate method. Dividends received from other companies are recognised in the income statement when the consolidated entities become entitled to receive them.

2.6.2 Commissions, fees, and similar

Commission and fee income and expenses which are not included in the calculation of the effective interest rate on transactions and/or which do not form part of the acquisition cost of financial assets or liabilities other than those classified at fair value through profit or loss are recognised on the consolidated income statement using accounting policies that vary according to the nature of the item concerned. The most significant are:

- Those linked to acquisitions of financial assets and liabilities carried at fair value through profit or loss, which are reflected in the income statement when payment is made.
- Those arising on transactions or services with a lengthy duration, which are recorded in the consolidated income statement over the term of the transaction or service.
- Those relating to a one-off event, which are recorded when the originating event takes place.

2.6.3 Non-financial income and expense

These are recognised on an accruals basis.

2.6.4 Deferred collections and payments

Deferred collections and payments are carried at the amount obtained by discounting forecast cash flows at market rates.

2.7 Offsetting of financial instruments

The Entity only offsets, and therefore discloses on the consolidated balance sheet at the net value, debtor and creditor balances arising on transactions which under contract or legislation, provide for possible offset and the intention is to liquidate them at their net amount or realize the asset and pay the liability simultaneously.

2.8 Financial asset transfers

The accounting treatment of transfers of financial assets depends on the extent to which the related risks are rewards are transferred to third parties:

- if the risks and rewards relating to the transferred assets are substantially transferred to a third party, the asset is written off the consolidated balance sheet and any right or obligation retained or created as a result of the transfer is recognised.

- If the risks and rewards associated with the financial asset transferred are substantially retained, as in the case of financial asset securitisations in which subordinated financing or another kind of credit improvement is maintained which substantially absorbs the loan losses expected for the securitised assets, the financial asset transferred is not written off the consolidated balance sheet and continues to be measured using the criteria used prior the transfer. Conversely, the following items are recognised and not offset:

  - An associated financial liability in an amount equal to the price received, which is subsequently measured at amortised cost.

  - The income from the financial asset which is transferred but not written off, and the expenses derived from the new financial liability.

Accordingly, financial assets are only written off the consolidated balance sheet when the cash flows they generate have been exhausted or when related risks and returns have been substantially transferred to third parties.

The above notwithstanding, financial assets transferred before 1 January 2004 have been derecognised irrespective of the conditions of the transfer of risks and rewards, in accordance with current legislation.

Note 27.5 summarises the most significant circumstances of the main asset transfers in effect in the Group at the year end.

2.9 Financial guarantees and provisions made thereon

Financial guarantees are contracts in which the Group undertakes to pay specified sums for the account of a third party in the event that payment is not made by the third party, irrespective of the form of the obligation: guarantee deposit, financial guarantee, irrevocable documentary credit issued or confirmed by the entity etc.

At the time of initial recognition, the Group accounts for the financial guarantees provided under liabilities in the consolidated balance sheet at fair value, which is generally equal to the present value of the commissions and returns to be received on such contracts over the term of the same with, as the balancing entry under assets on the consolidated balance sheet, the amount of likened commissions and returns collected at inception and accounts receivable at the present value of the commissions and returns pending collection. These amounts are amortised on a straight-line basis over the term of the contracts in the consolidated income statement.

Financial guarantees, irrespective of the holder or form, are analysed periodically in order to determine credit risk and, if applicable, estimate the need for provisions. The methods employed are similar to those applied to calculate impairment losses on debt instruments measured at amortised cost, as explained in Note 2.3.1 above.

The provisions set up to cover such operations are recorded under “Provisions - commitments and guarantees given” under liabilities on the consolidated balance sheet. The appropriation and recover of said provisions is recorded with a balancing entry in the heading “Provisions or reversal of provisions” the consolidated income statement.

When a provision is required for financial guarantees, associated commissions pending accrual, carried in the consolidated balance sheet in the heading “Other liabilities”, are reclassified to the relevant provision.

2.10 Accounting for leases

2.10.1 Finance leases

Financial lease operations are deemed to be those in which substantially all risks and rewards pertaining to the leased assets are transferred to the lessee.

Whenever consolidated entities act as the lessor of an asset in a finance lease operation, the sum of the present values of the amounts that will be received from the lessee plus the guaranteed residual value, are recorded as financing provided to third parties and are therefore recognised in the caption “Loans and receivables” in the consolidated balance sheet, in accordance with the nature of the lessee.

When the consolidated entities act as lessee in a finance lease operation, the cost of the assets leased is recognized in the consolidated balance sheet, depending on the nature of the asset and simultaneously a liability is recognised for the same amount, which will be the lower of the fair value of the asset leased or the sum of the present values of the amounts payable to the lessor plus, if appropriate, the purchase option exercise price. These assets are depreciated at similar rates to those applied to the Group’s property, plant and equipment for own use (Note 2.15).

In both cases, the financial income and expense on finance leases is credited and charged, respectively, to the consolidated income statement headings “Interest income” and “Interest expenses”, applying the effective interest rate on the lease to estimate accrual.

Note 27.7.1 sets out information on these leases.

2.10.2 Operating leases

Where ownership of the leased asset and substantially all the risks and rewards attached to the asset are retained by the lessor, the arrangement is classified as an operating lease.

Where the consolidated entities act as the lessors in operating lease agreements, the acquisition cost of the leased asset is carried under “Property, plant and equipment” in “Investment property” or “Other assets assigned under operating leases”, depending on the nature of the leased assets. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the income from lease contracts is recognised in the consolidated income statement on a straight-line basis in the heading “Other operating income”.

When the consolidated companies act as lessees in operation lease transactions, the lease expenditure, including any incentives granted by the lessor, are charged to the consolidated income statement on a straight-line basis, under the heading Other management expenses.

Note 27.7.2 sets out information on these leases.

2.11 Assets managed

Third party assets managed by the consolidated companies are not included in the consolidated balance sheet. Fees generated by this activity are recorded under Fee income in the consolidated income statement. Note 27.4 provides information on the third-party assets managed at the year end.

2.12 Investment funds and pension funds managed by the Group

Investment funds and pension funds managed by the consolidated companies are not included in the Group's consolidated balance sheet because they are owned by third parties. Fees and commissions earned by the services rendered to these funds by Group companies (asset management services, portfolio deposits, etc.) are recorded under Fee income received in the consolidated income statement.

Note 27.4 provides information on the investment funds and pension funds managed by the Group at the year end.

2.13 Personnel expenses

2.13.1 Post-employment benefits

Post-employment remuneration is remuneration paid to employees after the end of their period of employment. All post-employment obligations are classified as defined contribution plans or defined benefit plans, based on the conditions of these obligations.

The Bank's post-employment commitments with its employees are treated as defined-contribution plans when the Bank makes predetermined contributions to a separate entity, on the basis of the agreements reached with each specific group of employees, without any legal or effective obligation to make additional contributions were the separate entity unable to pay benefits to the employees for the services rendered in the current year and in prior years. Post-employment commitments that do not fulfil the above-mentioned conditions are treated as defined-benefit plans.

The "Labour agreement for the integration and standardisation of pension and welfare commitments in Ibercaja Banco and companies belonging to Banco Grupo Cajatres" was concluded on 23 December 2015, which provides for the integration of all interested parties in the "Ibercaja Employee Pension Plan" as from 1 January 2016, the date on which the new unified contributions and benefits scheme will come into effect.

Defined contribution plans

The Group's pension commitments are arranged through a defined contribution system for retirement and a defined benefit system for death and disability during active employment, the latter being covered by annual insurance policies.

The contributions made each year are recognised under "Staff costs" on the consolidated income statement. The contributions made by the defined contribution plan promoters amounted to €16,396 thousand in 2016 and €15,290 thousand in 2015.

Defined benefit plans

The heading Provisions - pension fund and similar obligations on the liabilities side of the balance sheet records the present value of post-employment obligations less the fair value of the plan assets, with respect to defined benefit plans. The liabilities for defined benefits are calculated annually by independent actuaries using the projected unit credit method.

Plan assets are assets linked to a specific defined-benefit commitment that will be directly used to settle these obligations and that fulfil the following conditions:

- They are not owned by the Bank but by a legally separate, non-related third party.
- They are available only to pay or fund employee benefits and are not available to creditors of the Bank, even in the event of the Bank becoming insolvent.
- They cannot be returned to the Bank unless the assets remaining in the scheme are sufficient to meet all obligations of the scheme and of the Bank relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid.
- They may not be non-transferable financial instruments issued by the Bank.

The Group records its reimbursement right under assets on the balance sheet in the heading "Other assets - insurance contracts linked to pensions" which for other purposes is treated as a plan asset. The assets that cover commitments with personnel arranged with Ibercaja Vida, S.A. are not plan assets as this is a related Group company. They are recognised under "Other assets - insurance contracts linked to pensions".

The present value of the defined benefit obligations with staff is determined by discounting the future cash flows estimated at discount rates for corporate bonds with high credit ratings that are consistent with the currency and estimated terms that the liabilities for post-employment benefits will be settled.

The expected return on plan assets for defined benefit plans and reimbursement rights are determined using the same discount rate as for calculating the present value of the obligations.

The Post-employment benefits are recognised as follows:

- In the income statement: the cost of services provided by employees, both during the year and in prior years (where not recognised in prior years), net interest on the provision (assets), and the gain or loss arising on settlement.
- In the statement of changes in equity: new measurements of the provision (asset) as a result of actuarial gains or losses, of yields on plan assets that have not been included in net interest on the provision (assets), and changes in the present value of the assets due to changes in the present value of flows available to the entity, which are not included in net interest on the provision (assets). The amounts not recorded in net interest under equity will not be reclassified to the income statement in a subsequent period.

  Actuarial gains/losses derive from differences between prior actuarial assumptions and actual events, and from changes in the actuarial assumptions used.

Pension supplements for serving or retired personnel

Post-employment commitments acquired by the Group with serving and retired personnel derive from the various Collective Agreements and are related to supplements to Social Security pensions in cases retirement, widowhood, orphanhood, permanent disability or major disability.

As a result of the "Labour agreement for the integration and standardisation of pension and welfare commitments in Ibercaja Banco and companies belonging to Banco Grupo Cajatres" concluded on 23 December 2015, with effect from 1 January 2016, the "CAI Empleo, Fondo de Pensiones", "Empleados Caja Círculo, Fondo de Pensiones" and "Fondo de Pensiones de Empleados del Monte de Piedad y Caja General de Ahorros de Badajoz-Febadajoz, F.P." have been integrated into the "Plan de Pensiones de Empleados de Ibercaja".

Post-employment commitments acquired by the Group with retired personnel included in the Ibercaja employee pension plan derive from the Collective Agreement and are related to supplements to Social Security pensions in cases of retirement, widowhood, orphanhood, permanent disability or major disability.

In addition, the Group has retirement supplements commitments with past retired employees and management personnel which are externalized through insurance policies with Caser, Compañía de Seguros y Reaseguros, S.A. and Ibercaja Vida, S.A.

2.13.2 Other long-term employee remuneration

Commitments with early retiring staff, the widowhood and disability commitments prior to retirement that depend on length of service and other similar items will be processed for accounting purposes, as applicable, as established in defined benefit post-employment plans, except that actuarial gains and losses are recognised immediately in the income statement.

The Group has commitments towards early retirees to pay salary complements and other welfare charges from the time of early retirement to the date of actual retirement.

2.13.3 Severance payments

Severance indemnities are recognised as a personnel expense when the Group undertakes to terminate the employment relationship before the normal retirement date, or to pay severance indemnities as a result of an offer made to encourage voluntary termination of employment by employees.

2.13.4 Other employee benefits

The Group has committed to providing employees with certain goods and services at partially or totally subsidised prices, in accordance with the collective bargaining agreement and the Corporate or Company Agreements. The most relevant welfare benefits are credit facilities.

Employees of Ibercaja Banco, S.A. with indefinite contracts are generally entitled to request loans or credit facilities, subject to a maximum limit based on their annual salary, once their trial period has ended.

- Home loans: the maximum amount to be granted is that determined by the value of the dwelling plus the expenses inherent to the acquisition thereof, which must be duly supported and may not exceed five annuities, which are considered as comprising the items referred to in Article 40 of the Collective Agreement, plus the family complement. If this second limit is applicable, the resulting amount may not be less than €200,000 euros under a Resolution of the Board of Directors. The maximum term is 35 years and the applicable interest rate is equal to 60% of the one-year Euribor rate in April and October, subject to a minimum of 1.25% and a maximum of 5.25%.
- Personal loan: the maximum capital to be financed is 25% of the employee's annual remuneration with respect to the corresponding items from those provided for in Article 40 of the Collective Agreement, plus the family complement. However, any employee may obtain up to €30,000. The maximum term is 10 years and the applicable interest rate is the one-year Euribor rate in October of the year in progress.
- Welfare advance: to meet fully supported essential needs. The amount will not exceed six gross monthly payments, including all fixed items that make up the monthly salary, and will be repaid in monthly instalments consisting of 10% of gross salary.

2.14 Corporate income tax

Income tax expense is calculated as tax payable on taxable income for the year, as adjusted for variations during the year in asset and liability balances arising from timing differences, tax credits and allowances, and any tax-loss carryforwards (Note 25).

As mentioned in Note 25, Ibercaja Banco forms part of a Tax Group, the parent of which is Fundación Bancaria Ibercaja, in accordance with Chapter VII of Title VII of the Corporate Income tax Law.

A timing difference is a difference between the carrying amount and the taxable amount of an asset or liability. A taxable amount is one which will generate a future obligation to make a payment to the tax authorities and a deductible amount is one that will generate the right to a refund or a reduction in a payment to the tax authorities in the future.

Temporary differences, tax-loss carryforwards yet to be offset and tax deductions not yet applied are recorded as deferred tax assets and/or liabilities. These amounts are recorded by applying to them the tax rate at which they are expected to be recovered or settled.

Deferred tax assets are only recognised when it is considered probable that there will be sufficient taxable profits in the future to be able to recover them.

Tax credits for deductions and rebates and for tax-loss carryforwards are items which, after having completed the activity or obtained the results that generate the relevant rights, are not applied for tax purposes in the relevant return until the fulfilment of the conditions laid down by tax legislation to this end, it being considered probable by the Group that they will be applied in future years. Note 25 gives details of the assets recorded in this respect.

Current tax assets and liabilities are those which, respectively, are regarded as being recoverable or payable within 12 months as from the year end. Deferred tax assets and liabilities are those which, respectively, are expected to be recovered or paid in future years.

Deferred tax liabilities are recognised for almost all temporary differences. However, deferred tax liabilities are recognised for taxable temporary differences deriving from investments in subsidiaries, associates and jointly-controlled entities, except when the Group is able to control the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

At each reporting date, deferred tax assets and liabilities are analysed to ensure that they remain valid and any necessary adjustments are made accordingly.

2.15 Tangible assets

In general, tangible assets are presented on the balance sheet at cost, this being the fair value of any consideration paid plus all cash payments made or committed net of accumulated depreciation and any value adjustment resulting from comparing the carrying value of each item with its recoverable amount.

Depreciation is calculated on a straight-line basis over the acquisition cost of the assets less their residual value, on the understanding that the land on which the buildings and other constructions stand has an indefinite life and is therefore not subject to depreciation.

The annual provisions for depreciation are charged to the consolidated income statement under Fixed asset depreciation and are calculated on the basis of the following average years of estimated useful life of the various assets, as follows:

	Estimated useful lives (years)
Properties for own use	25 to 100
Furnishings	6 to 16.6
Plant	5 to 16.6
Computer equipment and installation	4 to 8

At the year end the consolidated companies analyse whether there is any evidence, internal or external, that the carrying value of tangible assets exceeds their recoverable value, in which case the carrying value of the asset concerned is reduced to its recoverable amount. Future depreciation charges are adjusted in proportion to the asset's adjusted carrying amount and new remaining useful life, if its re-estimation is required. This reduction in the carrying value, if necessary, is charged to Impairment or reversal of impairment of non-financial assets, net - tangible assets" on the consolidated income statement.

Similarly, where there are indications that the value of impaired property, plant and equipment has been recovered, the consolidated entities recognise the reversal of the impairment loss shown in previous periods by crediting the consolidated income statement heading "Impairment or reversal of impairment of non-financial assets, net - tangible assets" and adjusting future depreciation charges accordingly.

Additionally, the estimated useful lives of property, plant and equipment are reviewed at least yearly to detect significant changes. If necessary, adjustments are made to depreciation charges for future years in the consolidated income statement on the basis of the new useful lives.

Repair and maintenance expenses relating to fixed assets for own use are charged to Other management expenses on the consolidated income statement.

2.16 Intangible assets

Intangible assets are identifiable non-monetary and non-physical assets that arise from an acquisition from third parties or have been developed internally.

2.16.1 Goodwill

The positive difference between the price paid in a business combination and the acquired portion of the net fair value of the assets, liabilities and contingent liabilities of the acquired entities is recognised under assets on the balance sheet as goodwill. Goodwill represents a payment made by the group in anticipation of the future economic benefits from assets of an acquired entity that are not capable of being individually or separately identified and recognized. Goodwill is recognized only if it has been purchased for valuable consideration through a business combination. Goodwill is not amortised, but at the end of each accounting period it is subjected to analysis for any possible impairment that would reduce its recoverable value to below its stated net cost and, if found to be impaired, is written down against the consolidated income statement.

In order to verify if any impairment has taken place, the goodwill acquired in a business combination will be allocated from the date of acquisition among the cash generating units of the acquiring entity which are expected to benefit from the synergies produced by the business combination, irrespective of whether other assets or liabilities of the acquired entity are allocated to these units or groups of units. Each unit or group of units among which the goodwill is distributed:

a) will represent the lowest level of detail within the entity to which the goodwill is assigned for internal control purposes; and

b) will not be larger than an operating segment, as defined in Note 27.9.

Therefore, in the annual impairment test on goodwill, the recoverable amount of the CGU (higher of fair value or value in use) containing the goodwill is compared with that unit's carrying value.

To detect possible indications of goodwill impairment value appraisals are undertaken, generally on a present value of future distributable earnings basis, having regard to the following parameters:

- Key business assumptions. The cash flow projections used in the measurement are based on these assumptions. For businesses engaging in financial operations, projections are made for variables such as: changes in lending volumes, default rates, customer deposits and interest rates, as well as capital requirements.
- The period covered by the projections. This is usually five years, after which a recurring level is attained in terms of both income and profitability. These projections take account of the economic outlook at the time of the valuation.
- Discount rate. The present value of expected profits, from which a value in use is derived, is calculated from a discount rate taken as the capital cost of the entity from the standpoint of a market participant. To do this the Capital Asset Pricing Model (CAPM) is used.
- The rate of growth used to extrapolate cash flow projections beyond the end of the period covered by the most recent projections. Based on long-term estimates for the main macroeconomic numbers and key business variables, and bearing in mind the current financial market outlook at all times, an estimate of a rate of growth in perpetuity can be arrived at.

Impairment losses recognised for goodwill cannot subsequently be reversed.

2.16.2 Other intangible assets

Intangible assets other than goodwill are carried in the consolidated balance sheet at acquisition or production cost, net of accumulated amortisation and any impairment losses.

Intangible assets may have indefinite useful lives when, on the basis of the analyses performed, it is concluded that there is no foreseeable limit to the period during which they are expected to generate cash flows and they are not amortised. At each accounting close, however, the Group reviews the assets' remaining useful lives in order to ensure that they are still indefinite. The Group has not identified any assets of this kind.

Intangible assets with defined useful lives are amortised on the basis of their useful lives using rates similar to those adopted to amortise Property, plant and equipment. Annual amortisation of intangible assets with a definite useful life is recognised in "Amortisation- Intangible assets" in the income statement and is calculated on the basis of the useful lives initially estimated, generally 3 to 5 years, except for intangible assets relating to customer relations described in Note 16.2, in which an estimated useful life of 10 years has been estimated for relations associated with sight deposits and six years to those associated with term deposits.

The Group recognises any impairment loss and makes a balancing entry under “Impairment or reversal of impairment of non-financial assets, net - tangible assets” in the consolidated income statement. The methods applied to recognise impairment losses on these assets and, if appropriate, the recovery of impairment losses recognised in prior years are similar to those applied to property, plant and equipment (Note 2.15).

2.17 Inventories

This item in the consolidated balance sheet includes the consolidated institutions´ non-financial assets:

- Hold for sale in the ordinary course of business,
- Are in the process of making, building or developing for such purposes.
- Expect to consume in production or the provision of services.

Inventories are valued at the lower of their cost, including all acquisition and conversion costs and other direct and indirect costs incurred in bringing the inventories to their present condition and location, and their net realizable value. The net realisable value of inventories is their estimated selling price in the ordinary course of business, less the estimated cost of completing production and selling expenses.

The cost of inventories which are not ordinarily interchangeable is determined on an individual basis and the cost of other inventories is determined by applying the average weighted cost method. Decreases in and, if applicable, subsequent recoveries of the net realisable value of inventories, below their carrying amount, are recognised in the consolidated income statement in the financial year they are incurred, in the heading “Impairment or reversal of impairment of non-financial assets, net - Other”.

The carrying value of inventories which are written off the consolidated balance sheet is recorded as an expense in the consolidated income statement under “Other operating charges" in the year the income from their sale is recognised.

For foreclosure assets or assets received in settlement of debts which, according to their nature and purpose (in production, construction or development), are classified as inventories, the Group applies criteria similar to those described in Note 2.18 for said assets.

2.18 Non-current assets and disposal groups of items classified as held for sale

This heading records assets whose carrying value will be recovered essentially through their sale rather than their continued use, provided that the sale is regarded as highly probable.

These are valued on the acquisition date and thereafter at the lower of carrying value and fair value of the estimated costs to sell. Assets that would otherwise be subject to depreciation and amortisation are not depreciated or amortised while they remain in the category of non-current assets held for sale.

In particular, repossessed real estate assets or assets received in settlement of debts by the Group in order to partially or fully meet the payment obligations of its debtors are considered non-current assets and disposal groups of items that are classified as held for sale, unless the decision has been taken to make continuing use of these assets or they are used in operations as leased properties.

The carrying value at the date of acquisition of non-current assets and disposal groups of items that are classified as held for sale from foreclosures or received in settlement of debts is defined as the outstanding amount receivable of loans or credit facilities from which they originate net of any related provisions according to their accounting classification before receiving said assets. These repossessed assets or assets received in settlement of debts are treated as collateral. This carrying amount is compared with the previous carrying amount and the difference is recognised as an increase in or reversal of provisions, as appropriate.

To estimate the provisions mentioned, the recoverable amount of the guarantee is taken to be fair value less estimated costs to sell of the repossessed assets or assets received in settlement of debts, since the Group has sufficient sales experience to ratify its capacity to realise the assets at fair value.

To determine the fair value of costs to sell, the repossessed assets or assets received in settlement of debts are measured initially on the basis, as a reference value, of the market value calculated in complete individual appraisals applying the policies and criteria described under Guarantees in Note 2.3.1. In addition, the Group assesses whether it is necessary to apply a discount to this reference value given its experience in sales and the average time that similar assets are held on the balance sheet.

The Group has developed internal methodologies for estimating discounts on reference values and costs to sell, taking into account its experience in selling similar assets.

For the purposes of determining impairment after the foreclosure date or receipt as payment, when the fair value of costs to sell exceeds the carrying amount, the difference is recognised in the consolidated income statement as income from impairment reversals, subject to the limit of the accumulated impairment since the initial recognition of said assets. When an asset has surpassed the average period for holding properties that the Group wishes to sell, the Group reviews the procedure for determining fair value, applying a discount derived from the additional time such assets have been on the balance sheet. Therefore, no impairment reversal income is recognised for these assets.

The Group carries out regular comparison and reference exercises for the estimates made and has devised backtesting methods for comparing estimated and actual losses.

As a result of these analyses, the Group makes changes to internal methodologies when regular backtesting brings to light significant differences between estimated losses and actual losses.

The backtesting methods and analyses are revised by the internal control department.

Gains and losses generated on the disposal of non-current assets and disposal groups of items classified as held for sale and impairment losses and impairment reversals, where applicable, are recognised under "Gains/(losses) on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations” on the consolidated income statement. The remaining income and expenses associated with these assets and liabilities are disclosed by nature.

2.19 Insurance operations

In accordance with accounting standards specific to the insurance sector, group insurance companies record a revenue for the amount of premiums issued during the year and an expense for the cost of claims when these are known. These accounting practices require insurance companies to apportion at the year end the amounts credited to the income statement and not accrued at that date.

The most significant accruals established by consolidated entities with respect to the direct insurance arranged by them are: unearned premiums, benefits, life insurance when the investment risk is assumed by the policyholder, share in profits and returned premiums.

The adjustment of accounting asymmetries is applied to insurance transactions that:

- are financially immunised,
- link the surrender value to the value of the assets specifically assigned,
- envisage a share in the profits of a related asset portfolio,
- are characterised by the fact that the policyholder assumes the investment risk.

The adjustment consists of recognising the changes in fair value of the assets classified as Available-for-sale financial assets and Other financial assets at fair value through profit or loss on a symmetrical basis.

The balancing entry for these changes is the life insurance provision, when this is required by Spanish insurance legislation, or a liability account (with a positive or negative balance) for the portion not recorded as in the life insurance provision which is disclosed under Other liabilities on the consolidated balance sheet.

The technical reserves for ceded reinsurance, calculated on the basis of the relevant reinsurance treaties applying the same criteria as for direct insurance, are recognised under “Assets under insurance or reinsurance contracts” (Note 14).

2.20 Provisions and contingent liabilities

When preparing the financial statements of the consolidated companies, their respective directors distinguished between:

- Provisions: creditor balances that cover obligations in force at the balance sheet date deriving from past events that could give rise to financial losses for the entities. Although such losses are regarded as probable and are specific in nature, their amount and/or settlement date cannot be determined.
- Contingent liabilities: possible obligations resulting from past events, the future materialisation of which is contingent upon the occurrence or otherwise of one or more events independent of the consolidated companies’ intentions.

The Group's consolidated financial statements include all the significant provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, although information is provided in accordance with applicable regulations (Note 27.1).

The provisions (which are quantified taking into account the best information available concerning the consequences of the event from which they derive and are re-estimated at each accounting close if new information comes to light) are used to cover the specific obligations for which they were originally recognised and reversed in full or in part when such obligations cease to exist or decrease.

Provisions considered necessary in accordance with the above criteria are debited or credited to “Provisions or reversal of provisions” on the consolidated income statement.

A the year end certain litigation and claims were ongoing against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the outcome of litigation and claims will not have a material effect on the consolidated financial statements for future years.

2.21 Consolidated statements of recognised income and expenses

In accordance with the options established in IAS 1.81, the Group has chosen to present separately a statement showing the components of consolidated profits ("consolidated income statement") and a second statement which, on the basis of consolidated profits for the year, reflects the components of the remaining income and expenses for the year recognised directly in equity ("consolidated statement of recognised income and expenses").

The consolidated statement of recognised income and expenses presents income and expense generated by the Group as a result of its activities during the year, distinguishing between income and expense recognised as profit or loss in the income statement for the year and other income and expense which, under prevailing legislation, are recorded directly in consolidated equity.

In addition, income and expenses recognised directly in equity are divided between those which will not be reclassified to the income statement and those that may be reclassified to the income statement.

In general, income and expenses recognised directly in equity are disclosed at the gross amount and the relevant tax effect is reflected under Corporate income tax.

The largest figure in the income and expense recognised directly in equity relates to financial assets available for sale, which break down as follows:

a) Measurement gains(losses): this reflects the amount of income, net of the expenses arising in the year, recognised directly in equity. The amounts recognised in the year in this item are maintained in it although in the same year they are taken to the consolidated income statement.

b) Amounts transferred to income statement: this records the amount of measurement gains or losses, recognised previously in equity, albeit in the same year that they are recognised in the income statement.

c) Other reclassifications :this records the amount of transfers made in the year between measurement adjustments in accordance with current legislation.

2.22 Total statement of changes in consolidated equity

The “Total statement of changes in equity” presents all changes in equity, including those arising from changes in accounting criteria and error corrections. This statement therefore reflects a reconciliation of the carrying value at the beginning and end of the year for all items forming part of consolidated equity, grouping movements on the basis of their nature into the following items:

a) Adjustments owing to changes in accounting policies and correction of errors: this includes the changes in consolidated equity which result from the retroactive restatement of balances in the financial statements arising from changes in accounting policies or error correction.

b) Income and expense recognised in the year: this records on an aggregate basis total items reflected in the statement of recognised income and expenses outlined above.

c) Other changes in equity: this reflects other equity items such as increases or decreases in capital, distribution of results, transactions with own equity instruments, transfers between equity items and any other increase or decrease in consolidated equity.

2.23 Consolidated cash flow statements

The following expressions are used with the following meaning in the consolidated cash flow statements:

- Cash flows: inflows and outflows of cash and cash equivalents understood as on-demand investments.
- Operating activities: the ordinary activities of credit institutions. Activities involving financial instruments are regarded as operating activities, with certain exceptions such as the financial assets included in the held-to-maturity investment portfolio, equity instruments classified as available for sale which are strategic investments and subordinate financial liabilities.
- Investing activities: acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities and do not form part of operating activities.

For the purposes of preparing the consolidated cash flow statement, the Group has considered "cash and cash equivalents" to be highly liquid short term investments which are exposed to a negligible risk of change in value. The Group therefore treats the following financial assets and liabilities as cash or cash equivalents:

- The Group’s own cash, which is recognised in the consolidated balance sheet under “Cash, cash balances at central banks and other demand deposits” (Note 6).
- Net demand balances held with Central Banks, recognised in the consolidated balance sheet under “Cash, cash balances at central banks and other demand deposits” on the consolidated balance sheet (Note 6).

- Net balances of demand deposits at credit institutions other than the balances at central banks. Debtor balances are recognised in the consolidated balance sheet under “Cash, cash balances at central banks and other demand deposits” (Note 6). Creditor balances are recognised under liabilities on the consolidated balance sheet in the caption “Financial liabilities at amortised cost – Deposits – Credit institutions” (Note 19.2).

3. Risk management

The Company’s risk management is organized through the "Risk Appetite Framework" (RAF). The main purpose of Ibercaja's RAF is to establish a set of principles, procedures, controls and systems whereby it defines, communicates and monitors the Group's risk appetite, understood as the risk level or risk profile that the Ibercaja Group is willing to assume and maintain, concerning both the type and amount involved, as well as its level of tolerance. It should aim to achieve the objectives of the strategic plan on the basis of the lines of action defined therein.

The objective in the management of the various risks is to achieve a risk profile within the desired risk appetite, defined on the basis of the established limits, and taking the management measures that are consider most suitable to achieve this end.

The RAF contains the risk appetite statement, the risk limits and the duties and responsibilities of the various governing and management bodies that supervise the implementation and monitor the RAF.

The Risk Appetite Framework defined by the Ibercaja Group is characterised by the following:

- Alignment with the strategic plan and capital planning.
- Integration into the entity's risk culture, involving all levels responsibility.
- Being flexible, able to adapt to changes in the business and market conditions, for which reason it must be revised regularly, at least on an annual basis.
- Linkage with information management systems.

The RAF has a global vision of the consolidated Group and considers all risks, whether financial or not, affecting its business activity and the achievement of business objectives. The risks taken into account are the following: business and profitability risk, credit risk, concentration risk, operational risk, interest rate risk, market risk, liquidity risk, reputational risk, compliance risk and risk related to the view of stakeholders.

The Ibercaja Group Risk Appetite Framework is based on strategic, corporate governance and risk management principles which, together, make up the Group's Risk Appetite Statement.

The Ibercaja Group also has risk management policies and procedures manuals which are revised and approved annually by the Board of Directors.

In February 2016, the Board of Directors of Ibercaja Banco approved the update of the Risk Appetite Framework. In March 2016, it approved the update of the Liquidity Risk Management Policy and Procedures Manual, the Operating Risk Management Framework and the Risk Facility Manual of Ibercaja Banco, and in May 2016 it approved the update of the Interest Rate Risk Management Policy and Procedures Manual and the Capital Markets Unit Policy Manual.

Following the entry into force of Bank of Spain Circular 4/2016, in November 2016 the Board of Directors approved the Validation and Internal Control Framework, the Credit Risk Management Accounting Policies Manual, the Internal Guarantee Model Calculation Manual, the Internal Adjudication Model Calculation Manual and the Operating Manual for Calculating Collective Provisions, as well as the review of the Governance Framework of these models. In December 2015, the review of the Loans and Receivables Management Policy and Procedures Manual.

The Risk Appetite Framework is consistent with the capital planning and liquidity of Basel Pillar II, the objective of which is to ensure an adequate relationship between the risk profile of the Entity and the equity effectively held. The Entity carries out a recurring capital and liquidity auto-evaluation process in which it applies a series of procedures for identifying, measuring and aggregating risks, determines the capital required to cover them, plans medium-term capital and lays down the capital targets that enable it to maintain a comfortable position with request to regulatory minimum capital requirements.

Following the entry into force of the Single Supervisory Mechanism (SSM) in November 2014, European financial institutions are obliged to adapt their risk policies and procedures as well as their control environment. The Supervisory Review and Evaluation Process (SREP) is the means for carrying out the ongoing evaluation of financial institutions by the SSM. The internal processes for evaluating the adequacy of capital and liquidity under Pillar II (known as ICAAP & ILAAP) are key factor in the SREP.

Finally, the Entity has defined a recovery plan to predict and guarantee its reaction capacity in the face of any impairment to its solvency or financing capacity, in accordance with the Directive for Bank Recovery and Resolution (Directive 2014/59, BRRD), with Law 11/2015 (18 June) on the recovery and resolution of credit institutions and investment firms and with the guidelines and recommendations of the European Banking Association (EBA) referring to the content of recovery plans. The recovery plan is included in existing risk management processes and is updated annually. The Board of Directors of Ibercaja Banco approved the update of the recovery plan in December 2016.

3.1 Credit risk exposure

It is defined as the possibility of losses being generated due to borrowers defaulting on their payment and losses in value due to the impairment of borrowers' credit ratings.

3.1.1 Credit risk management strategies and policies

Credit risk management is geared towards facilitating sustained and balanced growth in loans and receivables while guaranteeing at all times the soundness of the Company's position in financial and equity terms, so as to optimise the return / risk ratio within levels of tolerance established by the Board of Directors based on the defined management principles and operational policies.

The Board of Directors establishes the strategies, policies and limits on the management of this risk, following a report by the Major Risks and Solvency Committee, documented in the Loans and Receivables Management Policy and Procedures Manual. This manual includes the action guidelines for the main operation segments and maximum risk lines with the main borrowers, sectors, markets and products. The Board of Directors is responsible for authorising risks that exceed the competence of the operating circuit.

3.1.2 Credit risk granting, monitoring and recovery policies

The loan portfolio is segmented into groups of customers with homogeneous risk profiles susceptible to different treatment through the application of specific evaluation models.

a) In relation to the granting of credit risk, the following policies have been implemented:

- Classifications of risk for borrower groups through the establishment of prior exposure limits, in order to avoid inappropriate risk concentrations.
- Criteria for the admission of new operations and limits to granting powers, depending on the customer segment being financed.
- Methodology for operations analysis based on type and correspondence to different segments.
- Internal credit rating models integrated with decision-taking systems for the various areas of the retail business.
- Requirements necessary to provide each operation with legal safeguards.

- Risk mitigation techniques.
- Pricing policies in line with customers' credit quality.

The credit risk management policy is structured through a decentralised lending arrangement based on a formally established delegation of powers and set out in risk manuals.

The Bank has in place risk rating policies in line with Law 2/2011 on the Sustainable Economy, Order EHA/2899/2011 on transparency and customer protection in banking services and Bank of Spain Circular 5/2012 on transparency in banking services and responsibility in the granting of loans and credit facilities.

These policies are included in the Loans and Receivables Management Policy and Procedures Manual. specifically in point 2 titled Basic principles in credit risk management.

With respect to granting loans, the manual considers essential criteria to be the reasonableness of the proposal, the analysis of the borrower's payment capacity and the prudent valuation of guarantees. Real-estate collateral is always appraised by independent valuation companies (authorised by the Bank of Spain).

Concerning transparency and customer protection in banking services, the Group takes the following steps:

- Current rates (interest, fees and expenses) applied to the various financial products are displayed at branches.
- Rates in force are reported quarterly to the Bank of Spain.
- The rates applied in products can be consulted on the Company's web-site (http://contransparencia.ibercaja.es).
- Customers are provided with documentation setting out contractual conditions before any contract is signed. A copy of the contract is subsequently given to the customer.
- Every January, customers receive personal reports giving details of interest, fees and expenses applied during the preceding year in the products they have contracted.

The Internal Audit Department, among the control actions performed at the branches, is responsible for overseeing compliance with the established policies and procedures.

b) By monitoring risk, the Group seeks to ascertain the evolution of groups and customers permanently and well in advance, in order to avoid or minimise potential losses resulting from the deterioration of the loan portfolio. This knowledge is fundamental to the proactive management of the mechanisms that are needed to reduce or restructure existing risk exposure.

The Bank has an automated alert system which analyses and classifies customers after considering external and internal sources of information to detect any risk factors that might lead to the impairment of credit quality. The alerts system is subject to a system of continuous calibration and improvement.

Borrowers with material risks are monitored individually by a specialist, in two areas:

- Annual monitoring report for borrowers/groups with risks in excess of €5 million.
- Related to Circular 4/2016, report on individually significant borrowers (risk over €3 million) in order to determine their accounting classification and provide for any doubtful operations, if necessary.

c) Integrated management risk is completed by recovery policies aimed at avoiding or minimising potential default through specific recover circuits based on the quantity and nature of the operations concerned and with the involvement of various internal and external managers to tailor the actions required by each situation.

3.1.3 Country risk

This is defined as the possibility of incurring losses due to the failure of a country to comply with payment obligations due to circumstances other than normal commercial risk. It covers sovereign risk, transfer risk and other risks derived from international financial activities.

Countries are classified into six groups in accordance with Bank of Spain Circular 4/2004, on the basis of their rating, economic performance, political situation, regulatory and institutional framework, payment capacity and payment record.

The Group establishes certain maximum limits to the country risk exposure, on the basis of the rating given by rating agencies.

In relation to sovereign risk, maximum limits have been established for public debt issued by European Union States and other States, also based on their corresponding ratings.

3.1.4 Information on the credit risk of financial instruments

The classification on the basis of the level of risk of the Group's loans and receivables, fixed income assets and contingent risks are not doubtful and have not become impaired and are subject to the general bad debt provision is as follows:

	Thousand euro	
	2016	**2015**
With no appreciable risk	17,847,753	17,912,124
Low risk	21,173,114	22,657,743
Medium – low risk	3,014,850	3,366,440
Medium risk	6,340,232	6,211,950
Medium-high risk	1,270,281	1,378,175
High risk	168,371	204,695
	49,814,601	**51,731,127**

The credit quality of loans and receivables (Note 10) at 31 December 2016 is detailed below:

	Thousand euro			
	2016			
	Performing exposures	***Of which: Under special vigilance***	**Doubtful exposures**	**Total**
Gross amount	**34,308,378**	**1,352,302**	**3,061,298**	**37,369,676**
Asset impairment adjustments	**157,072**	**110,926**	**1,193,276**	**1,350,348**
Of which: calculated collectively:	157,072	110,926	675,425	832,497
Of which: calculated individually:	-	-	517,851	517,851
Net amount	**34,151,306**	**1,241,376**	**1,868,022**	**36,019,328**

The credit quality of loans and receivables (Note 10) at 31 December 2015 is detailed below:

	Thousand euro		
	2015		
	Total	***Of which: Performing exposures***	***Of which: Doubtful exposures***
Gross amount	**37,093,625**	**33,051,483**	**3,084,683**
Asset impairment adjustments	**1,658,121**	**-**	**1,476,092**
Of which: calculated collectively:	1,658,121	-	1,476,092
Of which: calculated individually:	-	-	-
Net amount	**35,435,504**	**33,051,483**	**1,608,591**

With respect to the maximum level of exposure to credit risk, set out below are the most significant sectors of operation in terms of loans and receivables (Note 10), according to the purpose of the transaction:

	Thousand euro	
	2016	**2015**
Public sector	566,619	652,886
Credit institutions	734,670	702,536
Real estate construction and development	2,023,374	2,280,223
Other interest generating operations	8,383,504	7,359,215
Housing acquisition and refurbishment	21,684,753	22,586,671
Consumer and other household lending	1,209,474	1,265,497
Other sectors not classified	2,767,282	2,246,597
	37,369,676	**37,093,625**

With respect to the maximum level of exposure to credit risk, loans and receivables (Note 10) secured by guarantee or credit enhancement arranged are as follows:

	Thousand euro	
	2016	**2015**
Mortgage collateral	26,514,534	27,600,854
Pledges – financial assets	24,239	22,304
Off-balance sheet guarantees – Public Sector and credit institutions	54,794	105,824
Guarantee – Government debt securities	985,071	539,965
	27,578,638	**28,268,947**

Guarantees received and financial guarantees granted break down as follows at 31 December 2016 and 2015:

	Thousand euro	
	2016	**2015**
Value of real-estate collateral	25,517,900	26,592,927
Of which: securing exposures under special vigilance	*989,654*	-
Of which: securing doubtful exposures	*2,375,172*	*2,070,961*
Value of other guarantees	17,519,099	16,882,911
Of which: securing exposures under special vigilance	*1,177,541*	-
Of which: securing doubtful exposures	*1,756,514*	*1,975,857*
Total value of guarantees received	**43,036,999**	**43,475,839**

	Thousand euro	
	2016	**2015**
Commitments for loans granted (Note 27.3)	**2,950,250**	**2,450,489**
Of which: amount classified as doubtful	*50,716*	*50,518*
Amount recorded under liabilities on the balance sheet (Note 21)	10,313	-
Financial guarantees granted (Note 27.1)	**82,613**	**83,023**
Of which: amount classified as doubtful	*6,013*	*13,687*
Amount recorded under liabilities on the balance sheet (Note 21)	6,838	11,848
Other commitments given	**798,095**	**889,281**
Of which: amount classified as doubtful	*41,401*	*38,051*
Recorded under liabilities on the balance sheet (Note 21)	18,177	12,986

At December 2016 the LTV (loan to value, reflecting the relationship between the financial transaction balance and the value of the guarantee associated with that transaction) of the Ibercaja Group's mortgage portfolio stood at 54.82% (55.81% at December 2015).

The classification of loans and receivables (Note 10) and available- for- sale fixed income assets (Note 9), which are impaired, differentiating between those where the relevant calculation has taken into account the existence of non-payment and those where other factors have been taken into account, is as follows:

	Thousand euro	
	2016	**2015**
Customer default	2,075,640	2,356,568
Other factors	985,658	728,337
	3,061,298	**3,084,905**

The main factors taken into account to calculate impairment for reasons other than non-payment are those reflected in Note 2.3.

There are generally no non-performing financial assets that are not impaired. The only exceptions to this rule are transactions where the Public Sector is the titleholder or which are secured through a cash guarantee and the amount involved is insignificant.

Note 10.5 to the accompanying accounts includes a breakdown of assets due and not impaired, stating whether they have been outstanding for less than 90 days.

3.1.5 *Information concerning risk concentration, refinancing and restructuring*

3.1.5.1 Information concerning risk concentration

Set out below is a breakdown of the carrying value of the distribution of customer loans by activity at 31 December 2016 and 2015:

	Thousand euro 31/12/2016							
	Total	Of which: real-estate collateral	Of which: other in-rem security	Loan to value (LTV) secured loans: 40% or less	More than 40 % and less than or equal to 60%	More than 60 % and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public administrations	**503,835**	**95,253**	**10**	**22,375**	**32,614**	**39,554**	**-**	**720**
Other financial companies and individual entrepreneurs (financial business activity)	**1,117,853**	**2,825**	**985,018**	**1,111**	**1,069**	**645**	**985,018**	**-**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by objective)	**7,874,999**	**3,616,315**	**29,884**	**1,097,197**	**995,351**	**1,004,185**	**271,651**	**277,815**
Real-estate construction and development (including land)	1,355,676	1,344,759	3,980	155,428	284,970	604,469	161,538	142,334
Civil engineering construction	26,026	1,699	-	-	-	1,699	-	-
Other purposes	6,493,297	2,269,857	25,904	941,769	710,381	398,017	110,113	135,481
Large companies	*1,007,055*	*42,083*	*7,700*	*43,962*	*3,820*	*657*	*641*	*703*
SMEs and individual entrepreneurs	*5,486,242*	*2,227,774*	*18,204*	*897,807*	*706,561*	*397,360*	*109,472*	*134,778*
Other residential property and non-profit institutions serving households	**23,027,384**	**21,869,916**	**11,337**	**5,322,208**	**7,962,256**	**7,380,780**	**1,048,800**	**167,209**
Home	21,388,402	21,114,380	5,136	4,954,218	7,725,550	7,269,821	1,019,887	150,040
Consumer	607,326	187,263	4,317	115,766	47,728	22,421	3,758	1,907
Other purposes	1,031,656	568,273	1,884	252,224	188,978	88,538	25,155	15,262
Total	**32,524,071**	**25,584,309**	**1,026,249**	**6,442,891**	**8,991,290**	**8,425,164**	**2,305,469**	**445,744**
Memorandum accounts: refinancing, refinanced and restructured operations	**2,142,403**	**1,860,537**	**6,893**	**304,940**	**424,139**	**653,107**	**293,221**	**192,023**

	Thousand euro 31/12/2015							
	Total	Of which: real-estate collateral	Of which: other in-rem security	Loan to value (LTV) secured loans: 40% or less	More than 40 % and less than or equal to 60%	More than 60 % and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public administrations	**588,496**	**105,996**	**1,554**	**18,738**	**41,655**	**45,545**	**868**	**744**
Other financial companies and individual entrepreneurs (financial business activity)	**633,292**	**978**	**543,642**	**283**	**195**	**214**	**543,641**	**287**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by objective)	**7,335,891**	**3,957,648**	**37,366**	**1,099,187**	**1,062,308**	**1,164,651**	**315,889**	**352,979**
Real-estate construction and development (including land)	1,501,352	1,455,474	5,636	166,297	280,702	662,653	196,658	154,800
Civil engineering construction	35,596	1,113	-	1,050	-	63	-	-
Other purposes	5,798,943	2,501,061	31,730	931,840	781,606	501,935	119,231	198,179
Large companies	*645,316*	*67,111*	*7,505*	*7,248*	*3,007*	*5,390*	-	*58,971*
SMEs and individual entrepreneurs	*5,153,627*	*2,433,950*	*24,225*	*924,592*	*778,599*	*496,545*	*119,231*	*139,208*
Other residential property and non-profit institutions serving households	**23,825,776**	**22,656,967**	**13,537**	**5,147,143**	**7,851,624**	**8,199,918**	**1,274,807**	**197,012**
Home	22,091,197	21,790,370	6,264	4,755,451	7,589,985	8,033,684	1,241,127	176,387
Consumer	636,884	217,309	4,314	127,990	57,431	29,643	4,931	1,628
Other purposes	1,097,695	649,288	2,959	263,702	204,208	136,591	28,749	18,997
Total	**32,383,455**	**26,721,589**	**596,099**	**6,265,351**	**8,955,782**	**9,410,328**	**2,135,205**	**551,022**
Memorandum accounts: refinancing, refinanced and restructured operations	**3,102,788**	**2,589,490**	**23,518**	**434,804**	**618,709**	**969,955**	**368,406**	**221,134**

The carrying amount of the risks classified by business and geographic area are set out below, including loans and advances, debt securities, equity instruments, trading derivatives, hedge derivatives, shares and contingent risks.

- Total activity:

	Thousand euro				
	31/12/2016				
	Spain	Rest of EU	America	Rest of the world	Total
Central banks and credit institutions	**2,362,873**	**310,192**	**22,588**	**7,642**	**2,703,295**
Public administrations	**13,507,425**	**517,218**	**-**	**-**	**14,024,643**
Central government	12,235,633	517,218	-	-	12,752,851
Other public administrations	1,271,792	-	-	-	1,271,792
Other financial companies and individual entrepreneurs (financial business activity)	**3,795,359**	**162,148**	**3,109**	**4,818**	**3,965,434**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by objective)	**9,633,516**	**209,162**	**41,884**	**5,833**	**9,890,395**
Real-estate construction and development (including land)	1,567,857	387	-	-	1,568,244
Civil engineering construction	23,255	392	-	2,379	26,026
Other purposes	8,042,404	208,383	41,884	3,454	8,296,125
Large companies	*1,206,682*	*156,134*	*17,517*	*3,419*	*1,383,752*
SMEs and individual entrepreneurs	*6,835,722*	*52,249*	*24,367*	*35*	*6,912,373*
Other residential property and non-profit institutions serving households	**23,294,295**	**62,568**	**10,544**	**31,398**	**23,398,805**
Home	21,289,903	58,596	9,964	29,939	21,388,402
Consumer	605,384	1,047	322	573	607,326
Other purposes	1,399,008	2,925	258	886	1,403,077
Total	**52,593,468**	**1,261,288**	**78,125**	**49,691**	**53,982,572**

	Thousand euro				
	31/12/2015				
	Spain	Rest of EU	America	Rest of the world	Total
Central banks and credit institutions	**2,328,493**	**516,760**	**54,730**	**1,732**	**2,901,715**
Public administrations	**15,215,491**	**427,680**	**7**	**-**	**15,643,178**
Central government	13,403,365	427,680	7	-	13,831,052
Other public administrations	1,812,126	-	-	-	1,812,126
Other financial companies and individual entrepreneurs (financial business activity)	**3,437,978**	**158,923**	**-**	**21,387**	**3,618,288**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by objective)	**8,913,716**	**205,565**	**33,232**	**3,581**	**9,156,094**
Real-estate construction and development (including land)	1,659,049	1,231	-	-	1,660,280
Civil engineering construction	32,675	457	-	2,464	35,596
Other purposes	7,221,992	203,877	33,232	1,117	7,460,218
Large companies	*838,013*	*2,336*	-	-	*840,349*
SMEs and individual entrepreneurs	*6,383,979*	*201,541*	*33,232*	*1,117*	*6,619,869*
Other residential property and non-profit institutions serving households	**24,108,502**	**65,453**	**10,657**	**29,549**	**24,214,161**
Home	21,989,025	63,282	10,176	28,714	22,091,197
Consumer	635,946	446	333	158	636,883
Other purposes	1,483,531	1,725	148	677	1,486,081
Total	**54,004,180**	**1,374,381**	**98,626**	**56,249**	**55,533,436**

- Activities in Spain

	Thousand euro								
	31/12/2016								
	Aragon	**Madrid**	**Catalonia**	**Valencia Region**	**Andalusia**	**Castilla León**	**Castilla La Mancha**	**Rest**	**Total**
Central banks and credit institutions	**1,467,531**	**763,335**	**2,530**	**-**	**40,191**	**1**	**-**	**89,285**	**2,362,873**
Public authorities	**169,603**	**152,974**	**81,487**	**130,345**	**159,540**	**68,567**	**37,033**	**472,243**	**13,507,425**
Central government (*)	-	-	-	-	-	-	-	-	12,235,633
Other public administrations	169,603	152,974	81,487	130,345	159,540	68,567	37,033	472,243	1,271,792
Other financial companies and individual entrepreneurs (financial business activity)	**47,575**	**3,660,860**	**39,003**	**718**	**1,232**	**1,406**	**242**	**44,323**	**3,795,359**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by objective)	**3,470,697**	**2,017,136**	**1,011,893**	**517,255**	**500,970**	**654,125**	**320,503**	**1,140,937**	**9,633,516**
Real-estate construction and development (including land)	287,482	586,710	129,382	64,167	146,399	97,069	107,872	148,776	1,567,857
Civil engineering construction	1,820	20,571	-	-	-	-	-	864	23,255
Other purposes	3,181,395	1,409,855	882,511	453,088	354,571	557,056	212,631	991,297	8,042,404
Large companies	*282,487*	*423,374*	*197,222*	*65,325*	*39,228*	*55,284*	*18,831*	*124,931*	*1,206,682*
SMEs and individual entrepreneurs	*2,898,908*	*986,481*	*685,289*	*387,763*	*315,343*	*501,772*	*193,800*	*866,366*	*6,835,722*
Other residential property and non-profit institutions serving households	**6,561,411**	**5,581,437**	**2,100,155**	**2,010,603**	**1,482,831**	**1,127,396**	**1,505,228**	**2,925,234**	**23,294,295**
Home	5,492,792	5,307,241	1,974,915	1,919,368	1,422,752	1,030,142	1,424,038	2,718,655	21,289,903
Consumer	237,070	94,139	42,222	30,263	21,013	41,718	31,336	107,623	605,384
Other purposes	831,549	180,057	83,018	60,972	39,066	55,536	49,854	98,956	1,399,008
Total	**11,716,817**	**12,175,742**	**3,235,068**	**2,658,921**	**2,184,764**	**1,851,495**	**1,863,006**	**4,672,022**	**52,593,468**

(*) The risk pertains to the Central Government and is not allocated by Autonomous Region.

	Thousand euro								
	31/12/2015								
	Aragon	**Madrid**	**Catalonia**	**Valencia Region**	**Andalusia**	**Castilla León**	**Castilla La Mancha**	**Rest**	**Total**
Central banks and credit institutions	**1,320,724**	**726,813**	**67,994**	**-**	**81,505**	**104**	**-**	**131,353**	**2,328,493**
Public authorities	**220,591**	**573,446**	**95,039**	**141,081**	**181,823**	**68,814**	**24,610**	**506,722**	**15,215,491**
Central government (*)	-	-	-	-	-	-	-	-	13,403,365
Other public administrations	220,591	573,446	95,039	141,081	181,823	68,814	24,610	506,722	1,812,126
Other financial companies and individual entrepreneurs (financial business activity)	**57,785**	**3,281,029**	**44,043**	**10,076**	**236**	**282**	**17**	**44,510**	**3,437,978**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by objective)	**3,406,763**	**1,881,042**	**765,990**	**478,275**	**435,037**	**602,756**	**320,814**	**1,023,039**	**8,913,716**
Real-estate construction and development (including land)	352,306	549,661	108,742	72,826	152,644	106,060	125,050	191,760	1,659,049
Civil engineering construction	515	32,146	-	-	-	-	-	14	32,675
Other purposes	3,053,942	1,299,235	657,248	405,449	282,393	496,696	195,764	831,265	7,221,992
Large companies	*150,454*	*367,356*	*119,230*	*39,294*	*30,853*	*56,900*	*13,408*	*60,518*	*838,013*
SMEs and individual entrepreneurs	*2,903,488*	*931,879*	*538,018*	*366,155*	*251,540*	*439,796*	*182,356*	*770,747*	*6,383,979*
Other residential property and non-profit institutions serving households	**6,863,828**	**5,691,613**	**2,158,337**	**2,078,029**	**1,532,859**	**1,190,130**	**1,556,506**	**3,037,200**	**24,108,502**
Home	5,724,937	5,400,685	2,027,894	1,985,291	1,469,381	1,085,739	1,474,506	2,820,592	21,989,025
Consumer	254,913	95,185	43,770	29,186	21,952	45,158	31,040	114,742	635,946
Other purposes	883,978	195,743	86,673	63,552	41,526	59,233	50,960	101,866	1,483,531
Total	**11,869,691**	**12,153,943**	**3,131,403**	**2,707,461**	**2,231,460**	**1,862,086**	**1,901,947**	**4,742,824**	**54,004,180**

(*) The risk pertains to the Central Government and is not allocated by Autonomous Region.

3.1.5.2 Information on refinancing and restructuring operation

The Group follows a policy aimed at utilising operations refinancing and restructuring as credit risk management instruments which, when implemented prudently and appropriately, contribute to improving risk quality, based on individualised analyses focused on providing economic viability to borrowers that, at some stage of the transaction, undergo transitory difficulties to meeting their payments commitments promptly at the time they fall due.

- Ensuring the economic feasibility of borrowers and operations (grant of interest free periods, increase in timeframes, etc.).
- Improving as far as possible the Entity's risk position through the delivery of additional effective guarantees and the review of existing guarantee.

<u>Acceptance of transactions:</u>

In general, refinancing/restructuring transactions must meet the following requirements:

- Feasibility analysis based on the existence of the customer's intention and capacity to pay which although impaired with respect to inception, should exist under the new conditions.
- Bringing instalments into line with the client's real payment capacity following an up-to-date analysis of the borrower's supporting economic-financial situation.
- Assessment of the borrower's/operation's compliance record.
- Assessment of the effectiveness of existing guarantees and new guarantees to be provided. For such purposes, the following are considered effective guarantees:
  - Guarantees pledged over cash deposits, listed equity instruments and debt securities.
  - Mortgage guarantees over housing, offices and multi-purpose entities and rural properties.
  - Personal guarantees (guarantee deposits, new holders etc.) fully covering the guaranteed risk.

<u>Sanctions</u>

The branch network is not authorised to sanction refinancing or restructuring operations.

This pertains to the Risk Area units and the attributions are significantly reduced when the refinancing/restructuring operation required the transaction to be classified as doubtful.

<u>Monitoring:</u>

Refinancing/restructuring operations are marked in the Entity's alerts system (SIRA) with a high level of vigilance. This system allows individualised monitoring by risk segment, geographical area, risk level, etc.

In 2012 Ibercaja adhered to the Code of Good Practice for the viable restructuring of debts secured by mortgages over habitual dwellings governed by Royal Decree 6/2012.

Set out below is a breakdown of refinancing and restructuring balances at 31 December 2016 and 2015:

	Thousand euro			
	2016		2015	
	Total	Of which: default incurred/doubtful	Total	Of which: default incurred/doubtful
Gross amount	**2,933,170**	**1,994,523**	**4,083,321**	**1,878,062**
Asset impairment adjustments	**790,767**	**747,790**	**980,533**	**884,750**
Of which: collective	353,188	310,211	980,533	884,750
Of which: individual	437,579	437,579	-	-
Net amount	**2,142,403**	**1,246,733**	**3,102,788**	**993,312**
Value of guarantees received	**2,986,746**	**2,081,129**	**4,066,910**	**1,830,715**
Value of real-estate collateral	2,271,817	1,624,184	3,014,215	1,335,169
Value of other guarantees	714,929	456,945	1,052,695	495,546

The reconciliation of the carrying amounts of refinanced and restructured operations at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	2015
Opening balance	**4,083,321**	**4,859,668**
(+) Refinancing and restructuring in the period	422,292	649,701
Memorandum items: impact recorded in the income statement for the year	*67,647*	*79,436*
(-) Debt repayment	420,195	1,092,649
(-) Repossessions	36,415	48,220
(-) Derecognised (reclassification to non-performing)	226,258	104,840
(+)/(-) Other changes (*)	(889,575)	(180,339)
Balance at the end of the year	**2,933,170**	**4,083,321**

(*) Includes operations that are no longer classified as refinancing, refinanced or restructured as the requirements for reclassification from performing exposures under special vigilance to performing exposures have been met (Note 2.3).

At 31 December 2016, refinanced and restructured operations break down as follows:

	Thousand euro							
	Total							
	Unsecured		Secured				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying value
	No. operations	Gross carrying amount	No. operations	Gross carrying amount	Maximum real-estate guarantee that may be considered			
					Real estate collateral	Other real-estate guarantees		
Credit institutions	-	-	-	-	-	-	-	-
Public Administrations	**12**	**46,541**	**1**	**1,848**	**1,848**	**-**	**499**	**47,890**
Other financial companies and individual entrepreneurs (financial business activity)	**4**	**121**	**4**	**209**	**206**	**-**	**8**	**322**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**2,238**	**368,709**	**3,054**	**1,475,386**	**1,356,431**	**6,146**	**691,299**	**1,152,796**
Of which: financing of construction and real estate development activities (including land).	*268*	*94,653*	*585*	*894,722*	*827,714*	*2,510*	*462,599*	*526,776*
Other residential	**7,741**	**62,187**	**10,011**	**978,169**	**857,595**	**-**	**98,961**	**941,395**
Total	**9,995**	**477,558**	**13,070**	**2,455,612**	**2,216,080**	**6,146**	**790,767**	**2,142,403**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-	-

	Thousand euro							
	Of which: default incurred/doubtful							
	Unsecured		Secured				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying value
	No. operations	Gross carrying amount	No. operations	Gross carrying amount	Maximum real-estate guarantee that may be considered			
					Secured on real estate	Other real-estate guarantees		
Credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Public Administrations	**3**	**5,895**	**-**	**-**	**-**	**-**	**499**	**5,396**
Other financial companies and individual entrepreneurs (financial business activity)	**2**	**100**	**-**	**-**	**-**	**-**	**7**	**93**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**927**	**208,679**	**1,977**	**1,197,864**	**1,105,606**	**4,389**	**658,770**	**747,773**
Of which: financing of construction and real estate development activities (including land).	*260*	*84,307*	*481*	*777,246*	*722,678*	*2,510*	*445,078*	*416,475*
Other residential	**2,046**	**19,165**	**5,269**	**562,820**	**482,312**	**-**	**88,514**	**493,471**
Total	**2,978**	**233,839**	**7,246**	**1,760,684**	**1,587,918**	**4,389**	**747,790**	**1,246,733**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

At 31 December 2015, refinanced and restructured operations break down as follows:

	Thousand euro							
	Total							
	Unsecured		Secured				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying value
	No. operations	Gross carrying amount	No. operations	Gross carrying amount	Maximum real-estate guarantee that may be considered			
					Secured on real estate	Other real-estate guarantees		
Credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Public Administrations	**50**	**119,414**	**14**	**52,630**	**50,747**	**1,550**	**5**	**172,039**
Other financial companies and individual entrepreneurs (financial business activity)	**8**	**4,371**	**1**	**237**	**627**	**-**	**1,100**	**3,508**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**4,915**	**664,246**	**4,999**	**1,961,594**	**1,395,090**	**10,864**	**813,924**	**1,811,916**
Of which: financing of construction and real estate development activities (including land).	*509*	*174,761*	*891*	*1,131,756*	*689,354*	*4,416*	*552,424*	*754,093*
Other residential	**9,006**	**77,006**	**12,389**	**1,203,823**	**1,125,019**	**56**	**165,504**	**1,115,325**
Total	**13,979**	**865,037**	**17,403**	**3,218,284**	**2,571,483**	**12,470**	**980,533**	**3,102,788**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	Thousand euro							
	Of which: default incurred/doubtful							
	Unsecured		Secured				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying value
	No. operations	Gross carrying amount	No. operations	Gross carrying amount	Maximum real-estate guarantee that may be considered			
					Secured on real estate	Other real-estate guarantees		
Credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Public Administrations	**5**	**8,158**	**-**	**-**	**-**	**-**	**5**	**8,153**
Other financial companies and individual entrepreneurs (financial business activity)	**3**	**4,319**	**1**	**237**	**192**	**-**	**1,098**	**3,458**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**1,691**	**354,340**	**2,070**	**971,734**	**866,522**	**5,003**	**730,104**	**595,970**
Of which: financing of construction and real estate development activities (including land).	*473*	*163,783*	*486*	*639,899*	*568,088*	*3,042*	*490,758*	*312,924*
Other residential	**3,549**	**33,941**	**5,136**	**505,333**	**419,448**	**-**	**153,543**	**385,731**
Total	**5,248**	**400,758**	**7,207**	**1,477,304**	**1,286,162**	**5,003**	**884,750**	**993,312**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A breakdown of operations refinanced or restructured which, following the relevant restructuring or refinancing, have been classified as doubtful during 2016 and 2015 is as follows:

	Thousand euro	
	2016	2015
Public institutions	**-**	**-**
Other corporate borrowers and individual entrepreneurs	**277,878**	**71,422**
Of which: financing of construction and real estate development activities.	173,535	40,913
Other individual borrowers	**207,974**	**54,793**
Total	**485,852**	**126,215**

At 31 December 2016, the Group assessed renegotiated transactions and according to its best judgement identified and provided for those that in the absence of renegotiation could have been become non-performing or would have been impaired. The related overall risk exposure amounts to €938,647 thousand (€721,883 thousand at 31 December 2015).

3.1.6 Problematic asset management policies.

Ibercaja Banco S.A. establishes specific policies in relation to the management of real estate sector assets, which have been particularly affected by the recent economic downturn.

These policies focus on favouring compliance with borrowers' obligations and mitigating the risks to which the Group is exposed. In this respect, alternatives are sought that enable the completion and sale of projects, while an analysis is performed of the renegotiation of the risks if the Group's credit position improves and basically assurance is obtained that the borrower is able to continue business activities. In this respect, consideration is given to the borrower's track record, his willingness to pay and the improvement in the Group's forecast losses, attempting to increase loan security and not increase the customer risk.

Additionally, the Group supports developers once the developments are completed, by collaborating in the management and speeding-up of sales.

In the event that support measures are not possible or sufficient, other alternatives are sought such as dation in payment or the purchase of the assets and as a last resort, a judicial claim is filed with subsequent foreclosure.

All those assets that become part of the Group's balance sheet are managed with a view to their divestment or lease.

In this respect, the Group has agreements with third parties special purpose companies, specialising in development project management, real estate sales and real estate asset leasing. The Group has specific units to develop these strategies and coordinate the actions of its special purpose subsidiaries, branch office network and the other players involved. Additionally, the Group has a webpage www.ibercaja.es/inmuebles as one of the main tools used to inform the interested public of such assets.

3.1.6.1 Loans and receivables related to development and real estate activities and retail mortgages.

The breakdown of financing for construction and real estate development is as follows at 31 December 2016 and 2015:

	Thousand euro							
	Gross carrying amount		Excess of gross exposure over the maximum recoverable amount of efficient real-estate collateral (*)		Accumulated impairment		Carrying value	
	2016	2015	2016	2015	2016	2015	2016	2015
Financing of construction and real estate development (including land) (businesses in Spain)	**2,023,374**	**2,280,223**	**513,593**	**672,880**	**568,232**	**686,725**	**1,455,142**	**1,593,498**
Of which: default incurred/doubtful	1,065,467	1,040,505	373,937	455,017	510,130	599,154	555,337	441,351
Memorandum items: write-off assets	**375,189**	**136,917**	**-**	**-**	**-**	**-**	**-**	**-**

(*) Excess of gross exposure over the maximum recoverable amount of efficient real-estate collateral calculated under Circular 04/2004. I.e. positive difference between gross carrying amount of financial assets and maximum recoverable amount of efficient real-estate collateral.

	Thousand euro	
	Carrying value	
Memorandum items: Figures public consolidated balance sheet	**2016**	**2015**
Customer loans, excluding Public Administrations (businesses in Spain)	32,020,236	31,794,953
Total consolidated assets (total businesses)	57,175,874	58,921,692
Impairment and provisions for exposures classified as performing (total businesses)	162,627	-

The breakdown of financing for construction and real estate development (including land) at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	Gross carrying amount	
	2016	2015
Unsecured	**117,042**	**243,536**
Secured (broken down by type of asset used as security)	**1,906,332**	**2,036,687**
Buildings and other finished constructions	510,777	584,988
Housing	*353,461*	*424,660*
Other	*157,316*	*160,328*
Buildings and other constructions in progress	570,910	505,670
Housing	*500,071*	*454,595*
Other	*70,839*	*51,075*
Land	824,645	946,029
Consolidated urban land	*796,921*	*918,075*
Other land	*27,724*	*27,954*
Total	**2,023,374**	**2,280,223**

Guarantees received and financial guarantees granted in relation to financing for construction and real-estate promotion) including land at 31 December 2016 and 2015 are as follows:

Guarantees received:

	Thousand euro	
	2016	2015
Value of real-estate collateral	2,131,473	2,362,175
Of which: securing doubtful/defaulting exposures	*1,044,685*	*833,492*
Value of other guarantees	952,251	911,729
Of which: securing doubtful/defaulting exposures	*277,371*	*343,154*
Total value of guarantees received	**3,083,724**	**3,273,904**

Financial guarantees granted:

	Thousand euro	
	2016	2015
Financial guarantees granted in relation to construction and real-estate promotion	**18,591**	**22,651**
Amount recorded under liabilities on the balance sheet	3,884	7,633

At 31 December 2016 and 2015, home loans break down as follows:

	Thousand euro			
	Gross amount		Of which: default incurred/doubtful	
	2016	2015	2016	2015
Home loans	**21,315,284**	**22,176,732**	**884,450**	**858,616**
Without mortgage loan	132,813	173,325	29,485	55,088
With mortgage loan	21,182,471	22,003,407	854,965	803,528

A breakdown of mortgage loans for home purchases according to the ratio of the gross carrying value divided by the latest appraisal (loan to value) at 31 December 2016 and 2015 is as follows

	Thousand euro					
	2016					
	Gross carrying value divided by latest appraised value (loan to value ratio)					
	40% or less	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Gross carrying amount	4,944,205	7,698,916	7,313,980	1,060,254	165,116	**21,182,471**
Of which: default incurred/doubtful	60,154	176,213	396,944	179,525	42,129	**854,965**

	Thousand euro					
	2015					
	Gross carrying value divided by latest appraised value (loan to value ratio)					
	40% or less	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Gross amount	4,803,406	7,602,326	8,099,982	1,301,978	195,715	**22,003,407**
Of which: default incurred/doubtful	54,153	148,976	371,397	187,161	41,841	**803,528**

At 31 December 2016, 94% of home loan mortgages have an LTV of less than 80% (93% at 31 December 2015).

3.1.6.2 Assets adjudicated or received in settlement of debts.

Set out below is information concerning assets adjudicated or received in settlement of debts at 31 December 2016 and 2015:

	Thousand euro			
	31/12/2016			
	Gross carrying amount	Accumulated impairment (1)	Carrying value	Of which: Total impairment cover (2)
Real estate assets deriving from financing of construction and real estate development	**968,600**	**413,941**	**554,659**	**701,881**
Buildings and other finished constructions	236,672	65,104	171,568	140,279
Housing	*138,246*	*39,248*	*98,998*	*87,452*
Other	*98,426*	*25,856*	*72,570*	*52,827*
Buildings and other constructions in progress	40,773	11,291	29,482	31,240
Housing	*38,897*	*10,588*	*28,309*	*29,868*
Other	*1,876*	*703*	*1,173*	*1,372*
Land	691,155	337,546	353,609	530,362
Consolidated urban land	*388,140*	*174,738*	*213,402*	*304,561*
Other land	*303,015*	*162,808*	*140,207*	*225,801*
Real estate assets deriving from home loan mortgages	**279,160**	**45,473**	**233,687**	**160,168**
Other real-estate assets adjudicated or received in settlement of debts	**44,651**	**8,329**	**36,322**	**38,719**
Equity instruments adjudicated or received in settlement of debts.	**-**	**-**	**-**	**-**
Equity instruments of companies holding real-estate assets adjudicated or received in settlement of debts	**-**	**-**	**-**	**-**
Financing to companies holding real-estate assets adjudicated or received in settlement of debts	**-**	**-**	**-**	**-**
Total	**1,292,411**	**467,743**	**824,668**	**900,768**

(1) Value adjustments after the acquisition date.
(2) Total cover at acquisition and subsequent dates.

	Thousand euro			
	31/12/2015			
	Gross carrying amount	Accumulated impairment (1)	Carrying value	Of which: Total impairment cover (2)
Real estate assets deriving from financing of construction and real estate development	**978,446**	**380,451**	**597,995**	**717,785**
Buildings and other finished constructions	254,722	55,489	199,233	154,206
Housing	*172,263*	*36,905*	*135,358*	*106,686*
Other	*82,459*	*18,584*	*63,875*	*47,520*
Buildings and other constructions in progress	39,786	9,676	30,110	32,947
Housing	*38,783*	*9,547*	*29,236*	*32,242*
Other	*1,003*	*129*	*874*	*705*
Land	683,938	315,286	368,652	530,632
Consolidated urban land	*387,968*	*167,713*	*220,255*	*308,541*
Other land	*295,970*	*147,573*	*148,397*	*222,091*
Real estate assets deriving from home loan mortgages	**299,480**	**47,649**	**251,831**	**186,251**
Other real-estate assets adjudicated or received in settlement of debts	**47,865**	**8,205**	**39,660**	**41,682**
Equity instruments adjudicated or received in settlement of debts.	**5,061**	**-**	**5,061**	**1,687**
Equity instruments of companies holding real-estate assets adjudicated or received in settlement of debts	**-**	**-**	**-**	**-**
Financing to companies holding real-estate assets adjudicated or received in settlement of debts	**-**	**-**	**-**	**-**
	1,330,852	**436,305**	**894,547**	**947,405**

(1) Value adjustments after the acquisition date.
(2) Total cover at acquisition and subsequent dates.

3.2 Operational risk

This is defined as the risk of loss resulting from the absence of adaptation or a fault in the processes, personnel or internal systems or deriving from external events.

3.2.1 Operational risk management strategies and policies

The Board of Directors approves the strategies, policies and limits on the management of this risk, following a report by the Major Risks and Solvency Committee, documented in the Operating Risk Management Framework.

The Group currently has a management and assessment model for this risk, which basically envisages the following:

- General aspects: definition of the operational risk and risk classification and assessment.
- Methodologies applied to identify, assess and measure operational risks.
- Scope of application of the methodologies and personnel involved in the management of this risk.
- Indicators, ceilings and tolerance thresholds.
- Generation of stress scenarios.
- Management support models (management, control and mitigation of the operational risk); information deriving from previous methodologies and implementation of measures aimed at mitigating this risk.

The scope of application of the management and operational risk assessment model extends to both the business and support units of Ibercaja Banco and Group companies.

Its application and effective use in each unit and subsidiary are handled on a decentralised basis. The Internal Control and Validation Unit carries out the measurement, follow-up, analysis and reporting of the risk.

3.2.2 Measurement, management and control procedures

The Group applies the operational risk management model and combines the use of the following methodologies, which are supported by specific IT tools:

- Qualitative methodology, based on the identification and expert assessment of operational risks and controls in place over processes and activities together with the compilation and analysis of risk indicators.
- A total of 614 operational risks inherent in the Group's activities have been identified and assessed in 2016. As a result of this process, it was concluded that the estimated exposure to the overall potential impact of these risks is medium-low and growing.
- Quantitative methodology, supported by the identification and analysis of real losses arising in the Group which are recorded in the data base established to this effect (BDP).

The quantification of actual losses recorded in the losses date base in the last thirty-six months reflects that the net annual total of losses due to operational risk events is €8,017 thousand, corresponding to 3,487 events (average for the preceding thirty-six months).

This figure for real losses is low level with respect to capital requirements and is consistent with the overall results of the aforementioned quantitative assessment.

Advances in operating risk management and control as a result of the established policies allow the Entity to calculate operating risk capital consumption using the standard method since December 2010, in accordance with Regulation (EU) 575/2013.

3.3 Interest rate risk

This is defined as the possibility that the Group's financial margin or value will be affected by adverse changes in interest rates that might affect cash flows on financial instruments.

The interest rate risk exposure derives from the revaluation risk, curve risk, base risk or optionality risk. Specifically, the revaluation risk derives from temporary differences existing at maturity or the review of rates on transactions sensitive to the interest rate risk.

3.3.1 Interest rate risk management strategies and policies

The management of this risk aims to contribute to maintaining current and future performance at adequate levels and preserving the Company's economic value.

The Board of Directors establishes the strategies, policies and limits on the management of this risk, following a report by the Major Risks and Solvency Committee, documented in the Interest Rate Risk Management Policy and Procedures Manual.

3.3.2 Measurement and control procedures

The Group manages the risk exposure deriving from its portfolio operations, both when they are contracted and throughout their subsequent monitoring, and also includes in its analytical timeline the forecast development of the business and expectations in respect of interest rates, as well as management and hedging proposals, simulating different behavioural scenarios.

The Company's tools enable the effects of interest rate shifts on its net interest income and its economic value to be measured, scenarios to be simulated on the basis of the assumptions concerning the performance of interest rates and business operations and the potential impact on capital and results deriving from abnormal market fluctuations to be estimated, so that they may be taken into account when establishing and reviewing policies and planning process.

With respect to the optionality risk, basic assumptions are established concerning the sensitivity and duration of the sight savings operations, as maturities are not established contractually, together with the assumptions concerning early repayment on loans, based on historical experience in different scenarios.

Likewise, the effect of interest rate fluctuations on net interest revenue and equity is monitored through the fixing of exposure limits. The limits enable exposure to interest rate risk to be maintained within levels that are compatible with the approved policies.

The sensitivity profile of the Group's balance sheet to interest rate risk at 31 December 2016 and 31 December 2015 is as follows, indicating the carrying value of those financial assets and liabilities affected by such risk, which are classified based on the estimated period elapsing to the date of review of the interest rate or maturity.

At 31 December 2016:

	Million euro						
	Time to the review of the effective interest rate or maturity						
	Up to 1 month	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Sensitive balance**	**Insensitive balance**	**Between 1 and 5 years**	**More than 5 years**
Assets	**7,976**	**9,511**	**17,910**	**35,397**	**15,686**	**2,849**	**12,837**
Financial assets with fixed interest rate and other assets without set maturity date	1,192	(67)	1,652	2,777	14,718	2,136	12,582
Fixed-rate financial assets hedged by derivatives	142	262	1,525	1,929	860	627	233
Financial assets at variable interest rates	6,642	9,316	14,733	30,691	108	86	22
Liabilities	**7,367**	**13,153**	**12,369**	**32,889**	**18,194**	**12,940**	**5,254**
Financial liabilities with fixed interest rate and other liabilities without set maturity date	6,635	11,545	6,889	25,069	18,241	12,855	5,386
Fixed-rate financial liabilities hedged by derivatives	324	718	5,340	6,382	(21)	85	(106)
Financial liabilities at variable interest rates	408	890	140	1,438	(26)	-	(26)
Difference or gap for the period	**609**	**(3,642)**	**5,541**	**2,508**	**(2,508)**	**(10,091)**	**7,583**
Accumulated difference or gap	**609**	**(3,033)**	**2,508**	**2,508**	**(2,508)**	**(7,583)**	**-**
Average gap	609	(2,123)	1,210	(2)			
% of total assets	1.19	(4.16)	2.37	-			

At 31 December 2015:

	Million euro						
	Time to the review of the effective interest rate or maturity						
	Up to 1 month	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Sensitive balance**	**Insensitive balance**	**Between 1 and 5 years**	**More than 5 years**
Assets	**8,535**	**10,246**	**18,587**	**37,368**	**16,496**	**5,281**	**11,215**
Financial assets with fixed interest rate and other assets without set maturity date	1,568	(131)	1,373	2,810	12,802	2,395	10,407
Fixed-rate financial assets hedged by derivatives	450	296	1,582	2,328	3,523	2,742	781
Financial assets at variable interest rates	6,517	10,081	15,632	32,230	171	144	27
Liabilities	**9,053**	**6,592**	**21,444**	**37,089**	**16,775**	**10,437**	**6,338**
Financial liabilities with fixed interest rate and other liabilities without set maturity date	7,798	4,545	16,336	28,679	16,684	10,640	6,044
Fixed-rate financial liabilities hedged by derivatives	552	1,174	3,009	4,735	118	(203)	321
Financial liabilities at variable interest rates	703	873	2,099	3,675	(27)	-	(27)
Difference or gap for the period	**(518)**	**3,654**	**(2,857)**	**279**	**(279)**	**(5,156)**	**4,877**
Accumulated difference or gap	**(518)**	**3,136**	**279**	**279**	**(279)**	**(4,877)**	**-**
Average gap	(518)	2,222	880	2,189			
% of total assets	(0.96)	4.13	1.63	4.06			

Sensitive balances are those maturing, or repriced, within the coming twelve months. This period is established as a reference for the quantification of the impact of the variation in interest rates on the Group's annual net interest income.

The Gap shown in the table represents the difference between sensitive assets and liabilities in each period, i.e. the net balance exposed to price fluctuations. The average Gap for the period is €-2 million, -0.004% of assets (€2,189 million, 4.06% of assets, at 31 December 2015).

Using data at 31 December 2016 the impact on the Bank's net interest income in the event of a 200 basis point rise in interest rates is € -15.4 million, representing -2.53% of net interest income for the next 12 months; in the event of a decrease of 200 basis points it is € -4.5 million euros, representing -0.73% of net interest income for the coming 12 months (in December 2015, €29 million and 4.85% in the event of an increase and € -21 million and -3.45% in the event of a decrease), assuming that the size and structure of the balance sheet remain unchanged and interest rate shifts take place instantaneously and are equal at all points on the curve, with a floor of 0%.

The impact on the Company's value in the event of a 200 basis point rise in interest rates amounts to €-25 million, -0.45% with respect to its equity value, and in the event of a 200 base point fall, €310.3 million, 5.62% with respect to its equity value (in December 2015, €47 million and 0.92% in the event of an increase and €314 million and 6.20% in the event of a decrease), assuming that interest-rate fluctuations are instantaneous and equal for all points on the curve.

3.4 Liquidity risk

This is defined as the possibility of incurring losses because of not having or not being able to access sufficient liquid funds to settle payment obligations.

3.4.1 Liquidity risk management strategies and policies

The management and control of the liquidity risk are governed by principles of financial autonomy and balance sheet equilibrium, ensuring the continuity of the business and that there is sufficient liquidity available to meet payment commitments (i.e. the settlement of liabilities on their respective maturity dates) without undermining the capacity to respond to strategic market opportunities.

The Board of Directors establishes the strategies, policies and limits on the management of this risk, following a report by the Major Risks and Solvency Committee, documented in the Liquidity Risk Management Policy and Procedures Manual.

The strategies for winning funds in retail segments and the use of alternative sources of short, medium and long-term liquidity have enabled the Group to have the necessary resources to address demand for solvent credit fuelled by business activities and to secure cash positions within the management limits contained in the Risk Appetite Framework and Liquidity Manual.

3.4.2 Measurement and control procedures

Liquidity risk is measured taking into account estimated cash flows for assets and liabilities and additional guarantees or instruments which are available to ensure alternative sources of liquidity if such proves necessary.

It also includes the forecast development of the business and expectations in respect of interest rates, as well as management and hedging proposals, simulating different behavioural scenarios. These procedures and analysis techniques are revised as frequently as is necessary to ensure that they function efficiently.

Short, medium and long-term forecasts are prepared in order to know financing needs and limit compliance, taking into account the latest macroeconomic tendencies because of their impact on the performance of assets and liabilities on the balance sheet, and contingent liabilities and derivative products. Similarly, the liquidity risk is controlled by setting tolerance thresholds compatible with the policies approved.

In addition, the Entity is prepared to face possible internal and market crises using action plans that guarantee sufficient liquidity at the lowest cost possible.

At 31 December 2016 the Group's available liquidity amounts to €9,493 million while issuance capacity amounts to €7,847 million. Total available liquidity therefore amounts to €17,340 million, which is €1,059 million lower than at the previous year end. During 2016, wholesale maturities were handled totalling a nominal amount of €1,106 million: ordinary bonds (€12 million), mortgage covered bonds (€818 million), securitisation bonds owned by third parties (€87 million), subordinated bonds (€189 million, including €183 million in contingent convertible bonds). In addition, buybacks of treasury shares have taken place in the amount of €7 million, arranged through securitisation bonds.

In October 2016, mortgage covered bonds worth €500 million maturing in 2023 were issued and placed on the wholesale market.

Ibercaja Banco has a credit facility with the European Central Bank which includes pledged assets with a discountable value of €7,590 million at 31 December 2016, of which €3,372 has been drawn down. Therefore, the available balance amounts to €4,218 million, which can be accessed to meet the Group's liquidity needs. In June 2016, € 2,051 million drawn down on the ECB facility relating to the TLTRO auction was repaid in advance. Subsequently, €3,372 million maturing in 2020 was raise in TLTRO2.

The Company has various sources of funding in addition to the above facility. These include the broad base of retail deposits amounting to €29,071 million, of which 80% relate to stable balances. It also has financing with securities collateral amounting to €7,978 million, of which €3,001 million has been arranged with central counterparties, wholesale issues of €5,499 million characterised by the diversification of maturity dates, deposits at Group financial institutions totalling €1,073 million and other customer deposits amounting to €1,582 million, among others.

The Company's balance sheet does not reflect any significant liquidity risk concentrations as regard assets or sources of funding.

In relation to other contingent risks, the Group controls the position of:

- Financing received from investment funds and pension plans with terms that trigger reimbursement depending on downgrades in Ibercaja Banco's credit rating, such that €112 million would be affected by a one-step rating downgrade.
- Liability derivatives of €111 million, which have required the provision of additional guarantees of €119 million and asset derivatives of €175 million for which additional guarantees of €173 million have been received.
- Financing with securities collateral of €4,137 million, which has required the contribution of additional guarantees of €191 million in cash.
- European Investment Bank financing totalling €200 million, which requires the contribution of €218 million in government debt surety.

Ibercaja Banco has entered into framework netting agreements with all entities with which it operates in derivatives and repos. These agreements are a prerequisite for entities with which such operations are to be initiated. Ibercaja Banco has also concluded guarantee agreements with the main national and international counterparties in the derivative markets in which it operates. Ibercaja Banco is a direct member of the central clearing houses for repo operations - LCH Clearnet and MEFFClear - as well as Eurex for derivative transactions.

Set out below is a breakdown of available liquidity:

	Thousand euro	
	2016	**2015**
Cash and Central Banks accounts	759,309	532,626
Available under policy	4,217,614	6,567,438
Eligible assets outside facility	4,146,242	4,009,656
Other marketable assets not eligible Central Bank	369,675	162,154
Accumulated available balance	**9,492,840**	**11,271,874**

At 31 December 2016 the mortgage covered bond issue capacity amounts to €7,846,917 thousand (€7,126,585 thousand at 31 December 2015).

Set out below is a breakdown by period of the contractual maturities of assets and liabilities (liquidity gap) at 31 December 2016 and 2015:

	Thousand euro						
	On demand	**Up to one year**	**Between one and three months**	**Between three months and one year**	**Between one and five years**	**More than five years**	**Total**
ASSETS							
Loans and advances to credit institutions	36,712	18,414	49,627	73	400	158,336	263,562
Loans to other financial institutions	-	16,881	61	4,280	20,936	-	42,158
Temporary acquisitions of securities and security loans	-	985,071	-	-	-	-	985,071
Loans (including overdue, doubtful, non-performing and foreclosed)	-	605,011	944,262	2,559,149	7,499,810	23,835,000	35,443,232
Liquidation of securities portfolio	-	384,020	85,038	1,181,709	3,195,636	5,419,497	10,265,900
Hedging derivatives	-	59	12,746	76,071	153,242	9,383	251,501
Trading derivatives	-	77	718	3,356	1,190	-	5,341
Net interest margin	-	117,115	42,972	304,782	-	-	464,869
Total at 31 December 2016	**36,712**	**2,126,648**	**1,135,424**	**4,129,420**	**10,871,214**	**29,422,216**	**47,721,634**
Total at 31 December 2015	**74,356**	**1,800,044**	**1,402,217**	**4,190,459**	**12,039,691**	**30,317,487**	**49,824,254**
LIABILITIES							
Wholesale issues	-	10,122	9,591	937,198	2,497,996	2,044,365	5,499,272
Deposits from credit institutions	26,419	17,412	2,000	33,668	600	-	80,099
Deposits from other financial institutions and bodies	756,186	95,377	52,260	153,504	128,130	42,920	1,228,377
Deposits from large non-financial companies	-	-	-	-	-	-	-
Financing other customers	20,540,576	1,283,851	2,022,550	6,056,140	749,308	726	30,653,151
Funds for intermediary lending	-	7,491	11,557	79,558	374,179	41,333	514,118
Financing with securities collateral	-	2,967,908	1,189,320	448,119	3,372,460	-	7,977,807
Other net outflows	-	30,388	(18,836)	270,623	23,181	41,108	346,464
Hedging derivatives	-	4,102	6,598	(2,021)	148,383	34,667	191,729
Loans arranged pending disbursement	-	416,372	-	-	-	-	416,372
Commitments available with third parties	2,951,760	-	-	-	-	-	2,951,760
Financial guarantees issued	5,648	4,341	121	253	2,131	23,084	35,578
Total at 31 December 2016	**24,280,589**	**4,837,364**	**3,275,161**	**7,977,042**	**7,296,368**	**2,228,203**	**49,894,727**
Total at 31 December 2015	**20,647,817**	**6,276,063**	**4,702,395**	**11,756,784**	**6,545,635**	**2,257,290**	**52,185,984**
Gap 2016	**(24,243,877)**	**(2,710,716)**	**(2,139,737)**	**(3,847,622)**	**3,574,846**	**27,194,013**	
Gap 2015	**(20,573,461)**	**(4,476,019)**	**(3,300,178)**	**(7,566,325)**	**5,494,056**	**28,060,197**	
Accumulated gap (without at sight savings account) 2016	**-**	**(2,710,716)**	**(4,850,453)**	**(8,698,075)**	**(5,123,229)**	**22,070,784**	
Accumulated gap (without at sight savings account) 2015	**-**	**(4,476,019)**	**(7,776,197)**	**(15,342,522)**	**(9,848,466)**	**18,211,731**	

Includes maturities of the principal and interest and no new business hypotheses are assumed.

The maturity of demand deposits is not established in a contract. It has been included in the first time band (demand) although these deposits are largely stable.

Financing for other customers includes the implicit derivative in structured deposits.

Loan commitments amount to €2,951,760 thousand (€2,451,691 thousand at 31 December 2015). Although these commitments are immediately available to customers and therefore are treated as "demand" items, under IFRS 7 in practice the cash outflows are allocated over all the time-periods.

With respect to the financial guarantee contracts issued, the nominal amount of the guarantee does not necessarily represent a real disbursement obligation or liquidity needs, which will depend on the fulfilment of the conditions requiring the disbursement of the guarantee amount committed.

The Group only expects cash outflow in relation to financial guarantee contracts classified as doubtful and under special vigilance. The maximum amount which is expected to be paid under such contracts is reflected under Provisions for contingent risks and commitments (Note 12) in the amount of €35,577 thousand (€24,834 thousand at 31 December 2015).

The following tables set out the maturities of long-term wholesale financing.

At 31 December 2016:

	Thousand euro						
	On demand	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Senior debt	-	-	-	-	-	-	**-**
Government secured debt	-	-	-	-	-	-	**-**
Subordinated and preferred	-	5,000	-	223,600	570,949	-	**799,549**
Mortgage and territorial bonds and mortgage covered bonds	-	-	-	670,000	1,692,914	1,600,470	**3,963,384**
Securitizations	-	5,122	9,591	43,598	234,133	443,895	**736,339**
Promissory notes and deposit certificates	-	-	-	-	-	-	**-**
Wholesale issues	**-**	**10,122**	**9,591**	**937,198**	**2,497,996**	**2,044,365**	**5,499,272**
Long-term financing with securities collateral	**-**	**-**	**-**	**-**	**3,372,460**	**-**	**3,372,460**
Period maturities	**-**	**10,122**	**9,591**	**937,198**	**5,870,456**	**2,044,365**	**8,871,732**
Accumulated maturities	**-**	**10,122**	**19,713**	**956,911**	**6,827,367**	**8,871,732**	

Wholesale issues net of treasury shares. However, multiple assignor bonds are carried at the gross amount issued while treasury shares are reflected as available liquidity in accordance with Bank of Spain guidelines on preparing LQ statements.

At 31 December 2015:

	Thousand euro						
	On demand	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 2 years	More than 5 years	Total
Senior debt	-	-	-	11,748	-	-	**11,748**
Government secured debt	-	-	-	-	-	-	**-**
Subordinated and preferred	-	-	20,000	5,000	963,726	-	**988,726**
Mortgage and territorial bonds and mortgage covered bonds	-	-	257,778	560,000	1,837,914	1,625,470	**4,281,162**
Securitizations	-	21,280	9,290	44,071	248,452	507,949	**831,042**
Promissory notes and deposit certificates	-	-	-	-	-	-	**-**
Wholesale issues	**-**	**21,280**	**287,068**	**620,819**	**3,050,092**	**2,133,419**	**6,112,678**
Long-term financing with securities collateral	**-**	**-**	**-**	**2,051,250**	**-**	**-**	**2,051,250**
Period maturities	**-**	**21,280**	**287,068**	**2,672,069**	**3,050,092**	**2,133,419**	**8,163,928**
Accumulated maturities	**-**	**21,280**	**308,348**	**2,980,417**	**6,030,509**	**8,163,928**	

Wholesale issues net of treasury shares. However, multiple assignor bonds are carried at the gross amount issued while treasury shares are reflected as available liquidity in accordance with Bank of Spain guidelines on preparing LQ statements.

The diversification policy on timing the maturity of wholesale issues will enable the Company to cover maturities in the next few years, with a comfortable equity position. Bearing in mind available liquidity (€9,493 million), the Group could cover all long-term wholesale financing maturities (€5,499 million). In addition, the Group has an issuance capacity of €7,847 million (total available liquidity of €17,340 million).

3.5 Exposure to other risks

3.5.1 Exposure to market and counterparty risk

3.5.1.1 Market and counterparty risk management strategies and policies

a) Market risk

This is defined as the possibility of incurring losses on positions held in the market resulting from an adverse movement in financial variables or risk factors (interest rates, exchange rates, share prices, etc.) which determine the value of such positions.

The Company manages market risk with the aim of achieving a suitable financial return in relation to the risk assumed, bearing in mind certai n levels of overall exposure, exposure due to types of segmentation (portfolios, instruments, sectors, subjects, ratings), portfolio structure and profitability/risk objectives. In the management and control of this risk, sensitivity analyses and stress scenario simulations are applied to estimate the impact on income and equity.

The Board of Directors approves the strategies, policies and limits on the management of this risk, following a report by the Major Risks and Solvency Committee, documented in the Capital Markets Unit Policy Manual.

In order to manage the market risk, there are identification, measurement, monitoring, control and mitigation policies as well as operations policies in place for its negotiation, position re-assessment, portfolio classification and measurement, operations settlement, new product approval, broker relations and delegation of duties.

b) Counterparty risk

This is defined as the possibility that counterparties may default on obligations deriving from financial transactions (fixed income, interbank, derivatives, etc.).

The Board of Directors approves the strategies, policies and limits on the management of this risk, following a report by the Major Risks and Solvency Committee, documented in the Risk Facility Manual of Ibercaja Banco.

In order to manage the counterparty risk, the Company has identification, measurement, monitoring, control and mitigation policies in place. Moreover, the Risk Facility Manual of Ibercaja Banco stablishes the policies, methods and procedures for granting risk facilities, limit proposals, formalisation process and documentation of operations and the risk monitoring and control procedures for financial institutions, public administrations with a credit rating and listed companies and/or companies with a credit rating, except for development companies.

Risk facilities are established basically on the basis of the ratings assigned by credit rating agencies, the reports issued by such agencies and the expert analysis of their financial statements.

In order to grant operations related to the counterparty risk with the above-mentioned organisations, the Capital and Balance Sheet Management Unit and the governing bodies will be responsible for managing the assumption of the risk, taking into account the credit line limits set.

In order to manage, control and measure the counterparty risk, the Company uses specialist tools to analyse the consumption of risks in each product and include the calculation of risks at Group level in a single application.

3.5.1.2 Measurement and control procedures

a) Market risk

Portfolios exposed to market risk are characterised by their high liquidity and the absence of material trading activities, which means that the market risk assumed is of little significance taken as a whole.

Since 2009 daily monitoring has taken place of the performance of the forecast loss on the management portfolio, given a confidence level of 99% and a 1 or 10 day timeframe as a result of the variations in the risk factors that determine the price of the financial assets through the VaR (value at risk).

The VaR calculation is carried out using different methodologies:

- The parametric VaR relies on the assumption of normality of variations related to risk factors for the calculation of the forecast loss on the portfolio given a confidence level of 99% and a 1 day or 10 day timeframe.
- The parametric VaR (diversified) takes into account the diversification offered by correlating risk factors (interest rates, exchange rates, share prices etc.). It is the standard measure.
- The parametric VaR (not diversified) assumes the absence of diversification between such factors (correlations equal to 1 or –1, as appropriate), and is useful in periods of stress or changes in the correlation of risk factors.
- The Historical Simulation VaR uses the previous year's relative variations in the risk factors to generate scenarios in which the potential portfolio loss is assessed given a confidence level of 99% and a timeframe.

- The VaR Shortfall measures, given a VaR calculated at 99% and with a 1 day timeframe, the expected loss with respect to 1% of the worst results beyond the VaR. It provides a measure of losses in the event of a VaR. Break.
- In any event, the impact in absolute terms of the VaR is relativized with respect to equity.

At 31 December 2016 the VaR measurement generates the following values:

Thousand euro Confidence level : 99%	Diversified parametric VaR	Parametric VaR v. Equity	Non-diversified parametric VaR	Non-diversified parametric VaR v. Equity	VaR Historical Simulation	VaR Historical Simulation v. Equity	VaR Shortfall	VaR Shortfall v. Equity
Timeframe: 1 day	(33,882)	1.03%	(55,009)	1.67%	(44,550)	1.35%	(93,341)	2.83%
Timeframe: 10 days	(107,144)	3.25%	(173,954)	5.28%				

The VaR calculation at 31 December 2015 recorded the following values:

Thousand euro Confidence level : 99%	Diversified parametric VaR	Parametric VaR v. Equity	Non-diversified parametric VaR	Non-diversified parametric VaR v. Equity	VaR Historical Simulation	VaR Historical Simulation v. Equity	VaR Shortfall	VaR Shortfall v. Equity
Timeframe: 1 day	(33,607)	0.99%	(87,618)	2.59%	(30,758)	0.91%	(37,867)	1.12%
Timeframe: 10 days	(106,276)	3.14%	(277,074)	8.19%				

Similarly and complementing the VaR analysis, stress tests have been performed analysing the impact of different risk factor scenarios on the value of the portfolio being measured.

b) Counterparty risk

The limits authorised by the Board of Directors are established in accordance with the weighted investment volume based on the borrower's credit rating, the investment term and the instrument type.

In addition, legal limits on concentration and major exposures are complied with under EU Regulation 575/2013.

Monitoring systems ensure that the risks assumed are at all times within the established limits. They include controls on the changes in ratings and in general, borrowers' solvency.

The counterparty risk mitigation techniques include framework netting contracts, guarantee contracts, the reduction of portfolios in the event of adverse lending events, the reduction in risk facilities, in the event of a fall in rating or negative news from a company and the specific follow-up of companies' financial information.

With those entities with which it is agreed to compensate risks and there is an agreement to provide guarantees, in accordance with Bank of Spain requirements, the risk may be computed at the resulting net position.

3.5.2 Foreign exchange risk management

This is defined as the possibility of incurring losses deriving from adverse shifts in the exchange rates of the currencies in which the Company's assets, liabilities and off-balance sheet operations are denominated.

The Company has no significant positions of a speculative nature in foreign currency. Nor are there any material positions in foreign currency of a non-speculative nature.

The Company's policy is to limit this type of risk, mitigating it in general at the time it arises through the arrangement of symmetric asset and liability operations or through financial derivatives enabling them to be hedged.

3.5.3 Sovereign debt exposure

Set out below is information concerning sovereign debt exposure, including all positions with public institutions, at 31 December 2016 and 2015:

- Breakdown of carrying value of exposure by country:

	Thousand euro	
	2016	**2015**
Spain	13,191,090	14,954,474
Italy	649,449	517,952
Portugal	25,788	25,005
France	7,529	108,646
Other	135,900	12,771
	14,009,756	**15,618,848**
of which: the insurance company	4,610,767	4,087,053

- Breakdown of carrying value of exposure by portfolio in which the assets are reflected:

	Thousand euro	
	2016	**2015**
Financial assets held for trading	443	575
Financial assets at fair value through profit or loss	-	2,940
Available-for-sale financial assets	8,904,458	12,879,507
Loans and receivables	566,619	652,886
Held-to-maturity investments	4,538,236	2,082,940
	14,009,756	**15,618,848**
of which: the insurance company	4,610,767	4,087,053

The carrying value recorded above represents the maximum credit risk exposure with respect to the financial instruments indicated.

- Breakdown of term to maturity of exposure by portfolio in which the assets are reflected:

	Thousand euro					
	2016					
	To 3 months	**Between 3 months and 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
Financial assets held for trading	-	53	105	9	276	**443**
Available-for-sale financial assets	64,857	1,527,355	2,050,144	1,257,484	4,004,618	**8,904,458**
Loans and receivables	37,285	135,110	52,624	76,792	264,808	**566,619**
Held-to-maturity investments	385,364	41,384	996,441	41,244	3,073,803	**4,538,236**
Total	**487,506**	**1,703,902**	**3,099,314**	**1,375,529**	**7,343,505**	**14,009,756**
of which: the insurance company	46,739	749,118	1,327,981	248,329	2,238,600	4,610,767

	Thousand euro					
	2015					
	To 3 months	**Between 3 months and 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
Financial assets held for trading	34	84	75	93	289	**575**
Financial assets at fair value through profit or loss	2,940	-	-	-	-	**2,940**
Available-for-sale financial assets	1,082,694	1,922,863	3,164,473	300,736	6,408,741	**12,879,507**
Loans and receivables	34,006	104,157	88,769	75,079	350,875	**652,886**
Held-to-maturity investments	477,605	470,423	43,014	1,071,111	20,787	**2,082,940**
Total	**1,597,279**	**2,497,527**	**3,296,331**	**1,447,019**	**6,780,692**	**15,618,848**
of which: the insurance company	59,517	666,510	994,306	266,154	2,100,566	4,087,053

- Other disclosures

  - Fair value The fair value of the instruments recognised as held for trading and available for sale agrees with the aforementioned carrying value. The fair value of held to maturity investments is detailed in Note 26.

    Note 26 sets out the methodology used to value loans and discounts. It should be noted that the fair value detailed does not significantly differ from carrying value. Except for loans and discounts, the remaining fair value associated with the sovereign risk is calculated through level 1 valuation techniques (a description is set out in Note 26).

  - A 100 basis point variation in the interest rate would have an effect of 4.43% on fair value (3.62% in 2015).

  - Non-performing assets with public institutions total €6,204 thousand (€9,070 thousand at 31 December 2015), as indicated in Note 10.5. The Group considers that the remaining exposure is not impaired given that the requirements set out in Note 2.3 are not met.

3.5.4 Reputational risk management

Reputational risk is defined as the unfavourable impact that an event may have on the Group's corporate reputation. It is associated with a negative perception of the Group by stakeholders (customers, employees, society in general, regulators, shareholders, suppliers, counterparties, investors, market analysts, etc.) that affects the Group's capacity to maintain existing, or establish new, commercial relationships.

The following types of reputational risk have been identified:

- Deriving from operational risk: Stakeholders perceive a service level is lower than expectations, which translates into a distancing from the Group and/or negative comments in their environment.
- Purely intrinsic: These risks arise in the organisation's environment and are largely related to successful corporate governance. They may give rise to legal or regulatory penalties as a result of failing to comply with the relevant legislation, and significant losses associated with the far-reaching public repercussions that could ensue.
- Purely extrinsic: This risk is generated outside the Group but may have an impact on its reputation. The perception of the financial sector or changes in the expectations of stakeholders or opinions regarding the Group, are some examples.

The Group places maximum importance on the management of its corporate reputation as a means of anticipating, avoiding and/or managing possible reputational risk and also due to its positive impact on the generation of value. The Strategic Plan 2015-2017 includes Corporate and Brand Reputation as a cross-disciplinary project. Reputation metrics have been prepared within this project, involving regular, recurrent measurements, to track the view of the entity among the general public, customers and employees. The results are the basis for identifying strengths, areas for improvement and potential sources of reputational risk.

The Group has a Regulatory Compliance Unit to ensure and supervise compliance with the principle regulations applicable to it on its regulated activities such as those relating to the prevention of money laundering and terrorism financing, investor protection in the marketing of financial instruments and the provision of investment services (MIFID), Internal Rules of Conduct in Securities Markets, legislation on suspected market abuse etc.

3.6 Risk Governance Framework

The Company has a robust organizational structure that allows it to ensure effective risk management and control. The Governing Bodies are structured as follows:

- The Board of Directors is responsible for establishing and supervising the risk reporting and control systems, approving the Risk Appetite Framework as well as for the policies, manuals and procedures relating to risk management.
- Among other responsibilities, the Major Risk and Solvency Committee proposes the establishment of limits by type of risk and business, reporting the Group's Risk Appetite Framework in a manner consistent with the Entity's other strategic policies and frameworks, evaluating the Group's risk management, reviewing the risk control systems and proposing measures to mitigate the impact of identified risks.
- The Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organisation for its implementation.
- The Audit and Compliance Committee, whose competencies include supervising the internal control system, internal audit and risk management systems, among other areas, and for regularly revising them so that the main risks may be adequately identified, managed and disclosed.

The following Executive Committees are in place:

- The Overall Risk Committee is responsible for defining and monitoring the Group's risk strategies and policies, establishing objectives and strategies to develop the structure and composition of balance sheet items, analysing the sensitivity of results and the Company's equity in various scenarios, analysing compliance with the tolerance levels that have been established, as well as planning the Group's medium-term capital.
- The Audit Committee's functions include being reported to on the annual Internal Audit Operating Plan presented to the Audit and Compliance Committee, receiving regular information regarding the results set out in the internal audit reports and fostering the implementation the proposed improvement recommendations to mitigate any observed weaknesses.

The organisational outline provides the Entity with an overall risk governance and management structure, aligned with market trends and with the complexity of the Ibercaja Group's business, using three lines of defence (management, control and audit). This also structure guarantees the standardisation of policies and risk control at Ibercaja and all the companies forming part of the Group.

4. <u>Distribution of results</u>

The distribution of Ibercaja Banco, S.A.'s 2016 profits that the Board of Directors will propose to the General Shareholders' Meeting for approval and the proposal approved for 2015 are detailed below:

	Thousand euro	
	2016	**2015 (*)**
Distribution		
To dividends:	35,725	20,000
To retained earnings:		
Legal reserve	*18,981*	*4,687*
Reserve for goodwill	-	*6,403*
Voluntary reserve	*135,103*	*15,779*
Profit/(loss) for the year	**189,809**	**46,869**

(*) The profit for 2015 that figures in the above table does not coincide with the figure reflected as a comparative balance in the individual income statement due to the effect of the change in accounting policy mentioned in Note 45.2.

Ibercaja Banco's General Shareholders' Meeting held on 27 April 2016 approved the payment of a dividend out of 2015 profits in the amount of €20,000 thousand. Additionally, the Board of Directors will propose to the General Shareholders' Meeting the distribution of a dividend out of 2016 profits in the amount of €35,725 thousand.

5. Information on the Board of Directors and Senior Management

Pursuant to Bank of Spain Circular 4/2004, "key administration and management personnel" of Ibercaja Banco (understood as those persons with authority and responsibility for planning, managing and controlling the company's activities, directly or indirectly), comprises the members of the Board of Directors and Senior Management. Due to their positions these persons are regarded as "related parties" and as such are subject to the disclosure requirements described in the present Note.

Related parties also include the persons with whom "key management personnel" maintain certain family or personal relations, and also controlled companies having significant influence or major voting power belonging to key personnel or members of their families. Transactions between Ibercaja Banco Group and related parties are disclosed in Note 43.

5.1 Remuneration of the Board of Directors

Remuneration and other benefits accrued in 2016 to the members of the Company's Board of Directors, as Board directors, are analysed below by remuneration item:

		Thousand euro						
Members of the Board of Directors	Office	Remuneration		Per diems	Life insurance premiums	Remuneration as member of Board committees	Other items	Total
		Fixed	Variable					
Amado Franco Lahoz	Chairman	379.6	-	26.6	1.9	-	7.5	415.6
Jose Luis Aguirre Loaso	1st Deputy Chairman	-	38.8	37.1	2.3	45.6	6.4	130.2
José Ignacio Mijangos Linaza	2nd Deputy Chairman	-	-	13.3	-	-	7.6	20.9
Víctor Iglesias Ruiz	Chief Executive Officer	374.8	68.2	26.6	1.2	-	5.2	476.0
Jesús Barreiro Sanz	Board Secretary	-	-	50.4	4.0	-	6.4	60.8
Jesús Bueno Arrese	Board director	-	-	41.3	5.0	-	4.1	50.4
Gabriela González-Bueno Lillo	Board director	-	-	42.0	1.0	45.6	1.8	90.4
Jesús Solchaga Loitegui	Board director	-	-	14.7	3.0	30.4	5.2	53.3
Juan María Pemán Gavín	Board director	-	-	24.5	0.8	-	7.6	32.9
Emilio Jiménez Labrador (1)	Board director	-	-	3.5	0.4	-	0.3	4.2
Vicente Condor López	Board director	-	-	34.3	0.9	45.6	2.9	83.7
Félix Longas Lafuente (2)	Board director	-	-	6.3	1.0	-	1.8	9.1
Jesús Tejel Giménez (2)	Board director	-	-	9.1	0.9	-	1.5	11.5
Francisco Manuel García Peña (3)	Board director	95.6	-	23.1	0.7	-	5.9	125.3

(1) Company director appointed on 28 October 2016.
(2) Company directors appointed on 30 August 2016.
(3) Company director who resigned from the Board on 28 October 2016.

The information on Mr. José Luis Aguirre Loaso's variable remuneration relates to the amount accrued in prior years in his capacity as executive director, which had been deferred and was paid in 2016.

Remuneration and other benefits accrued in 2015 to the members of the Company's Board of Directors, as Board directors, are analysed below by remuneration item:

Members of the Board of Directors	Office	Thousand euro						
		Remuneration		Per diems	Life insurance premiums	Remuneration as member of Board committees	Other items	Total
		Fixed	Variable					
Amado Franco Lahoz	Chairman	379.6	-	28.0	6.6	-	7.4	421.6
José Luis Aguirre Loaso (1)	1st Deputy Chairman	31.0	101	33.6	8.3	34.2	6.3	214.4
José Ignacio Mijangos Linaza (2)	2nd Deputy Chairman	-	-	1.4	-	-	1.1	2.5
Victor Iglesias Ruiz (3)	Chief Executive Officer	343.0	-	25.2	1.0	-	5.2	374.4
Jesús Barreiro Sanz	Board Secretary	-	-	47.6	3.6	-	6.3	57.5
Jesús Bueno Arrese	Board director	-	-	35.7	18.3	-	4.0	58.0
Gabriela González-Bueno Lillo	Board director	-	-	38.5	3.6	45.6	1.7	89.4
Jesús Solchaga Loitegui	Board director	-	-	16.1	11.1	15.2	6.3	48.7
Juan María Pemán Gavín	Board director	-	-	31.5	2.3	-	7.4	41.2
Francisco Manuel García Peña	Board director	111.0	-	17.5	2.7	-	6.3	137.5
Vicente Condor López	Board director	-	-	23.8	3.2	45.6	2.9	75.5
Manuel Pizarro Moreno (4)	Board director	-	-	-	2.7	-	4.6	7.3
Vicente Eduardo Ruiz de Mencía (5)	Board director	-	-	-	9.0	-	2.8	11.8

(1) CEO to 28 January 2015.
(2) Director appointed on 29 October 2015, subject to approval by the competent supervisory bodies.
(3) Company director appointed on 28 January 2015.
(4) Company director who resigned from the Board on 24 June 2015.
(5) Company director who resigned from the Board on 29 October 2015.

Having regard to the attendance per diems receivable by the nominee directors designated by the shareholder foundations Fundación Ordinaria Caja Badajoz, Fundación Caja de Ahorros de la Inmaculada de Aragón and Cajacírculo Fundación Bancaria, the following should be noted:

- In general, attendance per diems are allocated, for the purposes of the above information, to the nominee directors designated at the proposal of the above-mentioned shareholder foundations. However, in accordance with the sector legislation applicable to them, and as the directors form part of their administrative or management bodies, the per diems have been paid directly to the shareholder foundations.

  Nonetheless, as from 28 September 2016, and since Mr. Juan María Pemán Gavín was no longer a trustee or the CEO of Fundación Caja de Ahorros de la Inmaculada de Aragón, the per diems have been paid to Mr. Pemán in his capacity as Board director (in the gross amount of €10,500).

- The attendance per diems paid to the foundation Fundación Ordinaria Caja Badajoz were allocated to Mr. Francisco Manuel García Peña from 1 January to 27 October 2016 and to Mr. Emilio Jiménez Labrador from 28 October to 31 December 2016, the latter person having been appointed Board director, replacing Mr. García Peña, at the request of Fundación Ordinaria Caja Badajoz.

The item "Remuneration as member of Board committees" reflects the gross amounts received by the chairpersons of the internal Board committees.

"Other items" includes insurance premiums other than life insurance (health and accident insurance).

The Entity has not undertaken any pension commitments with current or former member of the Board of Directors by reason of their Board membership.

5.2 Senior Management's remuneration

For the purposes of preparing these annual accounts, senior management is deemed to be formed by the Chief Executive Officer and the employees forming part of the management team (Management Committee) of Ibercaja Banco S.A., identified in the Economic and Activity Report, who have held the positions of Assistant Managing Directors, Assistant General Managers and Assistant Managers.

During 2016, the Management Committee was formed by 12 members (including the CEO), who are identified as Senior Management (22 members in 2015).

The following table sets out the remuneration accrued to Senior Management, as defined above, in 2016 and 2015:

Thousand euro	Short-term remuneration		Post-employment benefits		Total	
	2016	2015	2016	2015	2016	2015
Senior management	2,311	3,539	105	308	**2,416**	**3,847**

No remuneration with respect to pensions or life insurance premiums for former members of Senior Management was recorded during the year.

5.3 Directors' duty of loyalty

At 31 December 2016, in relation to the requirements of Articles 229 and 230 of the Spanish Companies Act 2010, the members of Ibercaja Banco's Board of Directors and persons related to them as referred to in Article 231 of that Act have confirmed that they do not engage in any activities for their own or a third party's account which involve any current or potential competition with the Company or which otherwise place them in a permanent state of conflict with the Company's interests.

5.4 Transactions with significant shareholders

During 2016 and 2015, no transactions were effected outside the ordinary course of business or on non-arm's length terms with the significant shareholders, except for the ones described below:

- Contract for services (legal, tax, technological, marketing, communication advisory services) entered into with Fundación Bancaria Ibercaja in the amount of €229,741.
- Leases for buildings owned by Ibercaja Banco and used by Fundación Bancaria Ibercaja to carry on its activities, in the amount of €131,147.
- Contract for services (use and management of facilities, artistic heritage…) provided by Fundación Bancaria Ibercaja to Ibercaja Banco in the amount of €874,328.

All transactions to be arranged with the shareholder foundations are previously studied by the Audit and Compliance Committee and submitted to the Board of Directors for approval.

6. <u>Cash, cash balances in central banks and other demand deposits</u>

This heading in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousand euro	
	2016	2015
Cash	207,771	194,611
Cash balances in central banks	551,538	338,015
Other demand deposits	246,677	303,122
	1,005,986	**835,748**

The average effective interest rate on debt instruments classified in this portfolio during 2016 was 0.03% (0.03% in 2015).

7. Financial assets and liabilities held for trading

7.1 Composition of the balance and the maximum credit risk - debtor balances

Set out below is a breakdown of the financial assets included in this category at 31 December 2016 and 2015, classified by geographical area, class of counterparty and type of instrument:

	Thousand euro	
	2016	**2015**
Geographical area		
Spain	13,177	26,986
Other European Union countries	1,415	6,601
Rest of the world	18,532	7,740
	33,124	**41,327**
Counterparty class		
Credit institutions	30,618	38,424
Resident public administrations	443	575
Other resident sectors	2,063	2,328
	33,124	**41,327**
Instrument type		
Debt securities	689	690
Derivatives not traded on organised markets	32,435	40,637
	33,124	**41,327**

The carrying amount shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

The average effective interest rate on debt instruments classified in this portfolio during 2016 was 2.91% (3.13% in 2015).

7.2 Breakdown of balance - creditor balances

Set out below is a breakdown of the financial liabilities included in this category at 31 December 2016 and 2015, classified by geographical area, class of counterparty and type of instrument:

	Thousand euro	
	2016	**2015**
Geographical area		
Spain	13,299	31,692
Other European Union countries	1,326	4,278
Rest of the world	16,630	-
	31,255	**35,970**
Counterparty class		
Credit institutions	25,928	10,703
Other resident sectors	5,303	25,146
Other non-resident sectors	24	121
	31,255	**35,970**
Instrument type		
Derivatives not traded on organised markets	31,255	35,970
Of which: embedded derivatives segregated from hybrid financial instruments	*5,327*	*25,267*
	31,255	**35,970**

7.3 Financial derivatives held for trading

Traded financial derivatives break down as follows at 31 December 2016 and 2015 by product type, fair value and notional value:

	Thousand euro			
	Fair value			
	Balances receivable		Balances payable	
	2016	2015	2016	2015
Unexpired foreign exchange forward purchases/sales	**-**	**-**	**502**	**81**
Index/securities options	**4,224**	**23,646**	**4,255**	**23,463**
Interest-rate options	**1,223**	**1,966**	**2,655**	**3,020**
Other interest rate transactions	**26,988**	**15,025**	**23,843**	**9,406**
Interest rate swaps (IRS)	26,988	15,025	23,843	9,406
	32,435	**40,637**	**31,255**	**35,970**

	Thousand euro	
	Notional amount	
	2016	2015
Unexpired foreign exchange forward purchases/sales	**36,410**	**49,691**
Index/securities options	**1,040,490**	**1,688,020**
Interest-rate options	**112,500**	**112,500**
Embedded derivatives on securities /indexes	**1,099,292**	**1,672,376**
Other interest rate transactions	**566,778**	**585,097**
Embedded interest rate derivatives	112,464	112,464
Derivatives, wholesale market	307,043	375,189
Distribution of derivatives	147,271	97,444
	2,855,470	**4,107,684**

In addition to the balances detailed in the table above, the face value of securities options (payables) deriving from the yield guarantee provided by the Group to investment funds it markets at 31 December 2016 totals €794,927 thousand (€1,586,707 thousand at 31 December 2015).

8. Financial assets at fair value through profit or loss

Set out below is a breakdown of the financial assets included in this category at 31 December 2016 and 2015, classified by geographical area, class of counterparty and type of instrument:

	Thousand euro	
	2016	2015
Geographical area		
Spain	44,384	50,289
Other European Union countries	1,831	1,920
Rest of the world	2,782	404
	48,997	**52,613**
Counterparty category		
Credit institutions	2,218	2,324
Resident public administrations	-	2,940
Other resident sectors	45,871	47,349
Other non-resident sectors	908	-
	48,997	**52,613**
Instrument types		
Loans and advances to credit institutions	-	-
Loans and advances to customers	-	-
Debt securities	4,613	5,264
Shares in investment funds	44,384	47,349
	48,997	**52,613**

In this portfolio, the Group classifies assets (mainly holdings in investment funds) managed jointly with liabilities derived from insurance contracts (unit linked) measured at fair value.

The carrying value recorded above table reflects the maximum credit risk exposure with respect to the financial instruments indicated.

9. Available-for-sale financial assets

9.1 Composition of the balance and the maximum credit risk

Set out below is a breakdown of the financial assets included in this category at 31 December 2016 and 2015, classified by geographical area, class of counterparty and type of instrument:

	Thousand euro	
	2016	**2015**
Geographical area		
Spain	9,123,291	13,575,494
Other European Union countries	1,279,497	1,161,038
Rest of Europe	35,353	60,821
Rest of the world	1,040,643	803,050
Total gross amount	**11,478,784**	**15,600,403**
(Impairment losses)	(2,533)	(1,187)
Total net amount	**11,476,251**	**15,599,216**
Counterparty category		
Credit institutions	926,032	1,157,215
Resident public administrations	8,087,898	12,212,871
Non-resident public administrations	816,560	666,636
Other resident sectors	903,818	937,334
Other non-resident sectors	744,476	626,347
Total gross amount	**11,478,784**	**15,600,403**
Instrument type		
Debt securities	11,043,893	15,158,499
Government debt securities	*8,087,797*	*12,212,871*
Foreign government debt securities	*816,560*	*666,636*
Issued by financial institutions	*891,353*	*1,119,575*
Other fixed income securities	*1,248,183*	*1,159,417*
Other equity instruments:	434,891	441,904
Shares in listed Spanish companies	*81,856*	*78,385*
Shares in unlisted Spanish companies	*237,421*	*247,047*
Shares in listed foreign companies	*85,169*	*59,194*
Shares in unlisted foreign companies	*45*	*267*
Shares in investment funds	*11,707*	*19,287*
Shares in venture capital funds	*18,693*	*37,724*
Total gross amount	**11,478,784**	**15,600,403**

The carrying amount shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

In 2016, assets included in this caption were transferred to the held-to-maturity portfolio in a cash amount of €4,011 million, reflecting the intention and capacity to hold the investments to maturity (Note 11).

Additionally, during the year the Entity increased the cost of its shareholding in Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB) by €30,929 as a result of the capital increase carried out to convert "Unsecured Contingently Convertible Subordinated Bonds 2013". At 31 December 2016, an impairment loss of €8,850 thousand was recognised on this shareholding, which is carried in the amount of €39,779 thousand.

All impairment losses detailed in the table above relate to the hedging of credit risk on debt securities and are reversible.

Impairment losses on equity instruments amount to €55,559 thousand at 31 December 2016 (€53,190 thousand at 31 December 2015). These losses are reflected by reducing the gross amount disclosed above and are irreversible.

Equity instruments in the available-for-sale financial asset portfolio the fair value of which cannot be calculated sufficiently objectively are measured at cost net of any impairment calculated under the criteria described in Note 2.3.4. The carrying value of these equity instruments at 31 December 3016 amounted to €99,935 thousand (€88,012 thousand at 31 December 2015). This figure is made up of a considerable number of holdings which are individually not significant. In relation to these instruments, the following should be noted:

- The instruments included in this portfolio may be sold on the basis of market opportunities.
- During 2016, instruments of this kind with a carrying value of €10,189 thousand were sold (€16,119 thousand at 31 December 2015), generating a loss of €4,700 thousand (gain of €517 thousand at 31 December 2015).

The average effective interest rate of the debt instruments classified in this portfolio during 2016 was 1.89% (2.49% in 2015), which includes the effect of adjustments to revenues on interest rate risk hedging operations.

9.2 Impaired debt securities

At 31 December 2016, there are no impaired debt securities (€222 thousand at 31 December 2015, none of which had matured).

9.3 Hedging of credit risk and other risks

Movements in impairment losses recorded on credit risk hedges for debt Securities during 2016 and 2015 are as follows:

	Thousand euro	
	2016	2015
Opening balance	**1,187**	**21,423**
Transfer charged to profit for the year	6,056	341
Reversal of provisions by credit to income	(1,249)	(813)
Applications	(3,461)	(19,923)
Exchange differences and other movements	-	159
Closing balance	**2,533**	**1,187**
Of which:		
- Specifically calculated	-	222
- Calculated in general	2,533	-
- Calculated based on country risk	-	965

The Company has analysed possible impairments for all equity instruments classified as available-for-sale financial assets in order to recognise any necessary value adjustments. For these purposes, impairment is deemed to exist when accumulated decreases in market values have taken place continuously over more than 18 months, or by more than 40%.

The analysis has revealed a need to transfer €6,357 thousand to the income statement in 2016 (€99 thousand in 2015).

Additionally, in 2016 impairment losses were recognised on Other equity instruments measured at cost amounting to €13,170 thousand (€4,425 thousand in 2015).

The impairment losses indicated in this note are carried in the consolidated income statement under “Impairment or reversal of impairment of financial assets not carried at fair value through profit and loss”.

10. Loans and receivables

The items making up this balance sheet caption at 31 December 2016 and 2015 are as follows:

	Thousand euro	
	2016	**2015**
Debt securities (Note 10.2)	2,602,217	2,141,045
Loans and advances	33,417,111	33,294,459
Credit institutions (Note 10.3)	470,055	503,148
Customers (Note 10.4)	32,947,056	32,791,311
	36,019,328	**35,435,504**

10.1 Composition of the balance and the maximum credit risk

Set out below is a breakdown of the financial assets included in this category at 31 December 2016 and 2015, classified by geographical area, class of counterparty and type of instrument:

	Thousand euro	
	2016	**2015**
Geographical area		
Spain	36,905,736	36,507,770
Rest of the world	463,940	585,855
Total gross amount	**37,369,676**	**37,093,625**
(Impairment losses)	(1,350,348)	(1,658,121)
Total net amount	**36,019,328**	**35,435,504**
Counterparty class		
Credit institutions	734,670	702,536
Resident public administrations	566,619	652,886
Other resident sectors	35,898,149	35,558,721
Other non-resident sectors	170,238	179,482
Total gross amount	**37,369,676**	**37,093,625**
Instrument type		
Debt securities	2,602,217	2,141,045
Loans and credit	32,889,401	33,498,016
Assets acquired under repurchase agreements	985,018	543,560
Term deposits at credit institutions	415,443	458,980
Other	477,597	452,024
Total gross amount	**37,369,676**	**37,093,625**

The carrying value shown in the above table represents the maximum credit risk exposure relating to the financial instruments indicated, except for:

- The asset item relating to the present value of fees receivable from financial guarantees, recorded under the caption "Other" (in the breakdown by instrument types) amounts to €1,673 thousand at 31 December 2016 (€1,553 thousand at 31 December 2015). Note 27.1 contains an analysis of the face value of financial guarantees, which reflects the maximum credit risk exposure level.

- The assets transferred to securitisation funds that have not been eliminated from the balance sheet, in accordance with the content of Note 2.8, are reflected under the heading "Loans and credit" (in the breakdown by instrument types) and at 31 December 2016 total €3,780,021 thousand (€4,140,537 thousand at 31 December 2015) and are analysed in Note 27.5. The maximum credit risk exposure is stated at the value of all positions held by the Group in the aforementioned securitization funds, which total €3,236,394 thousand at 31 December 2015 (€3,523,108 thousand at 31 December 2015). Bonds issued by securitization funds subscribed by non-Group third parties amount to €694,657 thousand at 31 December 2016 (€784,133 thousand at 31 December 2015) and are analysed in Note 19.4.

10.2 Debt securities

The analysis of financial assets included under the category Debt securities at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Debt securities	**2,602,217**	**2,141,045**
Impaired assets	-	-
Total gross amount	**2,602,217**	**2,141,045**
(Impairment losses)	-	-
Total net amount	**2,602,217**	**2,141,045**

This item includes, among others, SAREB bonds with irrevocable guarantees from the Spanish Government, the nominal value amounting to €2,049,500 thousand at 31 December 2016 (Note 1.10.1.3). It also includes the Company’s position in SAREB subordinated debt, which has been partially converted into shares in the current year (Note 9.1), in the amount of €20,371 thousand at 31 December 2016.

The average effective interest rate on debt instruments classified in this portfolio during 2016 was 0.37% (0.41% in 2015).

10.3 Credit institutions

Set out below is an analysis of financial assets included in Loans and advances to credit institutions at 31 December 2016 and 2015:

	Thousand euro	
	2016	**2015**
Term or with advance notice:	**417,189**	**463,174**
Fixed-term deposits	415,443	458,980
Other accounts	1,746	4,194
Other financial assets:	**51,921**	**39,204**
Cheques due from financial institutions	914	737
Cash guarantees provided	1,857	2,080
Clearing houses	46,770	35,998
Other items	2,380	389
Impaired assets	**-**	**-**
Valuation adjustments	**945**	**770**
Total gross amount	**470,055**	**503,148**
(Impairment losses)	-	-
Total net amount	**470,055**	**503,148**

The average effective interest rate on debt instruments classified in this portfolio during 2016 was 0.24% (0.42% in 2015).

10.4 Customers

The analysis of financial assets included under the category Loans and advances to customers at 31 December 2016 and 2015 is as follows:

	Thousand euro	
	2016	2015
Loans and credit	**32,889,401**	**33,498,016**
Trade credit	438,825	370,405
Secured loans	23,309,436	24,708,465
Other term receivables	5,085,186	4,418,024
Finance leases (Note 27.7)	334,289	236,736
Demand loans and other	574,605	560,501
Impaired assets	3,061,298	3,084,683
Valuation adjustments	85,762	119,202
Assets acquired under repo agreements	**985,018**	**543,560**
Other financial assets	**422,985**	**407,856**
Financial transactions pending settlement	13,869	12,490
Cash guarantees provided	8,419	3,949
Fees on financial guarantees	1,673	1,553
Other items	399,024	389,864
Total gross amount	**34,297,404**	**34,449,432**
(Impairment losses)	(1,350,348)	(1,658,121)
Total net amount	**32,947,056**	**32,791,311**

At 31 December 2016, the item "Valuation adjustments" includes the amount of €107.8 million (€136.2 million at 31 December 2015) relating to the adjustment to the amortised cost of hedged assets yet to be apportioned following the interruption of the portfolio hedge described in Note 12.2.

The average effective interest rate on debt instruments classified in this portfolio during 2016 was 1.47% (1.65% in 2015).

10.5 Impaired and unimpaired overdue assets

Financial assets classified under loans and receivables and regarded as impaired due to the related credit risk at 31 December 2016 and 2015, analysed by the length of time that has elapsed since the oldest unpaid amounts fell due as at the above dates, are as follows:

	Thousand euro					
	Not due	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	More than 12 months	Total
Balances at 31 December 2016	985,696	269,239	108,837	91,481	1,606,045	**3,061,298**
Balances at 31 December 2015	728,317	221,459	111,150	121,268	1,902,489	**3,084,683**

The breakdown of impaired assets by counterparty category is as follows:

	Thousand euro	
	2016	2015
Resident public administrations	6,204	9,070
Other resident sectors	3,035,407	3,041,778
Other non-resident sectors	19,687	33,835
	3,061,298	**3,084,683**

Generally, due and receivable assets are not considered to be impaired until they go unpaid for more than 90 days. The breakdown of unimpaired due and receivable assets by counterparty category and age at 31 December 2016 and 2015 is as follows:

	Thousand euro			
	2016			
	Less than 1 month	1 to 2 months	2 months to 90 days	Total
Credit institutions	-	-	-	-
Resident public administrations	665	6	3,478	4,149
Other resident sectors	61,093	12,815	15,898	89,806
Other non-resident sectors	793	25	23	841
	62,551	**12,846**	**19,399**	**94,796**

	Thousand euro			
	2015			
	Less than 1 month	1 to 2 months	2 months to 90 days	Total
Credit institutions	4	-	-	4
Resident public administrations	81	-	119	200
Other resident sectors	58,818	28,354	22,731	109,903
Other non-resident sectors	474	16	21	511
	59,377	**28,370**	**22,871**	**110,618**

10.6 Hedging of credit risk

Movements in 2016 and 2015 in impairment adjustments and the accumulated amount at the start and end of those years for debt instruments classified as loans and receivables are set out below (thousand euro):

	Thousand euro	
	2016	2015
Opening balance	**1,658,121**	**2,235,685**
Transfer charged to profit for the year	844,200	716,364
Recovered amount credited to profit for the year	(572,056)	(509,380)
Applications	(522,777)	(705,991)
Other movements	(57,140)	(78,557)
Closing balance	**1,350,348**	**1,658,121**
Of which:		
Determined individually	517,851	-
Determined collectively	832,497	1,658,121

Applications during 2016 relate basically to provisions for transactions written off the consolidated balance sheet in the amount of €490,547 thousand (€355,895 thousand in 2015). Applications in 2015 also related to provisions written off in respect of the portfolio of doubtful loans sold to Goya Debtco DAC in the amount of €331,789 thousand.

Other movements include transfers of the provisions for loan losses on credit transactions settled through foreclosure or dation as payment of assets for the total or partial settlement of the debt, applying the approach described in Note 2.18.

Impairment adjustments and other provisions recorded by the Group are sufficient to cover any asset depreciation, as well as any contingencies that may be faced by the Group.

The breakdown of impairment losses by counterparty category is as follows:

	Thousand euro	
	2016	**2015**
Resident public administrations	528	128
Other resident sectors	1,337,466	1,632,642
Other non-resident sectors	12,354	25,351
	1,350,348	**1,658,121**

There follows a breakdown of the items carried in 2016 and 2015 in the item "Impairment or reversal of impairment of financial assets not carried at fair value through profit and loss - Loans and receivables" in the consolidated income statements for those periods:

	Thousand euro	
	2016	**2015**
Impairment losses credited to asset value adjustments	272,144	206,984
Impairment losses credited to assets	-	-
Doubtful loans recovered	(5,821)	(3,928)
	266,323	**203,056**

Movements in Loans and receivables written off the consolidated balance sheet in 2016 and 2015 are as follows:

	Thousand euro	
	2016	**2015**
Opening balances	**625,477**	**636,697**
Application of cumulative impairment balance	490,547	355,895
Interest payable under contracts	39,123	23,626
Written down directly through the income statement	-	-
Cash collection of principal from counterparties	(5,821)	(3,928)
Cash collection of interest from counterparties	(396)	(296)
Sale	(44,830)	(272,429)
Other items	(77,638)	(114,088)
Closing balances	**1,026,462**	**625,477**

Accrued interest pending receipt recorded in memorandum accounts and associated with impaired financial assets totalled €101,502 thousand at 31 December 2016 (€117,093 thousand at 31 December 2015).

11. Held-to-maturity investments

11.1 Composition of the balance and the maximum credit risk

Set out below is a breakdown of the financial assets included in this category at 31 December 2016 and 2015, classified by geographical area, class of counterparty and type of instrument:

	Thousand euro	
	2016	2015
Geographical area		
Spain	4,544,538	2,660,534
Other European Union countries	1,042	1,038
Rest of the world	-	999
Total gross amount	**4,545,580**	**2,662,571**
(Impairment losses)	(6)	-
Total net amount	**4,545,574**	**2,662,571**
Counterparty category		
Resident credit institutions	3,215	35,277
Resident public administrations	4,538,236	2,082,940
Other resident sectors	3,087	543,316
Other non-resident sectors	1,042	1,038
Total gross amount	**4,545,580**	**2,662,571**
Instrument type		
Government debt	4,538,236	2,082,940
SAREB bonds (Note 1.10.1.3)	-	485,715
Other fixed income securities	7,344	93,916
Total gross amount	**4,545,580**	**2,662,571**

The carrying value shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

During 2016 the Entity reclassified €4,011 million from the available-for-sale financial asset portfolio (Note 9) to the held-to-maturity portfolio as a result of its intention and capacity to hold such investments to maturity.

In 2016, a bond issued by SAREB (Note 1.10.1.3) was redeemed through the receipt of a new bond for the same nominal amount of €485 million, which is recognised in the item "Loans and receivables" in balance sheet assets.

The average effective interest rate on debt instruments classified in this portfolio during 2016 was 2.62% (2.79% in 2015).

11.2 Overdue and impaired assets

There are no overdue or impaired assets in this portfolio at 31 December 2016 and 2015.

12. Hedging derivatives (receivable/payable) and changes in the fair value of the hedged items in portfolio hedges of interest rate risk

12.1 Hedging derivatives

Financial derivatives designated as hedging instruments in fair-value hedging transactions break down as follows by product type at 31 December 2016 and 2015:

	Thousand euro			
	Fair value			
	Balances receivable		Balances payable	
	2016	2015	2016	2015
Interest rate swaps (IRS)	285,111	357,452	176,172	330,474
	285,111	**357,452**	**176,172**	**330,474**

The carrying value figuring in the above table represents the maximum credit risk exposure relating to the financial instruments indicated, except for the asset derivatives contracted for which there are netting or compensation agreements in place and which are also covered by a collateral agreement which consists of formalising deposits in an amount equivalent to the net fair value of the derivative transactions, such that in the event of any default affecting the derivative obligations by one of the parties, the other party does not have to satisfy the obligations associated with the deposit.

The Entity has not offset the financial instruments that give rise to these guarantee deposits and has maintained the separate recognition of assets and liabilities without recording a net position, as the conditions described in Note 2.7. are fulfilled. There follows a breakdown of the carrying amount of financial instruments covered by these arrangements and the asset and liability deposits generated with counterparties (for both hedge derivatives and the trading derivatives referred to in Note 7.3):

	Thousand euro	
	Financial instruments subject to offset arrangements	
	2016	2015
Assets resulting from derivatives	253,274	358,877
Liabilities resulting from derivatives	169,947	310,451

	Thousand euro	
	Deposits subject to derivative offset agreements	
	2016	2015
Deposits recognised under assets	95,850	155,695
Deposits recognised under liabilities	173,741	194,101

All fair value hedges obtained by the Entity are for the purpose of hedging the risk of changes in the fair value of asset and liability debt instruments issued at a fixed rate of interest, in the event of changes in the interest rate of reference. This risk involves an increase in the fair value of financial liabilities should the interest rate of reference decline, and a decrease in the fair value of financial assets if the rate should increase. To mitigate this risk the Group obtains mainly financial swaps, whose value varies in line and symmetrically with the changes in the value of the hedged items.

The following table contains details regarding the face value of hedges, set out by hedged and hedging items:

	Thousand euro	
	2016	**2015**
Hedging item		
Interest rate swaps (IRS)	8,918,925	9,810,857
	8,918,925	**9,810,857**
Hedged item		
Customer transactions	1,358,551	2,172,088
Debenture loans	3,354,793	2,533,896
Fixed interest	2,555,581	5,104,873
Deposits taken (money market)	1,650,000	-
	8,918,925	**9,810,857**

12.2 Fair value changes to hedged items in portfolio hedges of interest rate risk

As explained In Note 2.4, gains or losses arising from changes in the fair value of interest rate risk relating to financial instruments which are efficiently hedged in fair value portfolio hedging transactions are credited or debited to these items in the consolidated balance sheet.

Adjustments to financial assets and liabilities in portfolio hedges at 31 December 2016 and 2015 are as follows:

	Thousand euro			
	Fair value			
	Balances receivable		Balances payable	
	2016	**2015**	**2016**	**2015**
Mortgage loans	-	-	-	-
Financial liabilities	-	-	16,022	6,930
	-	**-**	**16,022**	**6,930**

Concerning the assets affected by macro-hedges, in 2012 Banco Grupo Cajatres, S.A.U. entered into an interest rate option agreement under which, during the period 2013-2026, it must pay, over and above the relevant face value in each period, the positive difference between the floor rate and the 12-month Euribor rate (or zero if the difference is negative). The initial face value and maximum value of the option is €2,672 million and hedges any change in value of the implicit floor rate in the mortgage loans against interest rate fluctuations. The Group decided to interrupt the portfolio hedge in 2015. The adjustment to the amortised cost of hedged assets on the hedge interruption date, amounting to €140.9 million, is apportioned over the initially designated hedge period. At 31 December 2016, the adjustment yet to be apportioned amounted to €107.8 million (€136.2 million at 31 December 2015) and has been carried in the item "Loans and receivables" in balance sheet assets since the hedge was interrupted (Note 10.4). The derivative with the counterparty was cancelled on the same date.

The nominal value of financial liabilities relating to the Entity's own issues of mortgage covered bonds, hedged by interest rate swaps (IRS), totalled €500,897 thousand at 31 December 2016 (€102,564 thousand at 31 December 2015).

13. Investments in joint business ventures and associates

13.1 Investments in associates

Investments in associates break down as follows on the consolidated balance sheets at 31 December 2016 and 2015:

	Thousand euro	
	2016	**2015**
Equity instruments	106,595	104,728
(Impairment losses)	(481)	(511)

Total net amount	**106,114**	**104,217**

The balance in the item “Investments in joint business ventures and associates - Associates” in the consolidated balance sheets at 31 December 2016 and 2015 includes the goodwill associated with these ownership interests. This goodwill is analysed below, indicating the entity from which it has originated:

	Thousand euro	
Entity	**2016**	**2015**
Heraldo de Aragón, S.A.	11,149	11,149
CAI Seguros Generales, Seguros y Reaseguros, S.A.	6,699	6,699
Total net amount	**17,848**	**17,848**

Set out below are movements in impairment losses in associates in 2016 and 2015:

	Thousand euro	
	2016	2015
Opening balance	**511**	**1,411**
Net charges (Note 41)	**-**	**-**
Transfer charged to profit for the year	-	-
Recovered amount credited to profit for the year	-	-
Recovered amount credited to prior-year profits	**-**	**-**
Applications	**-**	**(1,000)**
Other changes	**(30)**	**100**
Closing balance	**481**	**511**

In February 2017, the Group agreed to sell its shareholding in the company Araven, S.L., a transaction that is due for completion in the short term.

13.2 Shareholdings in jointly-controlled entities

Apendices I and II show a breakdown of the investments treated as jointly-controlled entities at 31 December 2016 and 2015, together with relevant information regarding these companies.

There are no impairment losses or goodwill associated with these shareholdings.

13.3 Notifications concerning share acquisitions

Pursuant to Article 155 of the Spanish Companies Act 2010, it is reported that during the year no acquisitions in which an interest of over 10% has been obtained in a company have taken place.

14. Assets under insurance or reinsurance contracts

At 31 December 2016 and 2015, the entire balance recorded under this consolidated balance sheet heading relates to profit sharing arising from reinsurance policies.

The reconciliation between the opening and closing balances under this heading in 2015 and 2016 is as follows:

	Thousand euro
Balances at 31 December 2014	**1,564**
Net charges	(604)
Balances at 31 December 2015	**960**
Net charges	(446)
Balances at 31 December 2016	**514**

15. Tangible assets

Movements in this consolidated balance sheet heading in 2016 and 2015 are as follows:

	Thousand euro			
	For own use	**Investment property**	**Assigned under operating lease**	**Total**
Cost				
Balances at 1 January 2015	**1,436,399**	**706,326**	**24,367**	**2,167,092**
Additions	16,300	7,766	12,574	36,640
Disposals due to sales or through other means	(26,093)	(21,101)	(14,492)	(61,686)
Other transfers and other movements	(6,723)	8,850	-	2,127
Balances at 31 December 2015	**1,419,883**	**701,841**	**22,449**	**2,144,173**
Additions	19,752	5,293	15,192	40,237
Disposals due to sales or through other means	(88,351)	(26,473)	(7,611)	(122,435)
Other transfers and other movements	-	12,510	-	12,510
Balances at 31 December 2016	**1,351,284**	**693,171**	**30,030**	**2,074,485**
Accumulated depreciation				
Balances at 1 January 2015	**(708,373)**	**(117,807)**	**(8,410)**	**(834,590)**
Disposals due to sales or through other means	18,951	2,664	3,872	25,487
Charges to the income statement	(28,743)	(10,411)	(3,212)	(42,366)
Other transfers and other movements	(6,311)	(2,978)	-	(9,289)
Balances at 31 December 2015	**(724,476)**	**(128,532)**	**(7,750)**	**(860,758)**
Disposals due to sales or through other means	33,713	2,479	4,699	40,891
Charges to the income statement	(26,075)	(10,036)	(3,512)	(39,623)
Other transfers and other movements	528	1,344	-	1,872
Balances at 31 December 2016	**(716,310)**	**(134,745)**	**(6,563)**	**(857,618)**
Impairment losses				
Balances at 1 January 2015	**(3,143)**	**(117,792)**	**-**	**(120,935)**
Transfer charged to profit for the year	(714)	(4,061)	-	(4,775)
Recovered amount credited to profit	-	363	-	363
Applications and other movements	2,390	3,276	-	5,666
Balances at 31 December 2015	**(1,467)**	**(118,214)**	**-**	**(119,681)**
Transfer charged to profit for the year	(1,511)		-	(1,511)
Recovered amount credited to profit	271	1,968	-	2,239
Applications and other movements	1,206	(6,732)	-	(5,526)
Balances at 31 December 2016	**(1,501)**	**(122,978)**	**-**	**(124,479)**
Net tangible assets				
Balances at 31 December 2015	**693,940**	**455,095**	**14,699**	**1,163,734**
Balances at 31 December 2016	**633,473**	**435,448**	**23,467**	**1,092,388**

At 31 December 2016, fully-depreciated tangible assets still in use amount to €391,691 thousand (€381,475 at 31 December 2015).

During 2013, Ibercaja Banco, S.A. and Banco Grupo Cajatres, S.A.U. (which merged in 2014 as explained in Note 1.10.3) availed themselves of the option allowed under Article 9 of Law 16/2012 to restate tangible assets for tax purposes. Accordingly, certain properties for own use and investment properties were restated.

The restatement for tax purposes in Ibercaja Banco, S.A. totalled €17,888 thousand, generating tax payable of 5% of said amount, i.e. €894 thousand. Since the restatement of assets due to tax legislation is not permitted under EU-IFRS, the assets' carrying amounts did change in consolidated terms.

In Banco Grupo Cajatres, S.A.U., the restatement for tax purposes totalled €36,094 thousand, generating tax payable of 5% of said amount, i.e. €1,805 thousand. However, as the assets restated for tax purposes had already been restated for accounting purposes in 2010 due to the creation of the Institutional Protection System which gave rise to the Company, there was no increase in the assets' carrying value since the new tax value did not exceed the book value prior to the restatement in any case.

The individual annual accounts for 2016 of Ibercaja Banco, S.A. provide a breakdown of the information required by Article 9.12 of Law 16/2012 on restated items recorded in the Entity's assets.

15.1 Tangible assets for own use

The breakdown by nature of the items forming part of the balance of this consolidated balance sheet caption at 31 December 2016 and 2015, not taking into account impairment losses, is as follows:

	Thousand euro			
	Cost	**Accumulated depreciation**	**Impairment losses**	**Net balance**
Computer equipment and facilities	238,516	(207,231)	-	31,285
Furniture, vehicles and other installations	428,755	(369,548)	-	59,207
Buildings	745,554	(147,697)	(1,467)	596,390
Work in progress	7,058	-	-	7,058
Balances at 31 December 2015	**1,419,883**	**(724,476)**	**(1,467)**	**693,940**
Computer equipment and facilities	223,724	(203,461)	-	20,263
Furniture, vehicles and other installations	421,723	(363,630)	-	58,093
Buildings	700,493	(149,219)	(1,501)	549,773
Work in progress	5,344	-	-	5,344
Balances at 31 December 2016	**1,351,284**	**(716,310)**	**(1,501)**	**633,473**

In 2016 no indemnities from third parties were received for asset impairment and no indemnities are receivable at 31 December 2015.

There are no major commitments to purchase property, plant and equipment for own use or restrictions on their ownership at 31 December 2016 and 2015.

15.2 Investment property

In 2016, rental income from the Group's investment property amounted to €11,628 thousand (€12,247 thousand in 2015) (Note 36), other related expenses amounted to €2,985 thousand (€2,572 thousand in 2015) and operating expenses were incurred in respect of depreciation in 2016 amounting to €10,036 thousand (€10,411 thousand in 2015) (Note 15).

Of this carrying amount, 77.34% (78.13% in 2015) is based on valuations carried out by experts with recognised professional capacity and recent experience in the location and category of investment properties under valuation. The valuation of these properties has been carried out mainly by TINSA, Tasaciones Inmobiliarias, S.A., General de Valoraciones, S.A. and Gesvalt Sociedad de Tasación, S.A.

Note 18 sets out the criteria applied to determine the fair value of these assets.

The following table sets out a classification by type of investment properties. The carrying amount of these assets (not taking into account impairment losses) appraised by an independent valuer is also stated.

	Thousand euro			
	Carrying amount (excluding impairment losses)		**Of which: appraised by an independent valuer**	
	2016	**2015**	**2016**	**2015**
Investment property	**558,426**	**573,309**	**431,911**	**447,918**
Residential	187,713	112,301	169,807	96,102
Commercial and industrial	366,293	457,785	259,862	351,816
Agricultural	4,420	3,223	2,242	-

The valuations indicated above were mostly carried out in 2016 and 2015.

The fair value calculated by independent valuers for the assets amounts to €395,070 thousand at 31 December 2016 (€466,306 thousand at 31 December 2015).

The valuations are on Level 2 in the fair value hierarchy.

There are no major commitments to acquire or hold investment properties, or restrictions on their ownership at 31 December 2016.

15.3 Tangible assets leased out under operating leases

The Group includes in this caption the assets subject to leasing contracts, which amount to €23,467 thousand at 31 December 2016 (€14,699 thousand at 31 December 2015). In 2016, rental income from these assets amounted to €6,235 thousand (€5,852 thousand in 2015), while operating expenses in respect of depreciation and other related expenses amounted to €3,512 thousand and €901 thousand, respectively (€3,212 thousand and €961 thousand in 2015).

15.4 Impairment losses

During 2016 impairment losses amounting to €1,240 thousand were recognised on tangible assets for own use and €1,968 thousand relating to reversals of impairment on investment properties (impairment losses of €714 thousand and €3,698 thousand in 2015, respectively) (Note 40).

16. Intangible assets

16.1 Goodwill

A breakdown of the items making up this consolidated balance sheet heading at 31 December 2016 and 2015 is as follows:

	Thousand euro	
Entity	**2016**	**2015**
Banco Grupo Cajatres, S.A.U. (Note 1.10.2)	128,065	128,065
Caja Badajoz Vida y Pensiones, S.A. de Seguros	16,869	16,869
	144,934	**144,934**

The goodwill associated with Caja Badajoz Vida y Pensiones, S.A de Seguros arose from the acquisition on 3 September 2014 of 50% of the entity, which was not held by the Group at the end of 2013.

This acquisition took place within the reorganisation of the Group's insurance business due to the takeover of Banco Grupo Cajatres, S.A.U. in 2013 (Note 1.10.2). In 2015, Caja Badajoz Vida y Pensiones, S.A. de Seguros (target entity) was merged into Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U. (Acquiring entity).

For the purposes of allocating the goodwill referred to in Note 2.16.1, the Group considered that there is only one cash generating unit coincident with the entire balance, since the goodwill is not monitored on a lower level for internal management purposes nor are there distinct operating segments, as indicated in Note 27.9.

At the year end, the Group has calculated the value in use of the cash generating unit consisting of Ibercaja Banco and concluded that no impairment needs to be reflected in that CGU.

Value in use was calculated based on estimated future cash flows derived from business projects to 2020, a residual value being calculated for the remaining period which was determined taking into account a distributable cash flow of €360 million and a growth rate in that cash flow of 2%. These flows have been discounted using market rates and adjusted at the average cost of capital, at an average rate of 9.6%.

A sensitivity analysis was performed of the valuation in the face of reasonably foreseeable changes in the key valuation variables (distributable cash flow used to calculate the terminal value, perpetual growth rate of said cash flow and discount rate), and it was observed that these changes would not, in any event, entail the need to recognise impairment of the goodwill since the value in use calculated would continue to exceed the carrying value of the CGU.

There follows a summary of the main criteria considered to calculate value in use:

- Estimated cash flows based on the Entity's business plan

  - Recovery of net interest income and fees in coming years.

  - Normalisation of results of financial operations.

  - Significant improvement in the efficiency ratio as a result of the streamlining plan implemented as a result of integration with Banco Cajatres Group.

  - Normalisation of provisions for loan losses, considering the current consensus on macro-economic expectations.

- Discount rate

  This figure is based on a 10-year Spanish bond yield of 4% (versus 1.7% currently), an adjusted beta of 1.4 (versus 1.3 in domestic banking in the last five years) and a market risk premium of 4%.

- Growth rate in perpetuity of cash flows as from 2019

  The rate is set below the level forecast by the International Monetary Fund for growth in Spain's Gross Domestic Product in the medium term.

16.2 Other intangible assets

This heading is analysed below:

	Thousand euro			
	Cost	Accumulated amortisation	Impairment losses	Net balance
Computer software	101,886	(79,623)	-	22,263
Trademark	7,500	(3,750)	-	3,750
Relations with customers (core deposits) of Banco Grupo Cajatres, S.A.U.	45,031	(13,561)	-	31,470
Other	1,616	(462)	-	1,154
Balances at 31 December 2015	**156,033**	**(97,396)**	**-**	**58,637**
Computer software	109,988	(85,214)	(189)	24,585
Trademark	7,500	(5,250)	-	2,250
Relations with customers (core deposits) of Banco Grupo Cajatres, S.A.U.	45,031	(18,985)	-	26,046
Other	1,616	(594)	-	1,022
Balances at 31 December 2016	**164,135**	**(110,043)**	**(189)**	**53,903**

“Trademark” refers to the estimated value of the brands of the former savings banks that gave rise to Banco Grupo Cajatres S.A. (CAI, Caja Círculo and Caja Badajoz).

The cost of the asset “Relations with customers of Banco Grupo Cajatres, S.A.U.” reflects the net present value, at the time of the acquisition of this entity, of the cost savings represented by the sight and term deposits of this entity with respect to other sources of alternative financing.

Movements under this consolidated balance sheet caption in 2016 and 2015 were as follows:

	Thousand euro				
	Computer software	**Trademark**	**Relations with customers of Banco Grupo Cajatres**	**Other**	**Total**
Cost					
Balances at 1 January 2015	**90,734**	**7,500**	**45,031**	**4,345**	**147,610**
Additions	8,374	-	-	-	8,374
Disposals due to sales or through other means	(603)	-	-	(2,729)	(3,332)
Other transfers and other movements	3,381	-	-	-	3,381
Balances at 31 December 2015	**101,886**	**7,500**	**45,031**	**1,616**	**156,033**
Additions	8,204	-	-	-	8,204
Disposals due to sales or through other means	(102)	-	-	-	(102)
Other transfers and other movements	-	-	-	-	-
Balances at 31 December 2016	**109,988**	**7,500**	**45,031**	**1,616**	**164,135**
Accumulated amortisation					
Balances at 1 January 2015	**(71,399)**	**(2,250)**	**(8,139)**	**(1,637)**	**(83,425)**
Disposals due to sales or through other means	277	-	-	1,312	1,589
Charges to the income statement	(5,111)	(1,500)	(5,422)	(137)	(12,170)
Other transfers and other movements	(3,390)	-	-	-	(3,390)
Balances at 31 December 2015	**(79,623)**	**(3,750)**	**(13,561)**	**(462)**	**(97,396)**
Disposals due to sales or through other means	77	-	-	-	77
Charges to the income statement	(5,668)	(1,500)	(5,424)	(132)	(12,724)
Other transfers and other movements	-	-	-	-	-
Balances at 31 December 2016	**(85,214)**	**(5,250)**	**(18,985)**	**(594)**	**(110,043)**
Impairment losses					
Balances at 1 January 2015	**(271)**	**-**	**-**	**(1,400)**	**(1,671)**
Transfer charged to profit for the year	-	-	-	-	-
Recovered amount credited to profit for the year	-	-	-	-	-
Applications and other movements	271	-	-	1,400	1,671
Balances at 31 December 2015	**-**	**-**	**-**	**-**	**-**
Transfer charged to profit for the year	(189)	-	-	-	(189)
Recovered amount credited to profit for the year	-	-	-	-	-
Applications and other movements	-	-	-	-	-
Balances at 31 December 2016	**(189)**	**-**	**-**	**-**	**(189)**
Net intangible assets					
Balances at 31 December 2015	**22,263**	**3,750**	**31,470**	**1,154**	**58,637**
Balances at 31 December 2016	**24,585**	**2,250**	**26,046**	**1,022**	**53,903**

At 31 December 2016, fully-amortised intangible assets still in use amounted to €67,657 thousand (€69,032 at 31 December 2015).

17. Other assets

This heading in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousand euro	
	2016	**2015**
Accruals and deferred income	15,598	22,360
Inventories	431,385	428,831
Transactions in transit	2,414	2,903
Other	17,361	44,039
Total gross amount	**466,758**	**498,133**
(Impairment losses)	(186,735)	(186,110)
Total net amount	**280,023**	**312,023**

Impairment analysed in the above table relates entirely to Inventories.

Movements in Inventories during 2016 and 2015 are analysed below:

	Thousand euro		
	Repossessed assets	**Other assets**	**Total**
Cost			
Balances at 1 January 2015	**321,163**	**90,023**	**411,186**
Additions	4,115	1,042	5,157
Disposals due to sales or through other means	(9,789)	-	(9,789)
Other transfers and other movements	15,715	6,562	22,277
Balances at 31 December 2015	**331,204**	**97,627**	**428,831**
Additions	20,095	-	20,095
Disposals due to sales or through other means	(11,102)	-	(11,102)
Other transfers and other movements	(6,335)	(104)	(6,439)
Balances at 31 December 2016	**333,862**	**97,523**	**431,385**
Impairment losses			
Balances at 1 January 2015	**(166,280)**	**(12,291)**	**(178,571)**
Transfer charged to profit for the year	(2,653)	(664)	(3,317)
Recovered amount credited to profits	157	-	157
Applications and other movements	(4,379)	-	(4,379)
Balances at 31 December 2015	**(173,155)**	**(12,955)**	**(186,110)**
Transfer charged to profit for the year	(3,472)	(229)	(3,701)
Recovery credited to income statement	21	-	21
Applications and other movements	3,055	-	3,055
Balances at 31 December 2016	**(173,551)**	**(13,184)**	**(186,735)**
Net inventories			
Balances at 31 December 2015	**158,049**	**84,672**	**242,721**
Balances at 31 December 2016	**160,311**	**84,339**	**244,650**

In inventories, all repossessed assets consist of real estate.

The valuations of the above assets have been restated principally in the past three years. Valuations have at all times been carried out by experts with recognised professional capacity and recent experience in the location and category of the assets valued. Most valuations have been performed by TINSA, Tasaciones Inmobiliarias, S.A., Gesvalt Sociedad de Tasación, S.A. and General de Valoraciones, S.A.

Note 18 sets out the criteria applied to determine the fair value of these assets.

Inventory-related expenses for 2016 and 2015 break down as follows:

	Thousand euro	
	2016	**2015**
Costs to sell inventories sold during the year	4,441	5,413
Impairment losses on inventories (Note 40)	3,680	3,160
Impairment write-downs	3,740	3,508
Reversals of impairment write-downs	(60)	(348)
Total net amount	**8,121**	**8,573**

18. Non-current assets and disposal groups classified as held for sale

At 31 December 2016 and 2015, this consolidated balance sheet item breaks down as follows:

	Thousand euro	
	2016	**2015**
Repossessed assets	848,219	936,417
Other assets	71,839	70,783
Total gross amount	**920,058**	**1,007,200**
(Impairment losses)	(263,127)	(292,983)
Total net amount	**656,931**	**714,217**

Movements in this consolidated balance sheet heading in 2016 and 2015 are as follows:

	Thousand euro		
	Foreclosure assets	**Other assets**	**Total**
Cost			
Balances at 1 January 2015	**1,001,226**	**80,486**	**1,081,712**
Additions	169,082	-	169,082
Disposals due to sales or through other means	(197,527)	(15,056)	(212,583)
Other transfers and other movements	(36,364)	5,353	(31,011)
Balances at 31 December 2015	**936,417**	**70,783**	**1,007,200**
Additions	89,513	1,533	91,046
Disposals due to sales or through other means	(193,570)	(80)	(193,650)
Other transfers and other movements	15,859	(397)	15,462
Balances at 31 December 2016	**848,219**	**71,839**	**920,058**
Impairment losses			
Balances at 1 January 2015	**(347,197)**	**(1,890)**	**(349,087)**
Transfer charged to profit for the year	(78,934)	-	(78,934)
Recovery credited to income statement	36,694	-	36,694
Applications and other movements	97,933	411	98,344
Balances at 31 December 2015	**(291,504)**	**(1,479)**	**(292,983)**
Transfer charged to profit for the year	(46,579)	-	(46,579)
Recovery credited to income statement	23,266	-	23,266
Applications and other movements	53,169	-	53,169
Balances at 31 December 2016	**(261,648)**	**(1,479)**	**(263,127)**
Net non-current assets held for sale			
Balances at 31 December 2015	**644,913**	**69,304**	**714,217**
Balances at 31 December 2016	**586,571**	**70,360**	**656,931**

The Group has a Realisation Plan for non-current assets held for sale, which includes the Sales financing policy. The Plan entails the collaboration of the real estate agent network, the disclosure of specific information on the Company's web page and the existence of a unit dedicated to the disposal of assets foreclosed as payment for debts.

According to the Group's historical experience, non-current assets held for sale remain on the balance sheet for an average of between one and three years. Since the majority relate to real estate assets, the Group considers it possible that part of these assets may remain on the balance sheet for longer than the Group's historical experience would indicate in view of the market situation.

Non-current assets are realised in cash, with a deferral for a prudent time period to preserve the Group's interests through adequate legal formulae or financing secured by mortgage under the usual conditions for this type of transactions.

There are no gains pending recognition since sales fulfil the following conditions:

- the purchaser is not controlled by the seller,
- the Group retains none of the significant risks or rewards associated with ownership of the asset sold,
- the Group does not retain any involvement in the asset's current management associated with ownership and does not retain effective control,
- the percentage of the sale financed by the entity for the purchase does not exceed that which the latter would obtain from a non-related credit institution,
- the purchaser's present and future payment capacity is sufficient to repay the loan and
- The financing plan and conditions are similar to those granted by the Group to finance acquisitions of similar assets not owned by it.

Loans granted during the year to finance sales of this type of assets amount to €62,843 thousand (€59,597 thousand at 31 December 2015) and the accumulated amount of loans granted is €370,847 thousand (€308,004 thousand at 31 December 2015).

At 31 December 2016, the average sales percentage financed for the purchaser was 95.07% (94.39% at 31 December 2015).

The following table sets out a classification by type of asset of non-current assets for sale. In addition, the balance appraised by an independent valuer is indicated.

	Thousand euro			
	Carrying amount		Of which: appraised by an independent valuer	
	2016	2015	2016	2015
Non-current assets for sale	**920,058**	**1,007,200**	**915,416**	**957,690**
Residential	739,076	859,637	739,070	859,635
Industrial	91,605	61,868	91,603	61,868
Agricultural	13,119	15,193	13,119	15,193
Other	76,258	70,502	71,624	20,994

The fair value calculated by independent appraisals for the assets amounts to €990,584 thousand at 31 December 2016 (€1,134,817 thousand at 31 December 2015).

The valuations are on Level 2 in the fair value hierarchy.

The valuations of repossessed assets were practically all performed in the last three years by valuation companies and agencies that have a recognised professional capacity and recent experience in the location and category of the assets subject to valuation. The majority of the valuations were performed by Tasaciones Hipotecarias, S.A., Gesvalt Sociedad de Tasación, S.A. and UVE Valoraciones, S.A.

Different valuation methods have been used to calculate the market value of the assets acquired depending on the type of asset involved. The residual method has been used to value land, the discounted cash flow method for assets for rent and the comparable method for housing. The main features of these methods are as follows:

- Residual method: The final market value is determined on the basis of the projected selling prices of the units to be built. This amount is reduced by development, construction and financial costs and the developer's industrial margin, to arrive at the price of the land. In those cases where the management and development period is higher than the normal average for a development, a project timeline is estimated and forecast cash flows are discounted at an appropriate market rate (dynamic residual method).
- Discounted cash flow method: In order to determine the value of property rentals, the present value is calculated according to the market rent and/or present rent, taking into account the return required on each type of asset.
- Comparison method: This takes as a starting point the principle of replacement under which the property to be valued is compared with other properties the value of which is known. The methodology is based on the obtainment of comparable homogeneous products, taking into account purchase-sales operations in the area, the supply of similar properties and the opinions of other real estate market operators. In order to arrive at a definitive value, the value obtained is adapted to the specific characteristics of the property, according to its physical and structural condition, the design and lay-out of its surface area, location and other factors (planning status, immediate environment etc.).

19. Financial liabilities at amortised cost

The items making up this consolidated balance sheet caption at 31 December 2016 and 2015 are as follows:

	Thousand euro	
	2016	2015
Deposits	**43,499,051**	**45,991,223**
Central banks (Note 19.1)	3,366,566	2,053,035
Credit institutions (Note 19.2)	3,127,312	4,908,740
Customers (Note 19.3)	37,005,173	39,029,448
Debt securities issued (Note 19.4)	**2,147,252**	**1,972,853**
Other financial liabilities (Note 19.5)	**706,432**	**617,241**
	46,352,735	**48,581,317**

19.1 Deposits from central banks

The composition of the balances under this caption in the consolidated balance sheets at 31 December 2016 and 2015, based on the nature of the transaction concerned, is indicated below:

	Thousand euro	
	2016	2015
European Central Bank	3,372,460	2,051,250
Valuation adjustments	(5,894)	1,785
	3,366,566	**2,053,035**

At 31 December 2016, this heading includes the funding obtained through European Central Bank extraordinary liquidity auctions (TLTRO II), maturing in 2020.

The average effective interest rate on debt instruments classified in this caption during 2016 was -0.22% (0.08% at 31 December 2015).

19.2 Deposits from credit institutions

The composition of the balances under this caption in the consolidated balance sheets at 31 December 2016 and 2015, based on the nature of the transaction concerned, is indicated below:

	Thousand euro	
	2016	2015
On demand	**28,229**	**10,764**
Other accounts	28,229	10,764
Term or subject to prior notice	**3,097,431**	**4,893,416**
Fixed-term deposits	718,030	905,109
Assets sold under repurchase agreements	2,358,496	3,968,229
Other accounts	20,905	20,078
Valuation adjustments	**1,652**	**4,560**
	3,127,312	**4,908,740**

The average effective interest rate on debt instruments classified in this caption during 2016 was 0.16% (0.28% in 2015).

Demand deposits include deposits arranged for the net value of assets purchased or sold under repurchase agreements with the same counterparty on the basis of the offset agreements concluded for repo or simultaneous operations.

The Group has not offset the financial instruments that give rise to these guarantee deposits and has maintained the separate recognition of assets and liabilities without recording a net position, as the conditions described in Note 2.7 are fulfilled. The carrying value of financial instruments covered by these agreements and deposits payable and receivable generated with the counterparties are as follows:

	Thousand euro	
	Financial instruments subject to offset arrangements	
	2016	2015
Assets under repos	2,692	7,954
Liabilities under repos	4,164	6,867

	Thousand euro	
	Deposits subject to repo offset agreements	
	2016	2015
Deposits recognised under assets	3,078	7,181
Deposits recognised under liabilities	1,505	6,242

19.3 Customer deposits

The composition of the balance under this caption in the consolidated balance sheets at 31 December 2016 and 2015, based on the geographical location, nature and counterparties of the transaction concerned, is indicated below:

	Thousand euro	
	2016	2015
Geographical location		
Spain	36,856,149	38,890,989
Rest of the world	149,024	138,459
	37,005,173	**39,029,448**
By nature		
Demand deposits	21,064,530	17,950,718
Current accounts	*15,470,485*	*13,278,720*
Savings deposits	*5,538,960*	*4,648,355*
Other demand deposits	*55,085*	*23,643*
Term deposits	13,535,365	18,203,629
Fixed-term deposits	*8,811,157*	*12,016,345*
Non-marketable mortgage covered bonds and bonds issued (Note 44.1)	*3,363,384*	*4,151,162*
Hybrid deposits	*1,288,633*	*1,961,857*
Other term deposits	*72,191*	*74,265*
Assets sold under repurchase agreements	1,966,941	2,336,755
Valuation adjustments	438,337	538,346
	37,005,173	**39,029,448**
Counterparty		
Resident public administrations	845,994	752,976
Other resident sectors	36,010,155	38,138,013
Non-resident public administrations	16	17
Other non-resident sectors	149,008	138,442
	37,005,173	**39,029,448**

The average effective interest rate on debt instruments classified in this caption during 2016 was 0.37% (0.77% in 2015).

The item “Non-marketable mortgage covered bonds and bonds issued” (in the breakdown by nature) includes unique mortgage covered bonds issued under Law 2/1981 (25 March) governing the Mortgage Market in the amount of €3,363,384 thousand (€4,151,162 thousand at 31 December 2015). The mortgage covered bonds were issued at variable or fixed rates of interest. The fixed-interest issues are hedged for interest-rate risk by means of interest rate swaps.

19.4 Debt securities issued

This heading in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousand euro	
	2016	**2015**
Nominal value of mortgage covered bonds (Note 44.1)	3,150,000	3,430,000
Treasury shares	(2,567,809)	(3,318,201)
Nominal value of other securities linked to transferred financial assets	694,657	784,133
Nominal value of ordinary bonds	-	11,747
Nominal value of preferred shares	5,000	5,000
Nominal value of subordinated bonds	619,257	625,227
Contingent convertible bonds (Note 1.10.1.4)	223,600	407,000
Valuation adjustments	22,547	27,947
	2,147,252	**1,972,853**

On 10 October 2016, Ibercaja Banco issued covered bonds for a nominal sum of €500 million at a nominal fixed annual interest rate of 0.25%, maturing on 18 October 2023. Additionally, two mortgage covered bonds issued totalling €780 million were redeemed in 2016 (Note 44.1).

A breakdown of the security issues associated with financial assets transferred is as follows:

					Thousand euro	
					Amount subscribed	
Type	**Nominal interest**	**Issuance date**	**Maturity date**	**Nominal value of issue**	**2016**	**2015**
TDA2 securitisation bonds	Variable	13.10.2005	(*)	904,500	114,427	130,673
TDA3 securitisation bonds	Variable	12.05.2006	(*)	1,007,000	133,239	148,588
TDA4 securitisation bonds	Variable	18.10.2006	(*)	1,410,500	146,460	166,255
TDA5 securitisation bonds	Variable	11.05.2007	(*)	1,207,000	150,871	168,497
TDA6 securitisation bonds	Variable	25.06.2008	(*)	1,521,000	20,274	22,124
TDA ICO-FTVPO securitisation bonds	Variable	15.07.2009	(*)	447,200	129,386	147,996
					694,657	**784,133**

(*) These bonds are redeemed as the mortgage loans that have been assigned to the relevant securitisation fund are repaid.

Details of issues of other non-convertible securities are as follows:

					Thousand euro	
					Amount subscribed	
Type	**Nominal interest**	**Issuance date**	**Maturity date**	**Nominal value of issue**	**2016**	**2015**
Ordinary bonds	Variable	24.06.2013	25.05.2016	10,508	-	10,508
Ordinary bonds	Variable	10.07.2013	25.05.2016	1,239	-	1,239
					-	**11,747**

The average effective interest rate on debt instruments classified in this caption during 2016 was 1.31% (0.81% in 2015).

The figure for preferred shares relates to the outstanding balance of a 2006 issue for a nominal value of €150,000 thousand with an indefinite duration and interest at the three-month Euribor plus a spread of 113 basis points. The shares may be redeemed at the Company's discretion once 10 years have elapsed as from the issue date, subject to Bank of Spain authorisation. If the early redemption right is not exercised, the nominal annual variable interest rate applicable to this issue will be increased as from that date by 100 base points.

Details regarding each issue of subordinated bonds are as follows:

Issue	Nominal interest	Maturity	Thousand euro Nominal amount 2016	2015
20 April 2006	Variable	20 April 2018 (*)	45,414	45,454
25 April 2007	Variable	25 April 2019 (*)	73,813	79,743
15 June 2007	Mixed	15 June 2022	30	30
28 July 2015	Fixed	28 July 2025 (**)	500,000	500,000
			619,257	**625,227**

(*) The Group reserves the right to redeem these issues once seven years have elapsed as from the issue date and subject to authorisation from the competent regulator.
(**) The Group reserves the right to redeem these issues once five years have elapsed as from the issue date. Early redemption by the issuer is also possible within five years as from the issue date for causes deriving from a change in the tax treatment of the product and/or its treatment as an equity instrument. Such redemption must be authorised by the competent regulator.

These issues are subordinated and come behind all common creditors with respect to debt seniority.

On 28 July 2015, disbursement was made on the issue of subordinated bonds completed by Ibercaja Banco, S.A. in the market on 21 July 2015 for a nominal amount of €500 million, maturing on 28 July 2025 and admitted to trading on the AIAF Fixed-Income Market. The issue price of the subordinated bonds was 100% and they bore an annual fixed coupon of 5% to 28 July 2020. As from 29 July 2020 (inclusive), they will bear fixed interest at the applicable five-year Mid-Swap Rate) plus a spread of 4.551%. The Group process the subordinated bonds as tier-2 equity instruments under Regulation (EU) 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms.

Issues of contingent convertible bonds and subordinated bonds are authorised by the competent regulator for classification as eligible tier-1 and tier-2 capital, respectively.

Interest accrued on the subordinated liabilities amounts to €63,834 thousand at 31 December 2016 (€49,386 thousand at 31 December 2015).

The average effective interest rate on debt instruments classified in this caption during 2016 was 6.40% (6.73% in 2015).

19.5 Other financial liabilities

This heading in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousand euro 2016	2015
Bonds payable	49,532	66,602
Guarantee deposits received	3,887	3,454
Collection accounts	373,436	352,312
Special accounts	52,558	51,664
Financial guarantees	2,070	1,828
Other items	224,949	141,381
	706,432	**617,241**

19.6 Information on average payment period for suppliers Additional Provision Three. Disclosure requirement Law 15/2010:

Pursuant to Final Provision Two of Law 31/2014 (3 December), amending Additional Provision Three of Law 15/2010 (5 July), which amended Law 3/2004 (29 December) on measures to combat late payment in commercial transactions, and in connection with the information to be included in the notes to the annual accounts on the deferral of payments to suppliers in commercial transactions, calculated in accordance with the Spanish Institute of Accounting and Auditing's Ruling of 29 January 2016, the information for 2016 and 2015 is as follows:

	2016	2015
	Days	
Average supplier payment period	20	21
Ratio of settled transactions	20	19
Ratio of transactions pending payment	26	65
	Thousand euro	
Total payments made	479,597	320,424
Total payments outstanding	23,674	12,843

20. Liabilities under insurance or reinsurance contracts

At 31 December 2016 and 2015, the balances in this consolidated balance sheet caption were as follows:

	Thousand euro	
	2016	**2015**
Technical reserves for:		
Unearned premium reserves (non-life)	-	6
Life insurance:	6,703,357	6,211,485
Unearned premium reserve	*19,298*	*17,380*
Mathematical reserves	*6,684,059*	*6,194,105*
Benefits pending payment	58,396	51,215
Profit sharing and returned premiums	10,889	8,645
Life insurance in which the investment risk is borne by the policyholders	86,265	110,871
	6,858,907	**6,382,222**

There is no accepted reinsurance at 31 December 2016 or 31 December 2015.

The reconciliation between the opening and closing balances under this heading in 2015 and 2016 is as follows:

	Thousand euro
Balances at 31 December 2014	**7,103,517**
Transfers	(622,015)
Other movements	(99,280)
Balances at 31 December 2015	**6,382,222**
Transfers	527,190
Other movements	(50,505)
Balances at 31 December 2016	**6,858,907**

20.1 Risk management under insurance contracts

The Group is exposed to market (interest rate, concentration, spread and variable income), liquidity, counterparty, operational and underwriting (life) risks under insurance contracts arranged and related transactions.

Ibercaja Vida has policies describing the management and control strategies applied to each of the above-mentioned risks. These policies meet the Solvency II requirements that came into force on 1 January 2016 and have been approved by the Board of Directors.

Additionally, the Three Lines of Defence Model has been deployed in the Entity to assure effective risk management and supervision.

Market, liquidity, counterparty and operational risks affecting this activity are managed consistently throughout the Ibercaja group as indicated in Note 3 on Risk Management. Insurance business risk relates to life underwriting, which is the risk of incurring losses due to an increase in the value of liabilities as a result of a departure from the assumptions (mortality, longevity, policy lapse, expenses…) on the basis of which they were contracted. This risk spans a number of sub-risks, the most significant being:

- Longevity risk: the risk of incurring losses due to an increase in the survival of insured parties in relation to forecasts. Its impact derives from the arrangement of life annuities and liability policies managed by the insurance company. Concerning longevity risk, the insurer performs a monthly follow-up of the technical results from portfolios affected, analysing which portion of these results are affected by survival risk.

- Policy lapse risk: the risk of incurring losses due to variance in surrender rates in relation to forecasts. Its impact relates to volatility in the savings insurance and life-risk insurance lines. The insurer manages policy lapse risk by monitoring historical surrender levels, taking into account prior-year experience. The assumptions obtained from this analysis are used when calculating liabilities for matching flows (joint management of assets and liabilities) so that they reflect the actual situation as accurately as possible at all times. In this way, assurance is obtained that the flows expected from the assets are sufficient in time and quantity to meet expected future commitments.

  Additionally, a mass surrender stress test is performed monthly on products in which interest rates are guaranteed for more than one year, analysing the behaviour of the asset and the liability and thus the impact on results should a mass surrender force an asset sale.

- Mortality risk: the risk of incurring losses due to an increase in mortality rates in relation to forecasts. Its impact relates mainly to the life-risk line. Mortality risk is managed using a pricing system that takes into account the personal characteristics of each insured party in order to arrive at the premium to be charged.

  In order to assess the risk accepted when the policy is contracted, the customer must answer a number of personal questions. The circumstances of insured parties that could aggravate risks accepted are therefore analysed by the Company before contracting, so the premium is in line with the risk level.

  The pricing system is periodically reviewed by the Risk Control Department and is accepted by the reinsurance companies to which Ibercaja Vida cedes a part of its risks.

For the purposes of mortality risk control and monitoring, the Company performs a monthly follow-up of losses associated with each product sold, analysing the adequacy of the mortality tables, claim frequency and average cost of claims, as well as of the Entity's management expenditure. The impact of mortality risk on the income statement for each product and departures from loss forecasts are analysed.

Irrespective of the mortality table applied to calculate the premium, which depends on the type of product, date on which it is first sold or other aspects, the PERM/F-2000P mortality tables approved by the Resolution of the Directorate General for Insurance and Pension Funds of 3 October 2000, which conforms to Transitional Provision 2.5 of the Private Insurance Regulations, have been taken as a reference.

Set out below is the performance of the claims ratio for direct life insurance as compared with forecast claims.

	Life savings insurance		Life annuities		Unit-linked insurance		Individual life-risk insurance		Total life insurance	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Portfolio at 31 December (number of contracts)	441,456	418,652	57,347	51,776	7,277	9,818	380,805	358,776	886,885	839,022
No. claims expected	1,856	1,793	2,393	2,193	58	95	557	509	4,864	4,590
No. actual claims	971	941	1,922	1,849	54	90	427	403	3,374	3,283
Percentage (actual/expected)	52.32%	52.48%	80.31%	84.31%	92.36%	94.74%	76.67%	79.17%	69.36%	71.53%

The insurance company has a policy for ceding risks to leading reinsurers so as to mitigate both dispersion risk affecting sums insured and the accumulation of claims caused by a single event. The adequacy of this reinsurance policy with respect to business volume was validated in 2008 by an insurance company's actuarial studies department. During 2014 and 2015, Ibercaja Vida's Technical Department completed an extensive review of the reinsurance policy due to the integration of the life insurance business of CAI Vida y Pensiones and Caja Badajoz Vida y Pensiones.

20.2 Classification of insurance risk

The Group has a policy of diversifying insurance risks and there are mechanisms in place to detect any type of risk concentration. It is common practice to use reinsurance treaties to mitigate the risk of concentration or accumulation of guarantees above the maximum acceptance levels.

Get out below are the premiums issued classified based on their characteristics:

	Thousand euro	
	2016	**2015**
Life-risk insurance premiums	64,327	59,221
Savings insurance premiums	1,263,390	930,387
	1,327,717	**989,608**
Premiums under individual policies	1,322,936	977,330
Premiums under group policies	4,781	12,278
	1,327,717	**989,608**
Regular premiums	387,758	348,334
Single premiums	939,959	641,274
	1,327,717	**989,608**
Premiums for policies with no profit-sharing	1,321,574	973,392
Premiums for policies with profit-sharing	4,468	14,259
Premiums for policies where the investment risk is assumed by the policyholder	1,675	1,957
	1,327,717	**989,608**

The premiums under the insurance contracts detailed in the table above are presented in the income statement item "Income from assets under insurance or reinsurance contracts", which amounted to €1,330,367 thousand at 31 December 2016 (€992,563 thousand at 31 December 2015). This heading also reflects income from reinsurance amounting to €2,650 thousand at 31 December 2016 (€2,955 thousand at 31 December 2015).

According to the Directorate General of Insurance, insurance policies under which, although a group policy is formalised, premium payment obligations and inherent rights pertain to the insured, are classed as individual policies. All insurance policies were arranged in Spanish territory.

Expenses under insurance and reinsurance contracts recognised in the income statement for 2016 amounting to €1,330,667 thousand (€992,975 thousand in 2015) relate to the technical reserves associated with such contracts.

20.3 Sensitivity to insurance risk

The Group carries out a sensitivity analysis regularly, stressing each of the risk components of its portfolio on a stand-alone basis, affecting both the asset and liability and following Solvency II methodology.

Asset and liability flows are discounted at the euroswap curve rate at 31 December 2016, while the impact resulting from a variation in the interest rate curve is as follows:

- A parallel increase of 50 basis points in the discount curve entails a reduction of 2.42% in the value of the asset and 1.85% in the value of the liability.
- A parallel fall of 50 base points in the discount curve entails an increase of 2.43% in the value of the asset and 1.92% in the value of the liability.

As most of the insurer's portfolios are immunised and bearing in mind their classification for accounting purposes, any upward or downward change in the interest rate structure would not have a significant impact on the income statement.

21. Provisions

There follows a breakdown of movements in 2016 and 2015 indicating the purpose of the provisions recorded in the consolidated balance sheet at 31 December 2016 and 2014, are as follows:

	Thousand euro				
	Pensions and other post-employment defined benefit commitments	**Other long-term employee remuneration**	**Lawsuits and litigation for outstanding taxes**	**Commitments and guarantees given**	**Other provisions**
Balances at 1 January 2015	**163,656**	**9,099**	**10,307**	**26,027**	**143,094**
Appropriations charged to income statement					
Interest expense	47	49	-	-	-
Appropriations to provisions and other	881	793	-	2,856	37,632
Reversal of provisions taken to income statement	-	(988)	-	(3,966)	(233)
Provisions utilised	(623)	(2,380)	(38)	(137)	(52,035)
Other movements	(23,334)	(11)	71	54	6,175
Balances at 31 December 2015	**140,627**	**6,562**	**10,340**	**24,834**	**134,633**
Appropriations charged to income statement					
Interest expense	45	37	-	-	-
Appropriations to provisions and other	-	555	-	23,900	94,500
Reversal of provisions taken to income statement	-	(19)	-	(14,203)	(8,714)
Provisions utilised	(321)	(2,136)	-	(69)	(548)
Other movements	(531)	-	1,200	866	(229)
Balances at 31 December 2016	**139,820**	**4,999**	**11,540**	**35,328**	**219,642**

The item "Provisions - Pensions and other post-employment defined benefit commitments" is analysed in Note 38 “Staff costs”.

The caption “Provision – Commitments and guarantees given” reflects impairment losses associated with financial guarantees (Note 27.1) and other off-balance-sheet exposures (Note 27.3) granted by the Entity.

The item “Other provisions” breaks down as follows:

- A significant portion of the balance relates to the labour cost of redundancy proceedings in 2013, 2014 and 2015 pending payment (€50,950 thousand and €51,480 thousand at 31 December 2016 and 2015, respectively).

- As regards the possible impact of the European Court of Justice's judgement issued on 21 December 2016 on the so-called floor clauses in mortgages and also taking into account the recent Royal Decree-Law 1/2017 (20 January), the Company records prior-year provisions to cover any hypothetical legal risk derived from the possible elimination of floor clauses in mortgage loans with retroactive effect to 9 May 2013, which would, if applicable, cover the estimated maximum amount of €30.1 million. Additionally, in 2016 a provision of €19.9 million was posted to cover the risk that the amounts collected since the floor clause was first included in the relevant mortgage agreements might have to be refunded.

  Neither the European Court of Justice's judgement published on 21 December 2016 nor Royal Decree-Law 1/2017 (20 January) presuppose or prejudge the validity of the floor clauses in mortgages granted by the Entity, which does business with a firm commitment to transparent customer relations.

- The remainder of the balance relates to the coverage of other ordinary business risks.

As mentioned in Note 2.13, the Group has undertaken certain post-employment commitments with personnel. These pension and long-term remuneration commitments, carried as provisions in the balance sheet at 31 December 2016 and 2015, are analysed below:

	Thousand euro	
	2016	**2015**
Liabilities		
Early retirement agreement	316	853
Externalised post-employment benefits	132,807	134,050
Non-externalised post-employment benefits	7,013	6,577
Fund for labour-related costs of the restructuring plan (Notes 1.10, 1.2 and 38.2)	4,683	5,709
	144,819	**147,189**

The balance in net liabilities figuring in the balance sheet for defined benefit plans breaks down as follows:

	Thousand euro	
	2016	**2015**
Commitments relating to:		
Post-employment benefits (Note 38.2)	(23,764)	(15,388)
Other long-term remuneration - pre-retirement (Note 38.3)	(4,999)	(6,562)
Other long-term remuneration - remainder	-	-
(Shortfall)/Surplus	**(28,763)**	**(21,950)**
Impact of limit on assets	(235)	(2,058)
Net liability figuring on balance sheet:	**(28,998)**	**(24,008)**
Assets linked to pensions (*)	112,416	116,885
Net pension assets (**)	3,405	6,296
Net pension (provision)	(144,819)	(147,189)

(*) Financial assets in the subsidiary Ibercaja Vida, S.A.
(**) Amount recorded under "Other assets" in the consolidated balance sheet.

The costs recognised in the income statement for employee benefits are as follows:

	Thousand euro	
	2016	**2015**
Defined benefit plans	(3,131)	(1,264)
Contributions to defined contribution plans	(16,396)	(15,290)
Interest expense	115	340
Transfers to provisions	(330)	(831)
Actuarial gains (-) losses on long-term employee benefits	(206)	145
	(19,948)	**(16,900)**

Amounts recognised in the statement of changes in equity:

	Thousand euro	
	2016	**2015**
Actuarial gains/(losses) on post-employment benefits	(6,458)	21,714
Limitation on assets	1,806	(18)
	(4,652)	**21,696**

The main financial and actuarial assumptions used in measuring the commitments are as follows:

	2016	2015
Technical interest rate	0.00% - 4.00%	0.46% - 4.00%
Expected return on assets	0.00% - 4.00%	0.46% - 4.00%
Annual pension revision rate	1.00% - 2.00%	1.00% - 2.00%
Annual salary increase rate	2.00%	2.00%
Growth in Social Security contribution bases	1.00%	1.00%
Retirement age	65 – 67 years and agreed	63 – 67 years and agreed
Disability tables	75% disability rates Soc. Security	75% disability rates Soc. Security
Mortality tables	PER 2000P - PER 2000C	PER 2000P - PER 2000C
Life expectancy		
Employees retiring in FY 2015/2014		
Men	22.18	22.06
Women	26.67	26.55
Employees retiring in FY 2035/2034		
Men	24.51	24.40
Women	28.84	28.74

The technical interest rates taken into account for calculating the present value of benefit flows are applied based on the duration of each commitment and the reference curve has been determined taking as a reference high-quality AA corporate bonds issued in the same currency and within the payment period estimated for the payment of the benefits at the date referred to in the financial statements. The method applied for building the discount rate curve is based on high-quality Euro-Denominated Corporate bonds (AA) selected by reference to Bloomberg data as the principal source.

The average weighted duration of the post-employment obligations is 11.42 years and the weighted average discount rate was 1.20%.

22. Other liabilities

This heading in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Thousand euro	
	2016	**2015**
Personnel expense apportionment	10,986	15,885
Transactions in transit	2,310	3,003
Contribution to Deposit Guarantee Fund (Note 1.8.2).	37,984	33,327
Other	69,540	64,798
	120,820	**117,013**

23. Shareholders' funds and non-controlling interests

23.1 Shareholders' funds

As at 31 December 2016 and 2015, this heading breaks down as follows:

	Thousand euro	
	2016	2015
Capital	2,144,276	2,144,276
Retained earnings	311,648	251,516
Legal reserve	*4,687*	-
Reserve for goodwill	*12,807*	*6,403*
Voluntary reserves	*294,154*	*245,113*
Revaluation reserves	3,329	3,304
Other reserves	150,973	150,838
Legal reserve	*214,428*	*214,428*
Accumulated reserves or losses on investments in jointly-controlled entities and associates	*(63,455)*	*(63,590)*
Profit/(loss) for the year	142,897	84,123
Total	**2,753,123**	**2,634,057**

23.1.1 Capital

Share capital at 31 December 2016 consists of 2,144,275,998 shares (2,144,275,998 shares at 31 December 2015) with a par value of €1 each, of a single class and series. The Bank's shares are represented by bearer certificates.

The shareholders of Ibercaja Banco, S.A. are as follows:

	Thousand euro	
	31/12/2016	31/12/2015
Fundación Bancaria Ibercaja	87.80%	87.80%
Fundación Caja de Ahorros de la Inmaculada de Aragón	4.85%	4.85%
Cajacírculo Fundación Bancaria	3.45%	3.45%
Fundación Ordinaria Caja Badajoz	3.90%	3.90%

During 2015, the Entity's equity structure was adjusted through a capital reduction of €467,454 thousand to offset prior-year losses in the amount of €253,026 thousand to provision the legal reserve in the amount of €214,428 thousand or 10% of the new share capital figure following the reduction.

23.1.2 Reserves

Appendix II includes a breakdown by company of the balance in "Accumulated reserves or losses on investments in jointly-controlled entities and associates" and the other accumulated reserves.

23.1.2.1 Legal reserve

In accordance with the Spanish Companies Act, companies that record profits for the financial year must transfer 10% of the profits to the legal reserve until the balance in the reserve reaches at least 20% of share capital. Until that limit is exceeded, the legal reserve may only be used to offset losses, provided that there are no other sufficient reserves available for this purpose.

The legal reserve may be used to increase share capital in the amount of the balance in the reserve that exceeds 10% of the increased share capital amount.

23.1.2.2 Revaluation reserves

The revaluation reserves recognised are the result of the accounting restatement carried out on the first-time adoption of IFRS-EU and may not be distributed, directly or indirectly, unless the capital gain has been realised, which will occur when:

a) The part of the restated assets corresponding to the reserve has been depreciated.

b) The restated assets have been transferred or written off the balance sheet.

23.1.2.3 Reserve for goodwill

At 31 December 2016, the goodwill reserve is recognised pursuant to Article 273.4 of the Spanish Companies Act (eliminated in financial statements for periods commencing on or after 1 January 2016) and is not available for distribution. Audit Act 22/2015 (20 July) stipulates that in periods commencing on or after 1 January 2016, the goodwill reserve will be reclassified to voluntary reserves and will be unrestricted as from that date in an amount that exceeds the goodwill recognised on the assets side of the balance sheet.

23.2 Non-controlling interests

Movements in non-controlling interests in 2016 and 2015 are set out below for each subsidiary included in the balance:

Movements in 2016:

	Thousand euro					
Entity	**Balance at 01.01.16**	**Increases in shareholding**	**Decreases in shareholding**	**Results attributed**	**Other changes in equity**	**Balance at 31.12.16**
Dopar, S.L.	98	-	-	2	(9)	91
Enclama, S.L.	198	-	-	27	(9)	216
Grupo Alimentario Naturiber, S.A.	813	-	(949)	136	-	-
Total	**1,109**	**-**	**(949)**	**165**	**(18)**	**307**

Movements in 2015:

	Thousand euro					
Entity	**Balance at 01.01.15**	**Increases in shareholding**	**Decreases in shareholding**	**Results attributed**	**Other changes in equity**	**Balance at 31.12.15**
Agencia de Viajes de la Caja de Ahorros de Badajoz, S.A.	(5)	-	-	(20)	25	-
Dopar, S.L.	115	-	-	(11)	(6)	98
Enclama, S.L.	152	-	-	53	(7)	198
Grupo Alimentario Naturiber, S.A.	285	571	-	(43)	-	813
Viajes Caja Círculo, S.A	(20)	-	-	(23)	43	-
Total	**527**	**571**	**-**	**(44)**	**55**	**1,109**

The financial highlights of the companies included in non-controlling interests are set out below at 31 December 2016:

	Thousand euro			
Entity	**Assets**	**Liabilities**	**Profit/(loss) after taxes**	**Cash flow**
Dopar, S.L.	336	101	5	150
Enclama, S.L.	704	175	63	276

The financial highlights of the companies included in non-controlling interests is set out below at 31 December 2015:

	Thousand euro			
Entity	**Assets**	**Liabilities**	**Profit/(loss) after tax**	**Cash flow**
Dopar, S.L.	365	136	(25)	136
Enclama, S.L.	601	135	124	237
Grupo Alimentario Naturiber, S.A.	53,716	49,017	237	159

24. Other accumulated comprehensive results

24.1 Actuarial gains/(losses) on defined benefit pension plans

At 31 December 2016, cumulative actuarial losses on defined benefit pension plans amount to €21,758 thousand (€18,502 thousand at 31 December 2015).

24.2 Available-for-sale financial assets

This caption on the consolidated balance sheets reflects the net amount of changes in fair value of assets classified as available for sale which, as described in Note 2, must be classified as an integral part of the Group's consolidated equity, net of the relevant tax effect (detailed in Note 25.4). These changes are recorded in the income statements when the assets that gave rise to them are sold or impaired.

A breakdown of valuation adjustments, net of the tax effect, and fair value hierarchies (detailed in Note 26) is as follows:

	Thousand euro				
	2016				
	Valuation adjustments	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Listed equity instruments	7,733	175,874	175,874	-	-
Unlisted equity instruments	71,278	159,082	-	-	159,082
Listed fixed income	166,637	11,041,360	10,504,353	537,007	-
Total	**245,648**	**11,376,316**	**10,680,227**	**537,007**	**159,082**

	Thousand euro				
	2015				
	Valuation adjustments	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Listed equity instruments	596	189,551	189,551	-	-
Unlisted equity instruments	57,268	164,341	-	-	164,341
Listed fixed income	127,730	15,157,312	14,451,162	706,150	-
Total	**185,594**	**15,511,204**	**14,640,713**	**706,150**	**164,341**

25. Tax situation

25.1 Consolidated Tax Group

Within the framework of the spin-off process, and in accordance with applicable legislation, in 2011 Ibercaja Banco and la Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (now Fundación Bancaria Ibercaja) decided to form a Corporate Income Tax Consolidated Tax Group (No. 579/11). Since 2012, the other Group companies that could join the tax group have been included and therefore corporate income tax is assessed on a consolidated basis.

As a result of the securities exchange in July 2013 in which Ibercaja Banco acquired control over Banco Grupo Cajatres, as from the tax period starting 1 January 2014, Banco Grupo Cajatres and its investees that met the relevant requirements were included in the consolidated tax group.

Fundación Bancaria Ibercaja is also the parent entity of the VAT group (No. 78/11) which includes all qualifying group companies which have voluntarily agreed to join.

25.2 Years open to tax inspection

Ibercaja Banco was incorporated in 2011 as a result of the spin-off for the indirect performance of the financial activities of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja. On acquiring en bloc all the assets and liabilities effectively spun off, it assumed all the obligations and was subrogated to all associated rights and relationships, including those related to tax.

In this respect, the years 2010 and subsequent years are open to inspection by the tax authorities for corporate income tax for Fundación Bancaria Ibercaja, and 2011 and subsequent years for the other Group entities. For other taxes, periods as from December 2012 are open to inspection.

Due to possible different interpretations of the applicable tax regulations, there may be certain tax contingencies which cannot be objectively quantified. However, in the opinion of the Group's Board of Directors and Management, should these contingencies result in actual liabilities they will not have a significant effect on the financial position and the results obtained by the Group.

25.3 Reconciliation of book and tax income

The reconciliation of consolidated profit before taxes for 2016 and 2015 and corporate income tax expense is as follows:

	Thousand euro	
	2016	**2015**
Consolidated profit before tax	**70,770**	**118,237**
Corporate income tax at the 30% tax rate	21,231	35,471
Effect of permanent differences	2,792	(447)
Other adjustments on consolidation	(3,511)	1,787
Tax deductions and tax credits	(941)	(2,088)
Tax adjustments, Banco Grupo Cajatres business combination	(126,190)	-
Write-off of deferred tax assets	34,873	-
Corporate income tax expense for the year	**(71,746)**	**34,723**
Adjustments to prior-year tax expense	(546)	(565)
Total corporate income tax expense	**(72,292)**	**34,158**

The item "Effect of permanent differences" includes €3,157 thousand relating to the straight-line reversal over five years of impairment losses on shareholdings that were tax deductible in periods prior to 2013, under Royal Decree-Law 3/2016 (2 December).

With respect to the vertical merger of Banco Grupo Cajatres into Ibercaja Banco, in 2016 a binding ruling was issued by the Spanish tax administration stating that, in this specific case, the limit provided in the final paragraph of Article 89.3 of the Corporate Income Tax Act, as then worded, referring to tax losses arising while the shares were held, is not applicable. Accordingly, the merger generated a taxable merger difference of €394 million, which has caused a reduction of €118 million in the deferred tax liabilities recognised when the assets and liabilities of Banco Grupo Cajatres were measured at fair value. This taxable merger difference, which is formed mainly by the item "Tax adjustments, Banco Grupo Cajatres business combination" in the above table, has not given rise to any goodwill for tax purposes.

The item "Write-off of deferred tax assets" reflects the elimination of temporary differences in assets as a result of the amendments to corporate income tax brought in by Royal Decree-Law 3/2016 (Note 25.4).

Corporate income tax expense was reduced in 2016 by €127,602 thousand due to the deferred taxes related to the origination and reversal of temporary differences (increase of €85,548 thousand in 2015).

Years prior to 2015, income was generated that qualified for the then-applicable tax credit for reinvestment of extraordinary profits, the relevant reinvestment commitment having been fulfilled. The following table shows the extraordinary gains that resulted in the tax credit:

	Thousand euro	
Year income obtained	Income	Year of reinvestment
1998	3,498	2001
1999	190	2001
2001	6,001	2002
2002	6,017	2002
2003	4,181	2003
2004	6,707	2004
2005	4,486	2007
2006	14,633	2005-2007
2007	3,380	2007
2008	101,953	2007-2011
2009	1,598	2008-2012
2010	4,403	2009-2010
2011	17,729	2010-2011
2012	1,406	2012
2013	1,165	2012-2013
2014	9,229	2013-2014

Note: data for 2010 and prior years relate to operations of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (now Fundación Bancaria Ibercaja).

25.4 Deferred tax assets and liabilities

Based on tax legislation in force in Spain, there are certain timing differences and tax credits that should be taken into account when calculating consolidated corporate income tax expense. The balance of and movements in the deferred tax assets and liabilities recorded in the consolidated balance sheets at 31 December 2016 and 2015 are as follows:

	Thousand euro	
	Deferred tax assets	Deferred tax liabilities
Balance at 1 January 2015	**1,427,494**	**407,389**
Prior-year restatement and other	(12,697)	15,033
Generated during the year	83,543	410
Applied during the year	(115,170)	(2,212)
Change in deferred tax assets and liabilities applied to equity	(7,703)	(76,003)
Balance at 31 December 2015	**1,375,467**	**344,617**
Prior-year restatement and other	37,504	2,538
Generated during the year	50,372	123
Applied during the year	(89,611)	(134,595)
Change in deferred tax assets and liabilities applied to equity	(1,071)	17,737
Balance at 31 December 2016	**1,372,661**	**230,420**

The item “Prior-year restatement and other” in deferred tax assets relates mainly to temporary differences in assets recognised in a net amount of €28,507 thousand due to corporate income tax impacts on Ibercaja Banco, S.A. in periods prior to 2015.

In 2016, as a result of the amendments to corporate income tax brought in by Royal Decree-Law 3/2016, the Entity eliminated temporary differences in assets and liabilities for a net total of €34,083 thousand.

The change in deferred tax liabilities during the year is due mainly to the allocation of the taxable merger difference arising from the share exchange and vertical merger of Banco Grupo Cajatres (Note 25.3).

There follows a breakdown of the Group's deferred tax assets and liabilities by type of temporary difference and tax credit:

	Thousand euro			
	Deferred tax assets		Deferred tax liabilities	
	2016	2015	2016	2015
Impairment of financial assets	688,400	694,244	2,246	5,393
Pension commitments and other provisions	81,833	58,593	-	-
Fixed assets	-	-	107,338	177,173
Foreclosed assets	17,647	32,982	-	-
Other adjustments	20,888	27,281	37,348	96,300
Total temporary differences with a balancing item in income statement	**808,768**	**813,100**	**146,932**	**278,866**
Temporary differences with a balancing item in equity	**13,623**	**14,694**	**83,488**	**65,751**
Tax credit for tax-loss carryforwards	541,887	527,018	-	-
Tax credit for deductions pending application	8,383	20,655	-	-
Total tax credits	**550,270**	**547,673**	**-**	**-**
	1,372,661	**1,375,467**	**230,420**	**344,617**

There follows a breakdown of income tax relating to each item included in the statement of recognised income and expense:

	Thousand euro	
	2016	2015
Actuarial losses and gains on defined benefit pension plans	1,396	(6,509)
Items that will not be reclassified to profit or loss	**1,396**	**(6,509)**
Available-for-sale financial assets	(20,204)	86,436
Valuation gains/(losses)	(64,172)	47,275
Amounts transferred to the income statement	43,968	39,161
Reversal of deferred tax liabilities	-	17,319
Cash flow hedge	-	(42)
Other recognised income and expenses	-	(28,904)
Items that may be reclassified to profit or loss	**(20,204)**	**74,809**
	(18,808)	**68,300**

No significant temporary differences associated with investments in subsidiaries, branches and associates or interests in joint arrangements have arisen which could give rise to deferred tax liabilities not recognised on the balance sheet.

Under current tax and accounting regulations, certain temporary differences must be taken into account when quantifying the relevant corporate income tax expense on continuing operations.

In 2013, Royal Decree-Law 14/2013 classed as assets guaranteed by Spain's Central Government tax assets generated by impairment losses on loans or other assets as a result of the possible insolvency of debtors unrelated to the taxpayer; this status was subsequently extended to impairment losses on public corporations and on provisions for or contributions to pension plans and, if applicable, pre-retirement plans (“monetisable tax assets”).

Monetisable tax assets may be converted into debt claims against the tax administration in the event that the taxpayer records book losses or the entity is liquidated or declared to be insolvent by a court. They may also be exchange for government securities once 18 years have elapsed as from the last day of the tax period in which the assets were recognised in the accounts. In order to maintain the Central Government's guarantee, the assets are subject to an annual charge of 1.5% of their amount as from 2016 (Note 37).

Royal Decree-Law 3/2016 (2 December) on tax measures to consolidate public finances and other urgent social measures, which was published on 3 December 2016, brought a number of amendments into Law 27/2014 on Corporate Income Tax.

The following amendments should be noted:

With effect for tax periods beginning on or after 1 January 2016

- Limitation on the offsetting of tax-loss carryforwards: The offsetting of tax-loss carryforwards by large companies is restricted to the following percentages: companies with revenue of at least €60 million, 25% of the tax base; companies with revenue of at least €20 million but less than €60 million, 50% of the tax base.
- Limitation on the application of tax credits for double taxation: A new limit is laid down for the application of tax credits for international or internal double taxation, already generated or pending application, of 50% of gross tax payable, for companies with revenue of at least €20 million.
- Reversal of impairment losses on shareholdings: The reversal of impairment losses on shareholdings that were tax deductible in tax periods prior to 2013 must be performed, at minimum, on a straight-line basis over five years.

With effect for tax periods beginning on or after 1 January 2017

- Non-deductibility of losses incurred on the transfer of shareholdings in companies: Capital losses on sales of shareholdings cease to have any tax effect when the dividends or profits derived from the transfer could have benefited from the double taxation exemption or if they relate to companies located in tax havens or in territories where the level of taxation is below 10%.

In 2016, the net amount of deferred tax assets and liabilities related to temporary differences amounted to €591,971 thousand (€483,177 thousand at 31 December 2015). There are no deductible temporary differences, losses or tax credits for which deferred tax assets have not been recognised on the balance sheet.

As noted above, a portion of deferred tax assets arising from temporary differences are enforceable against the public authorities in the above circumstances (monetisable assets), meaning that recoverability is not dependent on the existence of future taxable profits, so the recognition of the relevant amounts is justified. At 31 December 2016, these deferred tax assets amount to €647 million (€648 million 31 December 2015), which exceeds the net amount of the deferred tax assets and liabilities for temporary differences indicated in the previous paragraph.

In addition, at 31 December 2016 there are deferred tax assets for tax-loss carryforwards and for unused tax credits amounting to €550,270 thousand (€547,673 thousand at 31 December 2015). The vast majority of these tax assets result from the prior-year losses, which were extraordinary and non-recurring, due basically to the write-down of real estate assets in 2012 and of renegotiated assets in 2013, as disclosed in the annual accounts for those years.

The tax credits described in the preceding paragraph were recorded for accounting purposes on the premise that future tax benefits might be obtained that will allow the tax-loss carryforwards to be offset in a reasonably short period of time. According to applicable regulations, there is no time limit for offsetting these deferred tax assets.

According to Ibercaja Banco's business plan, which has provided the basis for the valuation of the Bank at 31 December 2016, sufficient future taxable profits will be generated to enable the recovery of these deferred tax assets and therefore the Bank considers that there is convincing objective evidence for the recognition of the deferred tax assets. Note 16.1 describes the grounds for the basic assumptions used in determining the business plan taken into consideration by the Bank.

According to the business plan estimates referred to above, in 2016 the estimated period for recovering these deferred tax assets is 10 years.

26. Fair value of financial assets and liabilities

Set out below is the breakdown of the fair value of financial assets and liabilities at 31 December 2016 and 2015 compared with their corresponding carrying value reflected in the balance sheet at that same date. Similarly, a breakdown of fair value is included on the basis of the appraisal system (levels 1, 2 and 3):

	Thousand euro				
	2016				
	Total balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash, cash balances at central banks and other demand deposits	1,005,986	1,005,986	-	1,005,986	-
Financial assets held for trading	33,124	33,124	400	27,277	5,447
Financial assets at fair value through profit or loss	48,997	48,997	48,997	-	-
Available-for-sale financial assets	11,476,251	11,376,316	10,680,227	537,007	159,082
Loans and receivables	36,019,328	38,648,023	-	4,018,692	34,629,331
Held-to-maturity investments	4,545,574	4,537,209	4,457,041	80,168	-
Of which: Sovereign risk	*4,538,236*	*4,529,725*	*4,450,709*	*79,016*	-
Hedging derivatives	285,111	285,111	-	285,111	-
Total financial assets	**53,414,371**	**55,934,766**	**15,186,665**	**5,954,241**	**34,793,860**
Financial liabilities held for trading	31,255	31,254	-	24,343	6,911
Financial liabilities at amortised cost	46,352,735	46,937,201	-	46,937,201	-
Hedging derivatives	176,172	176,173	-	176,173	-
Total financial liabilities	**46,560,162**	**47,144,628**	**-**	**47,137,717**	**6,911**

	Thousand euro				
	2015				
	Total balance	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash, cash balances at central banks and other demand deposits	835,748	835,829	-	835,829	-
Financial assets held for trading	41,327	41,327	566	15,149	25,612
Financial assets at fair value through profit or loss	52,613	52,613	52,613	-	-
Available-for-sale financial assets	15,599,216	15,511,204	14,640,713	706,150	164,341
Loans and receivables	35,435,504	37,914,947	-	2,554,038	35,360,909
Held-to-maturity investments	2,662,571	2,715,639	2,102,747	612,892	-
Of which: Sovereign risk	2,082,940	2,135,276	2,135,276	-	-
Hedging derivatives	357,452	357,452	-	357,452	-
Total financial assets	**54,984,431**	**57,429,011**	**16,796,639**	**5,081,510**	**35,550,862**
Financial liabilities held for trading	35,970	35,970	-	9,487	26,483
Financial liabilities at amortised cost	48,581,317	49,423,722	-	49,423,722	-
Hedging derivatives	330,474	330,474	-	330,474	-
Total financial liabilities	**48,947,761**	**49,790,166**	**-**	**49,763,683**	**26,483**

The criteria used to determine fair value have been as follows:

- Level 1: using prices quoted on active markets for financial instruments.
- Level 2: Using prices quoted on active markets for similar instruments or other valuation techniques in which all significant inputs are based on directly indirectly observable market data.
- Level 3: using valuation techniques in which some significant inputs are not based on observable market data.

In particular, the valuation techniques used in levels 2 and 3 and assumptions used to determine fair value have been:

- Debt securities and interest rate swaps: Valuation techniques based on discounted flows using the interest rate curve and the market spread for similar instruments have been used.

- Options: valued by applying models accepted as standard in the market. In those cases where no valuation model is available, they are valued through the quotation provided by counterparties.

- Equity instruments measured at fair value: Generally fair value is determined by discounting the estimated cash flows, which are derived from business plans in the investees generally for a period of five years, calculating a residual value for the remaining period. These flows have been discounted using market rates and adjusted at the average cost of capital.

  The fair value of financial assets available for sale does not include financial instruments measured at historical cost amounting to €99,935 thousand at 31 December 2016 (€88,012 thousand 31 December 2015). No information on the fair value of these instruments is disclosed as it cannot be estimated accurately. These securities are not traded on a regulated market and sufficient information is not available to determine their fair value because they are instruments in which a non-significant individual investment has been made and as there are no recent transactions involving such instruments that would enable a reference to be established for calculating fair value. In any event, an individual analysis is performed to identify evidence of impairment and any impairment detected is recorded in accordance with the criteria described in Note 2.3.4. Note 9.1 sets out information on these instruments.

- Loans and receivables - Customer: The valuation technique used is based on discounting the estimated future cash flows, considering maturity and repricing dates and calculating interest based on the interbank interest rate curve. Additionally, the early amortisation of 5% of the total has been taken into account. This percentage is based on the Group's historical data and is used in internal management.

  The impact of a 100 basis point rise in the interbank interest rate curve would bring about a 0.95% reduction in fair value.

  In this case, it is estimated that there are no major differences owing to the credit risk between the carrying value and fair value of customer loans since the Group has quantified the level of credit risk provisions for its loan risk portfolio in accordance with applicable accounting legislation and which is considered sufficient to cover that risk. Nonetheless, in an economic and financial crisis such as the present crisis and since there is no market for those financial assets, the amount at which they may be exchanged between interested parties could differ from the net value reflected since the potential acquirer would take into account the losses incurred and recorded in accordance with applicable legislation and their best estimates of possible future losses.

- Customer deposits: The valuation technique used has been based on discounting the estimated future cash flows, considering maturity and repricing dates and calculating interest based on the interbank interest rate curve.

- Marketable debt securities and subordinated liabilities: Valued using market prices or spreads for similar instruments.

The reasons why there may be differences between the fair value and carrying value of financial instruments are as follows:

- In the fixed-income instruments issued, the fair value of the instrument varies depending on the evolution of market interest rates. The longer the residual life of the instrument, the greater the variation.

- In variable income instruments, fair value may differ from carrying value if margins relative to the reference interest rate have changed since the issuing of the instrument. If margins remain constant, the fair value coincides with the carrying value only on repricing dates. On all other dates, there is an interest rate risk for the flows that have already been calculated.

The Company performs an analysis to assess whether levels of fair value hierarchy in which financial instruments are classified may have changed. If transfers between these levels occur, they are treated has having taken place at the end of the quarter in which they are identified. During 2016 there were no financial instruments no longer measured using level 2 and 3 criteria and which have been measured with level 1 criteria (none in 2015).

For certain financial instruments (mainly financial assets and liabilities held for trading and operations related to financial derivatives), there is a balancing entry in the income statement for fair value changes. Details of the effect on the income statement arising from changes in fair value are as follows, classified on the basis of the hierarchical level of the instrument's fair value:

	Thousand euro	
	2016	**2015**
Level 1	237	490
Level 2	15,719	210
Level 3	377	438
	16,333	**1,138**

Set out below in the fair value hierarchy of Level 3 fair value, there is a reconciliation of opening balances to closing balances, revealing separately changes during the year attributable to the following:

	Thousand euro		
	Financial assets held for trading	**Available-for-sale financial assets**	**Financial liabilities held for trading**
Balance at 1 January 2015	**34,639**	**171,117**	**35,046**
Profit/(loss) recognised in the income statement and/or statement of recognised income and expense	(4,202)	835	(3,777)
Purchases	4,801	198	4,706
Sales	-	(7,809)	-
Issues	-	-	-
Settlements and maturities	(9,626)	-	(9,492)
Transfers from or to Level 3 in or outside the portfolios described	-	-	-
Balance at 31 December 2015	**25,612**	**164,341**	**26,483**
Profit/(loss) recognised in the income statement and/or statement of recognised income and expense	(2,844)	12,685	(2,650)
Purchases	776	35	810
Sales	-	(17,979)	-
Issues	-	-	-
Settlements and maturities	(18,097)	-	(17,732)
Transfers from or to Level 3 in or outside the portfolios described	-	-	-
Balance at 31 December 2016	**5,447**	**159,082**	**6,911**

Financial liabilities and assets held for trading with Level 3 fair values are related, respectively, to embedded derivatives in structured deposits arranged with customers and to derivatives arranged with counterparties to cover the risk of those embedded derivatives. As shown in the table included at the beginning of this Note, the values of both derivatives offset each other since they have the same features and almost the same nominal values. The Bank measures both derivatives according to the quotations offered by the counterparty.

As for instruments classified as financial assets available for sale, most of the balance corresponds to investments in an insurance company and venture capital funds.

The investment in the insurance company is valued based on estimated future cash flows derived from business projects to 2020, a residual value being calculated for the remaining period taking into account a distributable cash flow of €95 million and a growth rate in that cash flow of 0%. These flows have been discounted using market rates and adjusted at the average cost of capital (10.6%).

The fair value of investments in venture capital funds is determined according to the valuations regularly provided by the fund manager. The valuation criteria are generally based on the guidelines set by the EVCA (European Private Equity Venture Capital Association).

Considering the amount of these investments, the Bank believes that the changes that would occur in their fair value as a result of reasonably possible changes in the variables that determine the value would not have a significant impact on the results, total assets or equity of Ibercaja Banco.

27. Other significant information

27.1 Contingent risks

The following table breaks down financial guarantees granted at 31 December 2016 and 2015 in accordance with the maximum risk assumed by the Group:

	Thousand euro	
	2016	2015
Guarantees and other sureties	**607,267**	**580,348**
Financial guarantees	82,613	83,023
Other guarantees and sureties	524,654	497,325
Irrevocable letters of credit	**31,978**	**27,203**
Irrevocable documents issued	31,978	26,948
Irrevocable documents confirmed	-	255
Assets associated with third-party obligations	**929**	**929**
	640,174	**608,480**

A significant portion of these amounts will mature without any payment obligation arising for the Group and therefore the full amount recorded for these commitments cannot be considered to be an actual future need for financing or liquidity to be granted to third parties.

The income obtained from collateral instruments is recorded under the captions “Fee and commission income” and “Interest income” (in the amount relating to the restatement of the commission values) in the consolidated income statement and are calculated by applying the rate established contractually based on the nominal amount of the guarantee.

Provisions recorded to cover these guarantees, which have been calculated by applying criteria similar to those for the calculation of the impairment of financial assets at amortised cost, are included under the caption “Provisions - Commitments and guarantees given” in the balance sheet (Note 21).

At 31 December 2016 and 2015, the Group had not identified any contingent liability.

27.2 Assets loaned or pledged

The breakdown of these assets is as follows:

	Thousand euro	
	2016	2015
Securitised assets (net of valuation adjustments)	3,754,363	4,113,238
Assets under repos	4,064,566	5,985,877
Assets associated with Bank of Spain policy (*)	3,143,415	3,778,105
Other	204,296	250,760
	11,166,640	**14,127,980**

(*) There is an additional €4,446,659 thousand (€4,840,584 thousand in 2015) relating to own securitisation bonds and mortgage covered bonds that are also associated with the Bank of Spain policy obtained to secure monetary policy operations in the Eurosystem, which had not been utilised at 31 December 2016 and 2015.

27.3 Contingent commitments

At 31 December 2016 and 2015, the limits on financing contracts granted and the undrawn balances were as follows:

	Thousand euro			
	2016		2015	
	Limit granted	Undrawn balance	Limit granted	Undrawn balance
Drawable by third parties	**6,145,988**	**2,950,250**	**5,536,622**	**2,450,489**
Available immediately	3,146,477	2,179,479	2,540,456	1,899,183
Available subject to conditions	2,999,511	770,771	2,996,166	551,306
Forward financial asset purchase commitments	**-**	**-**	**-**	**-**
Securities subscribed pending disbursement	**-**	**4,129**	**-**	**5,224**
Documents in clearing houses	**-**	**236,405**	**-**	**358,600**
Other items	**-**	**-**	**-**	**-**
	6,145,988	**3,190,784**	**5,536,622**	**2,814,313**

The amounts available relate to variable interest operations.

Provisions recorded to cover these exposures, which have been calculated by applying criteria similar to those for the calculation of the impairment of financial assets at amortised cost, are included under the caption "Provisions - Commitments and guarantees given" in the balance sheet (Note 21).

27.4 Third-party funds managed and marketed by the Group and securities depository

Details of the balance of off-balance sheet customer funds that have been marketed by the Group in 2016 and 2015 are indicated in the following table:

	Thousand euro	
	2016	2015
Collective Investment Undertakings	11,387,297	9,609,043
Pension funds	4,977,723	4,660,616
Insurance products	160,671	172,993
Discretionary portfolio management	1,736,236	1,216,366
	18,261,927	**15,659,018**
Of which: managed by the Group	17,733,645	15,033,799

Set out below is a breakdown of the securities deposited by third parties with the Group at 31 December 2016 and 2015:

	Thousand euro	
	2016	2015
Fixed income	7,765,362	7,011,320
Equities	5,060,850	5,048,940
	12,826,212	**12,060,260**

27.5 Securitisation of assets

The Group completed an asset securitisation operation before 1 January 2004 which were derecognised from the consolidated balance sheet (Note 2.8). Securitised assets outstanding at 31 December 2016 and 2015 are analysed below:

	Thousand euro	
	2016	2015
Assets transferred to TDA Ibercaja 1, FTA in 2003	90,948	107,254
	90,948	**107,254**

In addition, the Group has securitised assets by assigning loans from its portfolio to a securitisation fund in which, due to the agreed transfer terms, the Bank has continued to bear the substantial risks and rewards of the securitised assets and therefore these assets have been retained in full in the balance sheet. Details of the balances recorded in relation to these operations are set out below:

	Thousand euro	
	2016	**2015**
Assets transferred to TDA Ibercaja 2, FTA in 2005	251,227	284,120
Assets transferred to TDA Ibercaja 3, FTA in 2006	329,527	365,652
Assets transferred to TDA Ibercaja 4, FTA in 2006	497,684	551,308
Assets transferred to TDA Ibercaja 5, FTA in 2007	494,336	543,196
Assets transferred to TDA Ibercaja 6, FTA in 2008	737,523	802,970
Assets transferred to TDA Ibercaja ICO-FTVPO, FTH in 2009	192,015	219,885
Assets transferred to TDA Ibercaja 7, FTA in 2009	1,277,709	1,373,406
	3,780,021	**4,140,537**

Note 10.1 provides details concerning the Company's exposure in securitisation funds and the amount of securitisation fund liabilities that have been subscribed by non-Group third parties.

Note 26 details the calculation criteria for estimating the fair value of customer loans, under which the securitised assets included in the above table are recorded.

The fair value of the liabilities issued by securitisation funds at 31 December 2016 and 2015, which are backed by the transferred assets mentioned above, is as follows:

	Thousand euro	
	2016	**2015**
Liabilities issued by TDA Ibercaja 2, FTA in 2005	240,274	234,397
Liabilities issued by TDA Ibercaja 3, FTA in 2006	309,095	345,978
Liabilities issued by TDA Ibercaja 4, FTA in 2006	476,585	501,651
Liabilities issued by TDA Ibercaja 5, FTA in 2007	466,776	501,490
Liabilities issued by TDA Ibercaja 6, FTA in 2008	702,860	700,746
Liabilities issued by TDA Ibercaja ICO-FTVPO, FTH in 2009	184,718	192,818
Liabilities issued by TDA Ibercaja 7, FTA in 2009	1,158,244	1,142,006
	3,538,552	**3,619,086**

27.6 Assets received under guarantees

Assets received under guarantees at 31 December 2016 amount to €10,198 thousand (€9,765 thousand at 31 December 2015).

27.7 Leases

27.7.1 Finance leases

Finance leases in which the Group is the lessor are described below:

- The interest rate is variable.
- There is a purchase option in the lessee's favour arranged as the last instalment of the contract, through which the lessee may obtain the ownership of the asset at a cost which is significantly lower than the asset's market value at that time. As it may be considered reasonably certain that the lessee will exercise this purchase option, its value is recorded as a debt claim together with the rest of the minimum payments to be made by the lessee.

Details of finance leases for the year are as follows:

- At 31 December 2016, the gross investment totals €325,809 thousand (€240,380 thousand at 31 December 2015).

- The present value of future minimum lease payments receivable during the non-cancellable part of the lease period (assuming that any existing rights to extend the lease or purchase options are not exercised) is €92,819 thousand within one year, €202,394 thousand in one to five years and €30,739 after more than five years.

- Unaccrued financial income totals €21,831 thousand in 2016 (€19,619 thousand in 2015).

- The residual value of these leases amounts to €16,746 thousand at 31 December 2016 (€7,536 thousand at 31 December 2015).

- Impairment adjustments to finance leases amount to €9,257 thousand (€12,251 thousand at 31 December 2015).

27.7.2 Operating leases

Most operating leases in which the Group participates may be cancelled and normally the initial term of the lease is five years. Rental income is adjusted annually based on the consumer price index.

Nonetheless, for a set of properties, there are leases that establish a 15-year mandatory compliance period, with a total term of up to 35 years. At 31 December 2016, there are 100 leases in force (56 concluded in 2012, 26 in 2013 and 18 in 2014) which were entered into simultaneously to the sale of the property and include a purchase option at market prices at lease expiration. The rental income associated with these properties is updated annually based on the Consumer Price Index (without any correction factor). The value of instalments payable within the mandatory compliance period amounts to €2,932 thousand within one year, €11,726 thousand within one to five years and €19,318 thousand in more than 5 years. The embedded derivative consisting of updating rentals based on the CPI has not been separated from the main lease contract because the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the main contract.

In leases in which the Group is the lessee, the amount recognised as an expense in 2016 totals €23,514 thousand (€24,054 thousand in 2015).

Refurbishing expenses and capital investment relating to leased assets for which the Group is the lessee, net of depreciation, total €49,145 thousand at 31 December 2016 (€48,396 thousand at 31 December 2015).

27.8 Environment

The Group’s operations as a whole are subject to environmental protection legislation. The Group considers that it complies substantially with these laws and that it has procedures in place designed to ensure they are met.

The Group has adopted the appropriate measures to protect and improve the environment and to minimise possible environmental impacts, and complies with current environmental legislation. During 2016 and 2015, no significant environment-related investments were made and no significant environment-related contingencies are considered to exist.

27.9 Segmentation

The ultimate decision-making body responsible for defining the operating segments is the Group's Management Committee. The Group has concluded that there are no distinct segments, as the results its activities are not examined on a differentiated basis by Management, for the following reasons:

- The services provided to customers do not differ significantly from each other, and therefore there is no justification for a differentiated supervision.

- Non-banking activities (not including the marketing of bancassurance products) are immaterial.

Nevertheless, in accordance with applicable regulations, information on the distribution of the Group's revenues by geographical area and product type have been included in this Note.

The Group carries out all its activities in Spain. In prior years, activities similar to those carried on in Spain were undertaken in Portugal through three branches. The Group therefore considers it has a single geographical segment for operating purposes.

The breakdown of the Group's ordinary revenue (which includes interest income, dividend income, fees and commissions received, gains on financial assets and liabilities and other operating income) by type of product or service is as follows:

	Thousand euro			
	Ordinary revenue from third-party customers		Gross margin excl. gains on financial assets and liabilities	
	2016	2015	2016	2015
Banking	1,205,573	1,353,797	838,924	841,182
Insurance	1,596,901	1,181,803	119,884	112,742
Other	10,439	10,920	1,439	843
	2,812,913	**2,546,520**	**960,247**	**954,767**

28. Interest income

The breakdown of the balance under this consolidated income statement caption in 2016 and 2015, based on the financial instrument portfolios from which the income originates, is as follows:

	Thousand euro	
	2016	2015
Financial assets held for trading	24	34
Financial assets at fair value through profit or loss	687	658
Available-for-sale financial assets	283,105	346,175
Loans and receivables	516,888	647,271
Held-to-maturity investments	56,859	110,666
Interest rate hedging derivatives	(47,001)	(43,130)
Interest income from liabilities	22,088	3,387
Other assets	217	579
	832,867	**1,065,640**

29. Interest expense

The breakdown of the balance under this consolidated income statement caption in 2016 and 2015, based on the financial instrument portfolios from which the expense originates, is as follows:

	Thousand euro	
	2016	2015
Financial liabilities at amortised cost	314,999	466,820
Interest rate hedging derivatives	(97,546)	(106,483)
Interest expense from assets	341	166
Insurance contracts	45,229	71,546
Other liabilities	2,641	2,015
	265,664	**434,064**

30. Income from dividends

The amount recorded under this caption relates in full to dividends from equity instruments in the available-for-sale assets portfolio amounting to €10,913 thousand at 31 December 2016 (€10,252 thousand at 31 December 2015).

31. Share of profit/(loss) of equity-accounted entities

Appendix II provides a breakdown of the balance under this consolidated income statement caption in 2016 and 2015 is as follows: At 31 December 2016, it relates mainly to the profit of €11,029 thousand contributed by Viacajas, S.A. following the sale of its interest in Visa Europe Limited on 21 June 2016.

32. Fee and commission income

Fee and commission income accrued in 2016 and 2015, classified in accordance with the item generating the fees, are reflected in the following table:

	Thousand euro	
	2016	**2015**
Fees for contingent exposures	7,511	6,828
Fees for contingent commitments	3,685	3,392
Fees for foreign currency exchange	307	195
Fees for collection and payment services	113,699	113,728
Securities service fees	12,601	11,953
Non-bank financial product marketing fees	178,054	166,652
Other fees	33,911	40,409
	349,768	**343,157**

33. Fee and commission expenses

Expenses for fees accrued in 2016 and 2015, classified in accordance with the item generating the fees, are reflected in the following table:

	Thousand euro	
	2016	**2015**
Fees assigned to other entities	6,085	5,126
Fees for securities transactions	1,873	1,650
Other fees	3,011	3,298
	10,969	**10,074**

34. Net gains/(losses) on financial transactions

The breakdown of the balance under this consolidated income statement caption in 2016 and 2015, based on the financial instrument portfolios from which the balances originate, is as follows:

	Thousand euro	
	2016	**2015**
Net gain/(loss) on the disposal of financial assets and liabilities not carried at fair value through profit or loss	**152,621**	**83,411**
Available-for-sale financial assets	146,559	130,535
Loans and receivables	4,440	(56,428)
Held-to-maturity investments	-	-
Financial liabilities at amortised cost	944	9,000
Other	678	304
Net gain/(loss) on financial assets and liabilities held for sale	**15,148**	**1,631**
Net gain/(loss) on financial assets and liabilities carried at fair value through profit or loss	**573**	**1,514**
Net gain/(loss) from hedge accounting	**1,185**	**(493)**
Adjustments to hedged instruments (fair value hedge)	182,982	41,701
Hedge derivative (fair value hedge)	(181,797)	(42,194)
	169,527	**86,063**

35. Exchange differences

This consolidated income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	**2015**
Translation into euro of monetary items denominated in foreign currency	(413)	(1,345)
Foreign currency trading	1,672	1,425
	1,259	**80**

No gain or loss was obtained on the cancellation of exchange differences recorded in equity, in accordance with the content of Note 2.5.3.

36. Other operating income

This income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	**2015**
Income from investment property (Note 15.2)	11,628	12,247
Income from other operating leases	5,605	5,383
Sales and income from provision of services	16,644	18,137
Financial fees offsetting direct costs	10,387	8,080
Other items	73,948	4,918
	118,212	**48,765**

On 14 March 2016, Ibercaja Banco, S.A. sold 100% of the share capital of its subsidiary Gestión de Inmuebles Salduvia, S.A. to Global Acamar, S.L., a subsidiary wholly owned by the Aktúa Group.

The parties also undertook to entered into a contract for services whereby Aktúa, through the vehicle acquired, provides the Ibercaja Group with the services necessary to administer, manage and market the real estate assets covered by the contract on an exclusive basis. This transaction, amounting to €70 million, generated a capital gain of approximately the same amount (before taxes) that is carried in "Other items". The purpose was to form a partnership with a first-class industrial company, reinforcing the Entity's strategy to promote the sale of real estate assets in the retail channel and to simplify and optimise its real estate business structure.

37. Other operating expenses

This income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	**2015**
Operating expenses on investment property (Note 15.2)	2,985	2,572
Contribution to National Resolution Fund (Note 1.8.1)	13,768	11,730
Contribution to Deposit Guarantee Fund (Note 1.8.2)	45,024	40,361
Other items	25,763	11,735
	87,540	**66,398**

At 31 December 2016, "Other items" includes the estimated charge of €6,120 for converting deferred tax assets into debt claims against the Spanish tax administration (Note 25.4).

38. Personnel expenses

This consolidated income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	2015
Wages and salaries	288,453	305,375
Social Security contributions	71,403	73,951
Contributions to pension funds and insurance policies	19,527	16,554
Severance payments	2,704	6,096
Other personnel expenses	2,871	1,998
	384,958	**403,974**

38.1 Number of employees

The distribution by category and gender of the Group's employees at 31 December 2016 and 2015 is as follows:

	31/12/2016		31/12/2015	
	Men	Women	Men	Women
GR. 1 Senior management	9	3	9	3
GR. 1 Levels I to V	1,516	692	1,618	857
GR. 1 Levels VI to X	1,366	1,641	1,264	1,374
GR. 1 Levels XI to XIII	272	355	368	428
GR. 2 and cleaners	35	6	36	6
	3,198	**2,697**	**3,295**	**2,668**

At 31 December 2016 and 2015, the entire workforce is based in Spain.

The average number of Group employees in 2016 and 2015 is as follows:

	2016	2015
GR. 1 Senior management	12	12
GR. 1 Levels I to V	2,195	2,292
GR. 1 Levels VI to X	2,995	3,048
GR. 1 Levels XI to XIII	760	876
GR. 2 and cleaners	40	46
	6,002	**6,274**

At 31 December 2016, the average number of Bank employees having a disability of 33% or more is 54 (58 employees at 31 December 2015).

38.2 Personnel expenses - post-employment benefits

Net figures recognised in the balance sheet for defined benefit post-employment plans at 31 December 2016 and 2015 are as follows:

	Thousand euro	
	2016	2015
Present value of obligations financed	(294,053)	(301,251)
Fair value of plan assets	270,289	285,863
(Shortfall)/Surplus	**(23,764)**	**(15,388)**
Impact of limit on assets	(235)	(2,058)
Net liability figuring in balance sheet:	**(23,999)**	**(17,446)**
Assets linked to pensions (*)	112,416	116,885
Net pension assets (**)	3,405	6,296
Net pension (provision)	(139,820)	(140,627)

(*) Financial assets in the subsidiary Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.
(**) Amount recorded under "Other assets" in the consolidated balance sheet.

The reconciliation of opening and closing balances reflecting the present value of post-employment defined benefit plan obligations during 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Initial present value of obligations	**(301,251)**	**(325,877)**
Cost of services for the current year	(3,069)	(1,021)
Interest expense	(2,200)	(2,214)
Past service cost	-	(567)
Gains/(losses) on plan settlements and reductions	-	220
Recalculation of values:		
Gains/(losses) on changes in demographic assumptions	-	(502)
Gains/(losses) on changes in financial assumptions	(2,186)	11,026
Gains/(losses) due to experience	(8,078)	(2,537)
Benefits paid	22,731	20,530
Transfers and other	-	(309)
Final present value of obligations	**(294,053)**	**(301,251)**

The reconciliation of opening and closing balances reflecting the present value of post-employment defined benefit plan assets during 2016 and 2015 is as follows:

	Thousand euro	
	2016	**2015**
Initial fair value of the assets	**283,805**	**285,995**
Interest income	2,323	2,392
Gains/(losses) on plan settlements and reductions	-	(238)
Recalculation of values:		
Yield on plan assets excluding interest (expense)/income	-	25
Gains/(losses) on changes in financial assumptions	(1,834)	3,703
Gains/(losses) due to experience	5,628	9,992
Change in asset limit, excluding interest expense	1,818	(11)
Employer contributions	725	2,148
Member contributions	-	-
Benefits paid	(22,411)	(20,201)
Transfers and other	-	-
Final fair value of the assets	**270,054**	**283,805**

The main types of plan assets at 31 December 2016 and 2015 are as follows:

	Thousand euro	
	2016	**2015**
Shares	8.43%	-
Debt instruments	53.63%	62.83%
Buildings	-	-
Demand deposits	37.94%	37.17%
Other assets	-	-
Total	**100.00%**	**100.00%**

An analysis of the expected termination of non-discounted post-employment benefits in the coming 10 years is as follows:

	Thousand euro					
	2017	**2018**	**2019**	**2020**	**2021**	**2022-2026**
Probable post-employment benefits	19,385	18,900	18,386	17,904	17,360	77,010

Changes in the main assumptions will give rise to changes in the calculation of the obligations. The sensitivity of post-employment plan obligations to changes in the main assumptions is explained below:

	Change in bps	Increase in assumptions	Decrease in assumptions
Discount rate	50 bps	(8.77%)	10.26%
Salary increase rate	50 bps	1.89%	(1.60%)
Pension increase rate	50 bps	6.05%	(5.51%)

The sensitivity analysis relates to individual changes in each assumption while the remainder remain constant.

38.3 Personnel expenses - long-term remuneration for early retirees

The net figures recognised in the balance sheet for long-term remuneration payable to early retirees under defined benefit plans at 31 December 2016 and 2015 are as follows:

	Thousand euro	
	2016	2015
Present value of obligations financed	(4,999)	(6,562)
Fair value of plan assets	-	-
Net liability figuring in balance sheet:	(4,999)	(6,562)
Insurance contracts linked to pensions	-	-
Net pension assets	-	-
Net pension (provision)	(4,999)	(6,562)

The reconciliation of opening and closing balances reflecting the present value of obligations under defined benefit plans for early retirees during 2016 and 2015 is as follows:

	Thousand euro	
	2016	2015
Initial present value of obligations	**(6,562)**	**(9,099)**
Cost of services for the current year	-	-
Interest expense	(37)	(49)
Past service cost	-	-
Gains/(losses) on plan settlements and reductions	-	-
Recalculation of appraisals:	-	-
Gains/(losses) on changes in demographic assumptions	-	-
Gains/(losses) on changes in financial assumptions	(14)	(110)
Gains/(losses) due to experience	(193)	255
Benefits paid	1,807	2,430
Transfers	-	11
Final present value of obligations	**(4,999)**	**(6,562)**

39. Other general administrative expenses

This consolidated income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	2015
Buildings, installations and office equipment	49,572	50,176
Equipment maintenance, licences, work and computer software	16,743	18,155
Communications	18,852	18,507
Advertising and publicity	9,043	9,558
Charges and taxes	25,037	23,136
Other management and administration expenses	95,653	78,329
	214,900	**197,861**

The item “Charges and taxes” includes the Tax on Deposits in Credit Institutions amounting to €9,249 thousand in 2016 (€9,585 thousand in 2015).

- Other information

Fees payable to PricewaterhouseCoopers Auditores, S.L. for auditing the 2016 annual accounts of Ibercaja Bank and its group companies (including securitisation funds) amount to €690 thousand (€569 thousand in 2015). In addition, the audit firm received fees amounting to €331 thousand (€360 thousand in 2015) for other audit work and €99 thousand (€147 thousand in 2015) for other services.

The fees for other services provided by other companies operating under the PricewaterhouseCoopers name amounted to €11 thousand in 2016 (€48 thousand in 2015), not including tax advisory services in 2016 or in 2015.

40. Impairment and reversal of impairment in non-financial assets

This consolidated income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	**2015**
Tangible assets	**(728)**	**4,412**
Property, plant and equipment	1,240	714
Investment property	(1,968)	3,698
Intangible assets	**189**	**-**
Goodwill	-	-
Other intangible assets	189	-
Other	**3,680**	**3,160**
	3,141	**7,572**

41. Net gains/(losses) on non-financial assets and shareholdings

This consolidated income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	**2015**
Gains/(losses) on disposals of assets not classified as non-current available for sale	(578)	18,953
Gains/(losses) on disposal of shareholdings	6,070	4,155
Other gains/(losses)	(160)	2,269
	5,332	**25,377**

42. Net gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

This consolidated income statement caption is analysed below for 2016 and 2015:

	Thousand euro	
	2016	**2015**
Impairment gains/(losses) on other non-current assets for sale	(23,313)	(42,241)
Gains/(losses) on disposal of shareholdings classed as strategic	-	1,094
Gains/(losses) on disposal of other non-current assets for sale	1,005	1,202
	(22,308)	**(39,945)**

43. Related parties

The balances recorded on the consolidate balance sheets at 31 December 2016 and 2015 and in the consolidated income statements for 2016 and 2015 are as follows:

	Thousand euro									
	2016					2015				
	Share-holder	Associates	Jointly-cont. entities	Other related parties (*)	Related individuals (**)	Share-holder	Associates	Jointly-cont. entities	Other related parties (*)	Related individuals (**)
ASSETS										
Loans and receivables	309.288	21.213	18.013	-	11.227	308.518	21.042	22.057	-	23.478
Counterparties insurance contracts	-	-	-	-	-	-	-	-	-	-
LIABILITIES										
Deposits	301.332	23.534	572	583.497	18.585	207.987	19.429	321	867.444	68.443
Liabilities under insurance contracts linked to pensions	-	-	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	-	-
PROFIT/(LOSS)										
Expenses										
Interest expense	293	24	1	3.075	50	253	190	-	7.292	286
Fees, commissions and other expenses	926	-	-	-	1	927	-	-	-	-
Income										
Interest income	3	74	490	-	165	-	2.892	637	-	464
Fees, commissions and other income	361	1	-	-	3	665	16	-	-	7
Dividends	-	-	-	-	-	-	-	-	-	-
OTHER										
Contingent liabilities	-	13.307	-	-	394	-	9.298	-	-	422
Commitments	-	586	6.279	-	825	-	1.643	3.881	-	3.695

(*) Investment funds and companies and pension funds.
(**) Senior management, Board of Directors, relatives to the second degree and their related entities.

The financial operations included have been carried out in accordance with the usual operating processes of the Group's parent entity and at arm's length. Arm's length terms are also applied in other operations with related parties. For these purposes, the preferred valuation method taken into account is the comparable uncontrolled price method.

44. Other disclosures

44.1 Information on the mortgage market

In accordance with Royal Decree 716/2009 whereby certain aspects of Law 2/1981 governing the mortgage market and other rules on the financial mortgage system were developed, and Bank of Spain Circular 3/2012, the Board of Directors approved the "Loan and discount risk management policy and procedure manual" drawn up by the Entity to guarantee compliance with legislation governing the mortgage market, including guidance on the following:

- The relationship between the amount of the loan and appraisal value (in accordance with MO ECO/805/2003) of the mortgaged property and the selection of valuation companies authorised by the Bank of Spain.
- The relationship between the debt and the borrower's capacity to generate income, verification of the information provided by the borrower and the borrower's solvency, and the existence of other additional guarantees.
- The balance between the flows deriving from the hedging portfolio and those deriving from the payments due on the instruments issued.

The General Shareholders' Meeting of Ibercaja Banco, S.A. is authorised to issue debentures or other fixed income securities and has empowered the Board of Directors to issue any kind of loans for a maximum amount, including mortgage securities.

Mortgage certificates are issued in accordance with Spanish legislation on the mortgage and securities markets. Under applicable legislation, the volume of mortgage covered bonds issued by an entity and not matured may not exceed 80% of the unamortised principal of all loans and mortgages in the eligible portfolio. The Entity's Board of Directors approved a more restrictive limit, and therefore the above percentage of mortgage covered bonds issued may not exceed 65%. At 31 December 2016, the figure was 36.93% (42.12% at 31 December 2015).

Mortgage covered bonds are securities especially guaranteed by the issuer where the entire portfolio of mortgage loans arranged in its favour guarantees compliance with its payment commitments.

The level of overcollateralisation or backing of mortgage covered bonds by the eligible mortgage portfolio is 270.75% at 31 December 2016 (237% at 31 December 2015).

At that date 99.28% of transactions in the mortgage portfolio have been formalised through loans (99.26% at 31 December 2015). Of these, instalments are collected on a monthly basis for 95.86% (95.29% at 31 December 2015). The operations formalised at variable interest rates are 99.5% of the total (99.49% at 31 December 2015) and of these, 84.78% are tied to Euribor (85.37% at 31 December 2015).

Set out below is information on the mortgage market:

- Information concerning the issue of mortgage covered bonds. Total amount of loans and mortgages pending repayment (irrespective of LTV level and including securitizations written off the balance sheet):

	Thousand euro	
	Par value	
	2016	2015
Total loans	**26,884,783**	**28,096,883**
Mortgage securities issued	**1,712,758**	**1,912,922**
Of which: loans on the balance sheet	1,651,995	1,840,303
Mortgage transfer certificates	**2,158,213**	**2,334,868**
Of which: loans on the balance sheet	2,128,028	2,300,234
Mortgage loans pledged as security for financing received	-	**-**
Loans backing the issue of mortgage bonds and mortgage covered bonds	**23,013,812**	**23,849,093**
Ineligible loans	5,328,508	5,803,141
Fulfil requirements to be eligible except for limit under Article 5.1 of Royal Decree 716/2009	4,404,620	4,699,569
Other non-eligible loans	923,888	1,103,572
Eligible loans	17,685,304	18,045,952
Loans covering mortgage bond issues	-	-
Qualifying loans to cover mortgage covered bond issues	17,685,304	18,045,952
Non-qualifying portions	50,271	46,644
Qualifying portions	17,635,033	17,999,308
Memorandum items	**Restated value**	
Loans covering mortgage bond issues	-	-

Note 3.1.4 sets out the carrying amount of loans secured by mortgage and its reconciliation to mortgage market information.

- Information on eligible loans and mortgages:

	Thousand euro				
	2016				
	Loan to value (LTV) ratio				
	40% or less	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Eligible loans for the issue of mortgage bonds and mortgage covered bonds					**17,685,304**
Home	4,104,512	6,209,959	5,793,813	11,546	16,119,830
Other properties	785,488	676,772	103,214		1,565,474

	Thousand euro				
	2015				
	Loan to value (LTV) ratio				
	40% or less	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Eligible loans for the issue of mortgage bonds and mortgage covered bonds					**18,045,952**
Home	3,887,990	6,043,971	6,426,002	11,259	16,369,222
Other properties	819,917	725,607	131,206		1,676,730

- Information concerning the issue of mortgage covered bonds: breakdown of mortgage loans pending repayment:

	Thousand euro			
	2016		2015	
	Loans backing the issue of mortgage bonds and mortgage covered bonds	Of which: Eligible loans	Loans backing the issue of mortgage bonds and mortgage covered bonds	Of which: Eligible loans
Total	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Origin of operations	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Originated by the Entity	14,900,375	10,724,219	15,278,743	10,776,124
Subrogated other entities	529,256	509,319	561,170	540,987
Other	7,584,181	6,451,766	8,009,180	6,728,841
Currency	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Euro	23,010,867	17,685,304	23,845,929	18,045,952
Other currencies	2,945	-	3,164	-
Payment status	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Payment normality	20,513,607	16,920,496	21,625,540	17,462,735
Other situations	2,500,205	764,808	2,223,553	583,217
Average residual period to maturity	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Up to 10 years	3,922,135	2,128,481	4,062,437	2,089,403
More than 10 years and up to 20 years	7,693,326	6,292,333	7,479,250	6,061,989
More than 20 years and up to 30 years	8,481,908	6,915,172	8,842,398	7,162,181
More than 30 years	2,916,443	2,349,318	3,465,008	2,732,379
Interest rate	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Fixed interest rate	307,197	60,197	273,044	58,974
Variable interest rate	21,310,330	16,578,510	22,668,051	17,411,269
Mixed interest rate	1,396,285	1,046,597	907,998	575,709
Holders	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Legal entities and individual entrepreneurs (business activities)	4,812,063	2,261,034	5,226,687	2,325,266
Of which: construction and real-estate development (including land).	*2,257,712*	*776,828*	*2,389,702*	*788,734*
Other residential	18,201,749	15,424,270	18,622,406	15,720,686
Type of guarantee	**23,013,812**	**17,685,304**	**23,849,093**	**18,045,952**
Finished assets/buildings	21,111,646	17,162,560	21,565,827	17,373,308
Residential	19,966,381	16,412,581	20,291,780	16,569,815
Of which: official housing	*1,939,514*	*1,832,887*	*2,129,084*	*2,013,753*
Offices and business premises	587,786	385,362	639,609	393,929
Other buildings and constructions	557,479	364,617	634,438	409,564
Assets/ buildings under construction	592,835	271,334	798,038	331,026
Residential	219,685	37,207	323,041	50,313
Of which: official housing	*3,808*	*2,724*	*5,315*	*2,959*
Offices and commercial office	1,531	-	7,589	60
Other buildings and constructions	371,619	234,127	467,408	280,653
Land	1,309,331	251,410	1,485,228	341,618
Consolidated urban land	917,413	13,473	993,156	18,365
Other land	391,918	237,937	492,072	323,253

- Nominal value of the mortgage covered bonds issued by the Entity:

	Thousand euro	
	Par value	
	2016	2015
Mortgage covered bonds (Note 19.4)	**3,150,000**	**3,430,000**
Ibercaja April II 2010	100,000	100,000
Ibercaja March 2011	-	30,000
Ibercaja December 2011	1,000,000	1,000,000
Ibercaja March 2012 I	-	750,000
Ibercaja March 2012 II	750,000	750,000
Ibercaja September 2012	800,000	800,000
Ibercaja October 2023	500,000	-
AYT mortgage covered bonds (Nota 19.3)	**1,863,384**	**2,451,162**
AYT 5 unique covered bond (15 years)	101,613	101,613
AYT 8 unique covered bond (15 years)	104,634	104,634
AYT 9 unique covered bond (15 years)	216,667	216,667
AYT 10 unique covered bond (20 years)	341,026	341,026
AYT Global 2016 unique covered bond	-	227,778
AYT Global 2021 unique covered bond	225,000	225,000
AYT Global 2017 unique covered bond	150,000	150,000
AYT Global 2018 unique covered bond	270,000	270,000
AYT Global 2022 Series III unique covered bond	19,444	19,444
AYT Cajas Global 2018 Series IV covered bond	50,000	50,000
AYT Cajas Global 2023 Series X covered bond	75,000	75,000
AYT Cajas Global 2016 Series XI covered bond	-	50,000
AYT Cajas Global 2027 Series XIII covered bond	165,000	165,000
AYT Cajas Global 2019 Series XIV covered bond	25,000	25,000
AYT Cajas Global 2016 Series XXIII covered bond	-	310,000
AYT Cajas Global 2017 Series XVI covered bond	120,000	120,000
TDA mortgage covered bonds (Nota 19.3)	**1,500,000**	**1,700,000**
TDA 5 unique covered bond	300,000	300,000
TDA 6 unique covered bond	250,000	250,000
TDA 7 unique covered bond	400,000	400,000
TDA 6 unique covered bond (extension)	250,000	250,000
TDA Series A4 unique covered bond	300,000	300,000
TDA Series A1 unique covered bond	-	200,000

- Information on period remaining to maturity of mortgage market securities:

	Thousand euro			
	2016		2015	
	Nominal value	**Average period to maturity (months)**	**Nominal value**	**Average period to maturity (months)**
Mortgage bonds issued	**-**	**-**	**-**	**-**
Of which: recognised under liabilities	-	-	-	-
Mortgage covered bonds issued	**6,513,384**	**-**	**7,581,162**	**-**
Of which: recognised under liabilities	*3,963,384*	-	*4,281,162*	-
Debt securities Issued through public offering	-	-	-	-
Debt securities Other issues	3,150,000	-	3,430,000	-
Time to maturity up to one year	-	-	780,000	-
Time to maturity more than one year and up to two years	1,000,000	-	-	-
Time to maturity more than two years and up to three years	1,550,000	-	1,000,000	-
Time to maturity from three to five years	600,000	-	1,650,000	-
Time to maturity from five to ten years	-	-	-	-
Time to maturity more than 10 years	-	-	-	-
Deposits	3,363,384	-	4,151,162	-
Time to maturity up to one year	670,000	-	787,778	-
Time to maturity more than one year and up to two years	421,613	-	670,001	-
Time to maturity more than two years and up to three years	429,634	-	421,612	-
Time to maturity from three to five years	741,667	-	646,301	-
Time to maturity from five to ten years	935,470	-	1,460,470	-
Time to maturity more than 10 years	165,000	-	165,000	-
Mortgage securities issued	**1,651,995**	**104**	**1,840,303**	**110**
Issued through public offering	-	-	-	-
Other issues	1,651,995	104	1,840,303	110
Mortgage transfer certificates issued	**2,128,028**	**120**	**2,300,234**	**125**
Issued through public offering	-	-	-	-
Other issues	2,128,028	120	2,300,234	125

None of the issues has been completed through a public offering and all are denominated in euro. The Entity does not issue mortgage bonds and nor does it have replacement assets assigned to them.

- Information on mortgage loans backing the issue of mortgage covered bonds and secured bonds (eligible and non-eligible):

	Thousand euro			
	2016		2015	
	Eligible loans	**Ineligible loans**	**Eligible loans**	**Ineligible loans**
Beginning balance	**18,045,952**	**5,803,141**	**18,962,427**	**6,838,125**
Disposals in the year	**1,466,258**	**815,551**	**1,638,791**	**1,203,932**
Due principal received in cash	1,113,840	662,526	1,051,824	1,082,940
Early repayment	255,052	76,014	255,259	76,405
Subrogation other entities	8,944	403	9,285	767
Other disposals	88,422	76,608	322,423	43,820
Additions in the year	**1,105,610**	**340,918**	**722,316**	**168,948**
Originated by the Entity	866,763	263,404	518,098	104,416
Subrogation other entities	19,234	889	2,848	146
Other additions	219,613	76,625	201,370	64,386
Ending balance	**17,685,304**	**5,328,508**	**18,045,952**	**5,803,141**

- Information on mortgage loans backing the issue of mortgage bonds and mortgage covered bonds: Available balances:

	Thousand euro	
	2016	2015
Total	**146,102**	**143,908**
Potentially eligible	100,552	59,576
Ineligible	45,550	84,332

At 31 December 2016 and 2015, the Entity did not have any replacement assets assigned to issuances of mortgage covered bonds and mortgage bonds.

44.2 Customer service

Within the framework of protection measures for customers of financial institutions established by Law 44/2002 (22 November) on financial system reform measures and with the double aim of preserving and strengthening customer confidence, at a meeting held on 22 September 2011 the Board of Directors of Ibercaja Banco, S.A. approved the Customer Care Regulations which governs the activity of the Ibercaja Group's Customer Care Service, in order to attend to and resolve complaints regarding their interests and legally recognised rights concerning transactions, contracts or financial services rendered by Group companies.

The content of the Regulations can be consulted at any Ibercaja Group branch and on the web site www.ibercaja.es. Users can also use the branches and web site to present complaints or claims, or consult the relevant procedures.

For these purposes, Ibercaja Group is made up of Ibercaja Banco, S.A. and the following companies: Ibercaja Leasing y Financiación, S.A., Establecimiento Financiero de Crédito; Ibercaja Patrimonios, S.A., Sociedad Gestora de Carteras; Ibercaja Gestión, S.A., Sociedad Gestora de Instituciones de Inversión Colectiva; Ibercaja Vida, S.A., Compañía de Seguros y Reaseguros; Ibercaja Pensión, S.A., Sociedad Gestora de Fondos de Pensiones; and Ibercaja Mediación de Seguros, S.A.

In accordance with the above-mentioned legislation, the Customer care service at Ibercaja Group will present a statistical report to the Board of Directors of Ibercaja Banco S.A. regarding complaints and claims handled, the decisions taken, the general criteria followed when taking these decisions and the recommendations or suggestions made to improve the Group's actions. A summary of this information is included below:

a) Complaints received

During 2016 the Customer Care Service (CCS) at Ibercaja Group managed a total of 10,461cases, which may be classified into two groups:

- 7,799 Complaints, Claims and Suggestions (1,425 complaints, 6,241 claims and 133 suggestions).
- There were 2,662 cases relating to Data Protection (83 relating to requests to eliminate data and 2,579 relating to other rights, such as opposition, rectification or access).

The average period necessary to resolve complaints and claims is around 19 days, which is a decrease compared with previous year (55 days in 2015).

b) General criteria contained in the decisions

The decisions have been issued with strict observance of corporate governance and banking practice standards, transparency and protection of financial users, taking into account the opinions formally expressed by customers and the reports issued by the branches, departments and Group companies concerned. The decisions were based on contractual documents signed with customers.

45. <u>Financial statements of Ibercaja Banco, S.A. for the years ended 31 December 2016 and 2015</u>

45.1 Financial statements of Ibercaja Banco, S.A.

Set out below are the balance sheets at 31 December 2016 and 2015 together with the income statements, statements of recognised income and expense, total statements of changes in equity and cash flow statements of the parent entity for the years ended 31 December 2016 and 2015, drawn up in accordance with Bank of Spain Circular 4/2004, as indicated in Note 1.2 to the individual annual accounts of Ibercaja Banco at 31 December 2016.

IBERCAJA BANCO, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015
(Thousand euro)

ASSETS	31/12/2016	31/12/2015 (*)
Cash and cash balances at central banks and other demand deposits	**793,859**	**601,208**
Financial assets held for trading	**32,022**	**39,872**
Derivatives	31,333	39,182
Debt securities	689	690
Memorandum items: loaned or pledged	-	-
Financial assets designated at fair value through profit or loss	**-**	**-**
Memorandum items: loaned or pledged	-	-
Available-for-sale financial assets	**5,320,318**	**10,179,266**
Equity instruments	412,618	408,217
Debt securities	4,907,700	9,771,049
Memorandum items: loaned or pledged	*2,865,272*	*6,163,518*
Loans and receivables	**36,368,239**	**36,107,932**
Debt securities	2,355,303	1,952,500
Loans and advances	34,012,936	34,155,432
Credit institutions	*294,002*	*418,155*
Customers	*33,718,934*	*33,737,277*
Memorandum items: loaned or pledged	*6,064,814*	*6,083,916*
Held-to-maturity investments	**4,545,574**	**2,662,571**
Memorandum items: loaned or pledged	*2,520,964*	*1,919,326*
Derivatives-Hedge accounting	**284,009**	**354,998**
Changes in fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**
Investments in subsidiaries, joint business ventures and associates	**814,437**	**793,206**
Group companies	700,139	677,334
Jointly-controlled entities	38,357	38,329
Associates	75,941	77,543
Tangible assets	**835,231**	**853,833**
Property, plant and equipment	532,402	546,631
For own use	*532,402*	*546,631*
Assigned under operating lease	-	-
Investment property	302,829	307,202
Of which: leased out under operating leases	*134,681*	*142,640*
Memorandum items: acquired under finance lease	-	-
Intangible assets	**142,653**	**160,024**
Goodwill	89,646	102,451
Other intangible assets	53,007	57,573
Tax assets	**1,406,977**	**1,465,057**
Current tax assets	6,673	5,671
Deferred tax asset	1,400,304	1,459,386
Other assets	**233,814**	**260,896**
Insurance contracts linked to pensions	115,720	118,947
Inventories	1,027	697
Other assets	117,067	141,252
Non-current assets and disposal groups of items classified as held for sale	**123,357**	**149,166**
TOTAL ASSETS	**50,900,490**	**53,628,029**

(*) Presented for comparative purposes only; has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

IBERCAJA BANCO, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015
(Thousand euro)

LIABILITIES	31/12/2016	31/12/2015 (*)
Financial liabilities held for trading	**31,255**	**35,970**
Derivatives	31,255	35,970
Financial liabilities designated at fair value through profit or loss	**-**	**-**
Memorandum items: subordinated liabilities	-	-
Financial liabilities at amortised cost	**47,206,870**	**49,988,126**
Deposits	45,070,348	48,178,264
Central banks	*3,366,566*	*2,053,035*
Credit institutions	*3,113,344*	*4,895,683*
Customers	*38,590,438*	*41,229,546*
Debt securities issued	1,474,087	1,210,596
Other financial liabilities	662,435	599,266
Memorandum items: subordinated liabilities	*861,264*	*1,051,041*
Derivatives-Hedge accounting	**175,359**	**325,433**
Changes in fair value of hedged items in portfolio hedges of interest rate risk	**16,022**	**6,930**
Provisions	**399,219**	**305,034**
Pensions and other post-employment defined benefit commitments	119,855	122,646
Other long-term employee remuneration	4,999	6,562
Lawsuits and litigation for outstanding taxes	10,150	10,150
Commitments and guarantees given	35,577	24,834
Other provisions	228,638	140,842
Tax liabilities	**187,258**	**300,816**
Current tax liabilities	-	322
Deferred tax liabilities	187,258	300,494
Other liabilities	**156,208**	**157,261**
Liabilities included in disposal groups of items classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**48,172,191**	**51,119,570**

(*) Presented for comparative purposes only; has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

IBERCAJA BANCO, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015
(Thousand euro)

EQUITY	31/12/2016	31/12/2015 (*)
Shareholders' funds	**2,558,498**	**2,388,689**
Capital	2,144,276	2,144,276
Paid in capital	*2,144,276*	*2,144,276*
Called-up capital	-	-
Memorandum items: uncalled capital	-	-
Share premium	-	-
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other equity instruments issued	-	-
Other equity items	-	-
Retained earnings	33,272	6,403
Revaluation reserves	2,327	2,327
Other reserves	188,814	201,621
(Treasury shares)	-	-
Profit/(loss) for the year	189,809	34,062
(Interim dividend)		-
Other accumulated comprehensive results	**169,801**	**119,770**
Items that will not be reclassified to profit or loss	5,146	3,804
Actuarial gains /(losses) in defined benefit pension plans	*5,146*	*3,804*
Non-current assets and disposal groups of items classified as held for sale	-	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	164,655	115,966
Hedging of net investment in foreign transactions (effective portion	-	-
Currency translation	-	-
Hedging derivatives Cash flow hedges (effective portion)	-	-
Available-for-sale financial assets	*164,655*	*115,966*
Debt instruments	*91,486*	*63,684*
Equity instruments	*73,169*	*52,282*
Non-current assets and disposal groups of items classified as held for sale	-	-
TOTAL EQUITY	**2,728,299**	**2,508,459**
TOTAL EQUITY AND LIABILITIES	**50,900,490**	**53,628,029**
Memorandum items: off-balance-sheet exposures		
Guarantees granted	654,931	623,101
Contingent commitments granted	3,603,441	3,230,731

(*) Presented for comparative purposes only; has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

IBERCAJA BANCO, S.A.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015
(Thousand euro)

	2016	2015 (*)
Interest income	**699,472**	**916,360**
(Interest expenses)	**249,555**	**414,305**
(Expenses on share capital repayable on demand)	**-**	**-**
NET INTEREST INCOME	**449,917**	**502,055**
Dividend income	**396,888**	**137,218**
Fee and commission income	**259,758**	**261,786**
(Fee and commission expenses)	**9,477**	**8,702**
Net gains(losses) on financial transactions		
Gain/(loss) on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	50,627	80,129
Gain/(loss) on financial assets and liabilities held for trading, net	15,587	1,593
Gain/(loss) on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gain/(loss) from hedge accounting, net	1,185	(494)
Net exchange differences	**1,259**	**80**
Other operating income	**37,299**	**22,555**
(Other operating expenses)	**77,621**	**55,877**
GROSS INCOME	**1,125,422**	**940,343**
(Administration expenses)	**554,238**	**562,271**
(Personnel expenses)	367,281	383,114
(Other administration expenses)	186,957	179,157
(Depreciation)	**55,075**	**57,461**
(Provisions or (-) reversal of provisions)	**98,826**	**36,711**
(Impairment or (-) reversal of impairment of financial assets not carried at fair value through profit or loss)	**276,746**	**203,450**
(Financial assets carried at cost)	12,051	4,516
(Available-for-sale financial assets)	6,033	(373)
(Loans and other receivables)	258,656	199,307
(Held-to-maturity investments)	6	-
INCOME FROM OPERATING ACTIVITIES	**140,537**	**80,450**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint business ventures or associates)	**30,289**	**47,294**
(Impairment or (-) reversal of impairment in non-financial assets)	**1,666**	**1,000**
(Tangible assets)	1,499	352
(Intangible assets)	-	**-**
(Other)	167	648
Gain/(loss) on derecognition of non-financial assets and shareholdings, net	**6,011**	**19,542**
Of which: investments in subsidiaries, joint business ventures and associates	*2,088*	*(1,082)*
Negative goodwill recognised on the income statement	**-**	**-**
Gains/(losses) on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	**182**	**(8,633)**
PROFIT/(LOSS) BEFORE TAXES FROM CONTINUING OPERATIONS	**114,775**	**43,065**
Expense or (-) income from taxes on income from continuing operations	**(75,034)**	**9,003**
PROFIT/(LOSS) AFTER TAXES FROM CONTINUING OPERATIONS	**189,809**	**34,062**
Profit/(loss) after taxes from discontinued activities	**-**	**-**
PROFIT/(LOSS) FOR THE YEAR	**189,809**	**34,062**

(*) Presented for comparative purposes only; has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

IBERCAJA BANCO, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015
(Thousand euro)

	2016	2015 (*)
PROFIT/(LOSS) FOR THE YEAR	**189,809**	**34,062**
OTHER COMPREHENSIVE INCOME	**50,031**	**(96,637)**
B.1) Items that will not be reclassified to profit or loss	**1,342**	**3,804**
Actuarial gains /(losses) on defined benefit pension plans	**1,918**	**5,434**
Non-current assets and disposal groups of items held for sale	**-**	**-**
Other valuation adjustments	**-**	**-**
Corporate income tax relating to items not to be reclassified	**(576)**	**(1,630)**
B.2) Items that may be reclassified to profit or loss	**48,689**	**(100,441)**
Hedging of net investment in foreign transactions (effective portion)	**-**	**-**
Valuation gains/(losses) taken to Equity	-	-
Transferred to the income statement	-	-
Other reclassifications	-	-
Currency translation	**-**	**-**
Valuation gains/(losses) taken to Equity	-	-
Transferred to the income statement	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	**-**	**-**
Valuation gains/(losses) taken to Equity	-	-
Transferred to the income statement	-	-
Transferred to initial carrying value of hedged items		
Other reclassifications	-	-
Available-for-sale financial assets	**64,023**	**(168,229)**
Valuation gains/(losses) taken to Equity	108,510	(40,978)
Transferred to the income statement	(44,487)	(127,251)
Other reclassifications		-
Non-current assets and disposal groups of items held for sale	**-**	**-**
Valuation gains/(losses) taken to Equity	-	-
Transferred to the income statement	-	-
Other reclassifications	-	-
Corporate income tax relating to items that may be reclassified to profit or loss	**(15,334)**	**67,788**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**239,840**	**(62,575)**

(*) Presented for comparative purposes only; has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

IBERCAJA BANCO, S.A.

TOTAL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousand euro)

	Thousand euro											
	Capital	**Share premium**	**Equity instruments issued other than capital**	**Other equity items**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(Treasury shares)**	**Profit/(loss) for the year**	**(Interim dividend)**	**Other accumulated comprehensive results**	**Total**
I. Ending balance at 31/12/2015 (*)	**2,144,276**	**-**	**-**	**-**	**6,403**	**2,327**	**201,621**	**-**	**34,062**	**-**	**119,770**	**2,508,459**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**6,403**	**2,327**	**201,621**	**-**	**34,062**	**-**	**119,770**	**2,508,459**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**189,809**	**-**	**50,031**	**239,840**
Other changes in equity	**-**	**-**	**-**	**-**	**26,869**	**-**	**(12,807)**	**-**	**(34,062)**	**-**	**-**	**(20,000)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	(20,000)	-	-	-	-	-	-	(20,000)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	46,869	-	(12,807)	-	(34,062)	-	-	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	-	-	-	-	-	-	-	-
III. Ending balance at 31/12/2016	**2,144,276**	**-**	**-**	**-**	**33,272**	**2,327**	**188,814**	**-**	**189,809**	**-**	**169,801**	**2,728,299**

(*) Has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

IBERCAJA BANCO, S.A.

TOTAL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015
(Thousand euro)

	Thousand euro											
	Capital	**Share premium**	**Equity instruments issued other than capital**	**Other equity items**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(Treasury shares)**	**Profit/(loss) for the year**	**(Interim dividend)**	**Other accumulated comprehensive results**	**Total**
I. Ending balance at 31/12/2014	**2,611,730**	**-**	**-**	**-**	**(818,520)**	**6,197**	**496,811**	**-**	**71,216**	**-**	**216,407**	**2,583,841**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	(12,807)	-	-	-	-	(12,807)
II. Adjusted opening balance	**2,611,730**	**-**	**-**	**-**	**(818,520)**	**6,197**	**484,004**	**-**	**71,216**	**-**	**216,407**	**2,571,034**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,062**	**-**	**(96,637)**	**(62,575)**
Other changes in equity	**(467,454)**	**-**	**-**	**-**	**824,923**	**(3,870)**	**(282,383)**	**-**	**(71,216)**	**-**	**-**	**-**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	(467,454)	-	-	-	753,707	(3,870)	(282,383)	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	71,216	-	-	-	(71,216)	-	-	-
Increase/(decrease) in equity due to business combinations	-	-	-	-		-	-	-	-	-	-	-
Share-based payments	-	-	-	-		-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-		-	-	-	-	-	-	-
III. Ending balance at 31/12/2015	**2,144,276**	**-**	**-**	**-**	**6,403**	**2,327**	**201,621**	**-**	**34,062**	**-**	**119,770**	**2,508,459**

(*) Presented for comparative purposes only; has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

IBERCAJA BANCO, S.A.

CASH FLOW STATEMENTS FOR
THE YEARS ENDED 31 DECEMBER 2016 AND 2015
(Thousand euro)

	2016	2015 (*)
H)CASH FLOWS FROM OPERATING ACTIVITIES	**(1,673,451)**	**(2,770,276)**
Profit/(loss) for the year	**189,809**	**34,062**
Adjustments to obtain cash flows from operating activities	**404,157**	**426,656**
Depreciation	55,075	57,461
Other adjustments	349,082	369,195
Net increase/decrease in operating assets	**455,291**	**573,445**
Financial assets held for trading	7,847	14,130
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	878,214	(1,079,631)
Loans and receivables	(527,470)	1,394,574
Other operating assets	96,700	244,372
Net increase/decrease in operating liabilities	**(2,704,738)**	**(3,688,591)**
Financial liabilities held for trading	(4,715)	(12,492)
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(2,544,486)	(3,359,692)
Other operating liabilities	(155,537)	(316,407)
Corporate income tax receipts/payments	**(17,970)**	**(115,848)**
I) CASH FLOWS FROM INVESTING ACTIVITIES	**2,057,984**	**2,415,641**
Payments	**(52,797)**	**(22,151)**
Tangible assets	(13,453)	(13,610)
Intangible assets	(7,943)	(8,190)
Investments in subsidiaries, joint business ventures and associates	(30,048)	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	(1,353)	(351)
Held-to-maturity investments	-	-
Other payments related to investing activities	-	-
Receipts	**2,110,781**	**2,437,792**
Tangible assets	10,350	28,529
Intangible assets	-	360
Investments in subsidiaries, joint business ventures and associates	9,801	25,214
Other business units	-	-
Non-current assets and liabilities classified as held for sale	23,635	38,363
Held-to-maturity investments	2,066,995	2,345,326
Other receipts related to investing activities	-	-
J) CASH FLOWS FROM FINANCING ACTIVITIES	**(209,369)**	**482,747**
Payments	**(209,369)**	**(17,253)**
Dividends	(20,000)	-
Subordinated liabilities	(189,369)	(17,253)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	-	-
Receipts	**-**	**500,000**
Subordinated liabilities	-	500,000
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other collections related to financing activities	-	-
K)EFFECT OF EXCHANGE RATE FLUCTUATIONS	**-**	**-**
L) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**175,164**	**128,112**
M) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**590,467**	**462,355**
N)CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**765,631**	**590,467**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash	207,755	194,600
Cash equivalent balances in central banks	551,538	338,016
Other financial assets	6,338	57,851
Less: At sight reimbursable bank overdrafts	-	-

(*) Presented for comparative purposes only; has been restated (Note 45.2). The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

45.2 Information on Ibercaja Banco, S.A. related to 2015

As required under current legislation, the information contained in these annual accounts referring to 2015 is presented exclusively for purposes of comparison with the 2016 figures, to facilitate understanding.

On 27 April 2016, the Bank of Spain issued Circular 4/2016 which amended Circular 4/2004 (22 December) to credit institutions on public and reserved reporting standards and model financial statements, and Circular 1/2013 (24 May) on the Risk Information Centre.

The update to Circular 4/2004 partly derives from the new wording of Article 39.4 of the Code of Commerce introduced by Law 22/2015 on Auditing, which considers that all intangible assets have a defined useful life and therefore are amortisable. This new accounting policy is applicable to separate and consolidated annual accounts that are not directly subject to IFRS. Unless otherwise proven, it will be assumed that goodwill has a useful life of ten years.

Transitional Provision One of Circular 4/2016 provides for the option of amortising the carrying value at the end of the previous period against reserves, applying a straight-line approach for recovery and a useful life of ten years as from the date of acquisition. The subsisting carrying value will be amortised on a prospective basis.

The Entity opted for the retroactive application mentioned above, which has entailed the restatement of certain headings of the figures that are presented for comparative purposes. Appendix I contains a reconciliation between the figures prepared by the directors and the comparative figures included in this balance sheet and notes in relation to the balance sheet at 31 December 2015.

45.3 Reconciliation of the balance sheet at 31 December 2015 and the income statement for 2015

- Balance sheet at 31 December 2015

ASSETS	Thousand euro		
	31/12//2015 restated	Adjustment	31/12/2015 before restatement (*)
Cash and cash balances at central banks and other demand deposits	**601,208**	**-**	**601,208**
Financial assets held for trading	**39,872**	**-**	**39,872**
Financial assets at fair value through profit or loss	**-**	**-**	**-**
Available-for-sale financial assets	**10,179,266**	**-**	**10,179,266**
Loans and receivables	**36,107,932**	**-**	**36,107,932**
Held-to-maturity investments	**2,662,571**	**-**	**2,662,571**
Derivatives-Hedge accounting	**354,998**	**-**	**354,998**
Changes in fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**	**-**
Investments in subsidiaries, joint business ventures and associates	**793,206**	**-**	**793,206**
Tangible assets	**853,833**	**-**	**853,833**
Intangible assets	**160,024**	**(25,614)**	**185,638**
Goodwill	102,451	(25,614)	128,065
Other intangible assets	57,573	-	57,573
Tax assets	**1,465,057**	-	**1,465,057**
Other assets	**260,896**	-	**260,896**
Non-current assets and disposal groups of items classified as held for sale	**149,166**	-	**149,166**
TOTAL ASSETS	**53,628,029**	**(25,614)**	**53,653,643**

(*) The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

LIABILITIES	Thousand euro		
	31/12//2015 restated	Adjustment	31/12/2015 before restatement (*)
Financial liabilities held for trading	**35,970**	**-**	**35,970**
Financial liabilities at fair value through profit or loss	**-**	**-**	**-**
Financial liabilities at amortised cost	**49,988,126**	**-**	**49,988,126**
Derivatives-Hedge accounting	**325,433**	**-**	**325,433**
Changes in fair value of hedged items in portfolio hedges of interest rate risk	**6,930**	**-**	**6,930**
Provisions	**305,034**	**-**	**305,034**
Tax liabilities	**300,816**	**-**	**300,816**
Share capital repayable on demand	**-**	**-**	**-**
Other liabilities	**157,261**	**-**	**157,261**
Liabilities included in disposal groups of items classified as held for sale	**-**	**-** **-**	**-**
		-	
TOTAL LIABILITIES	**51,119,570**	**-**	**51,119,570**

(*) The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

EQUITY	Thousand euro		
	31/12//2015 restated	Adjustment	31/12/2015 before restatement (*)
Shareholders' funds	**2,388,689**	**(25,614)**	**2,414,303**
Capital	2,144,276	-	2,144,276
Share premium	-	-	-
Equity instruments issued other than capital	-	-	-
Other equity items	-	-	-
Retained earnings	6,403	-	6,403
Revaluation reserves	2,327	-	2,327
Other reserves	201,621	(12,807)	214,428
Treasury shares	-	-	-
Profit/(loss) for the year	34,062	(12,807)	46,869
Interim dividend	-	-	-
	-	-	-
Other accumulated comprehensive results	**119,770**	**-**	**119,770**
TOTAL EQUITY	**2,508,459**	**(25,614)**	**2,534,073**
TOTAL EQUITY AND LIABILITIES	**53,628,029**	**(25,614)**	**53,653,643**

(*) The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

- Income statement for the year ended 31 December 2015

INCOME STATEMENT	Thousand euro		
	31/12//2015 restated	Adjustment	31/12/2015 before restatement (*)
Interest income	916,360	-	916,360
(Interest expense)	414,305	-	414,305
(Expenses on share capital repayable on demand)	-	-	-
NET INTEREST INCOME	**502,055**	**-**	**502,055**
Dividend income	137,218	-	137,218
Fee and commission income	261,786	-	261,786
(Fee and commission expenses)	8,702	-	8,702
Gain/(loss) on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	80,128	-	80,128
Gain/(loss) on financial assets and liabilities held for trading, net	1,593	-	1,593
Gain/(loss) on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-
Gain/(loss) from hedge accounting, net	(493)	-	(493)
Net exchange differences	80	-	80
Other operating income	22,555	-	22,555
(Other operating expenses)	55,877	-	55,877
GROSS INCOME	**940,343**	**-**	**940,343**
(Administration expenses)	562,271	-	562,271
(Amortisation/depreciation)	57,461	12,807	44,654
(Provisions or (-) reversal of provisions)	36,711	-	36,711
(Impairment or (-) reversal of impairment of financial assets not carried at fair value through profit or loss)	203,450	-	203,450
INCOME FROM OPERATING ACTIVITIES	**80,450**	**(12,807)**	**93,257**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint business ventures or associates	47,293	-	47,293
(Impairment or (-) reversal of impairment in non-financial assets)	1,001	-	1,001
Gain/(loss) on derecognition of non-financial assets and shareholdings, net	19,542	-	19,542
Negative goodwill recognised on the income statement	-	-	-
Gain/(loss) from non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	(8,633)	-	(8,633)
PROFIT/(LOSS) BEFORE TAXES FROM CONTINUING OPERATIONS	**43,065**	**(12,807)**	**55,872**
Expense or (-) income from taxes on income from continuing operations	9,003	-	9,003
PROFIT/(LOSS) AFTER TAXES FROM CONTINUING OPERATIONS	**34,062**	**(12,807)**	**46,869**
Profit/(loss) after taxes from discontinued activities	-	-	-
PROFIT /(LOSS) FOR THE PERIOD	**34,062**	**(12,807)**	**46,869**

(*) The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

- Balance sheet at 31 December 2014

ASSETS	Thousand euro		
	31/12//2014 restated	Adjustment	31/12/2014 before restatement (*)
Cash, cash balances at central banks and other demand deposits	**497,588**	**-**	**497,588**
Financial assets held for trading	**53,999**	**-**	**53,999**
Financial assets at fair value through profit or loss	**-**	**-**	**-**
Available-for-sale financial assets	**9,471,223**	**-**	**9,471,223**
Loans and receivables	**35,985,626**	**-**	**35,985,626**
Held-to-maturity investments	**6,681,685**	**-**	**6,681,685**
Hedging derivatives	**492,742**	**-**	**492,742**
Changes in fair value of hedged items in portfolio hedges of interest rate risk	**128,992**	**-**	**128,992**
Investments in subsidiaries, joint business ventures and associates	**857,624**	**-**	**857,624**
Tangible assets	**882,266**	**-**	**882,266**
Intangible assets	**176,566**	**(12,807)**	**189,373**
Goodwill	115,258	(12,807)	128,065
Other intangible assets	61,308	-	61,308
Tax assets	**1,516,596**	**-**	**1,516,596**
Other assets	**225,375**	**-**	**225,375**
Non-current assets and disposal groups of items classified as held for sale	**189,233**	**-**	**189,233**
TOTAL ASSETS	**57,159,515**	**(12,807)**	**57,172,322**

(*) The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

LIABILITIES	Thousand euro		
	31/12//2014 restated	Adjustment	31/12/2014 before restatement (*)
Financial liabilities held for trading	**48,462**	**-**	**48,462**
Financial liabilities at fair value through profit or loss	**-**	**-**	**-**
Financial liabilities at amortised cost	**53,060,501**	**-**	**53,060,501**
Hedging derivatives	**596,975**	**-**	**596,975**
Changes in fair value of hedged items in portfolio hedges of interest rate risk	**6,668**	**-**	**6,668**
Provisions	**328,517**	**-**	**328,517**
Tax liabilities	**373,833**	**-**	**373,833**
Share capital repayable on demand	**-**	**-**	**-**
Other liabilities	**173,525**	**-**	**173,525**
Liabilities included in disposal groups of items classified as held for sale	**-**	**- -**	**-**
		-	
TOTAL LIABILITIES	**54,588,481**	**-**	**54,588,481**

(*) The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

EQUITY	Thousand euro		
	31/12//2014 restated	Adjustment	31/12/2014 before restatement (*)
Shareholders' funds	**2,354,627**	**(12,807)**	**2,367,434**
Capital	2,611,730	-	2,611,730
Share premium	-	-	-
Equity instruments issued other than capital	-	-	-
Other equity items	-	-	-
Retained earnings	(818,520)	-	(818,520)
Revaluation reserves	6,197	-	6,197
Other reserves	484,004	(12,807)	496,811
Treasury shares	-	-	-
Profit/(loss) for the year	71,216	-	71,216
Interim dividend	-	-	-
		-	
Other accumulated comprehensive results	**216,407**	**-**	**216,407**
TOTAL EQUITY	**2,571,034**	**(12,807)**	**2,583,841**
TOTAL EQUITY AND LIABILITIES	**57,159,515**	**(12,807)**	**57,172,322**

(*) The information has been adapted to the new structure for financial statements under Bank of Spain Circular 5/2014 (Note 1.4).

APPENDIX I

INFORMATION ON INVESTMENTS IN SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Group companies:

Company	Address	Country of residence	% shareholding 2016 Direct	% shareholding 2016 Indirect	% shareholding 2015 Direct	% shareholding 2015 Indirect
AnexaCapital, S.A.U.	Pº Constitución 4, Zaragoza	Spain	100.00%	-	100.00%	-
Asociación Técnica de Cajas de Ahorro, A.I.E. (in liquidation)	Pº de Isabel la Católica, 6, 7ª planta, Zaragoza	Spain	-	-	100.00%	-
Badajoz Siglo XXI, S.A.	Pº Fluvial, 15, Badajoz	Spain	100.00%	-	100.00%	-
CAI Inmuebles, S.A., (in liquidation)	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Caja Inmaculada Energía e Infraest., S.A.	Pº Constitución, 4, Zaragoza	Spain	100.00%	-	100.00%	-
Cajaragón, S.L.	Pza. Basilio Paraíso, 2, Zaragoza	Spain	75.00%	25.00%	75.00%	25.00%
Cartera de Inversiones Lusitania, S.L.	Pº Fluvial, 15, Badajoz	Spain	100.00%	-	100.00%	-
Cerro Goya, S.L.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	98.70%	1.30%	98.70%	1.30%
Cerro Murillo, S.A	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	99.77%	0.23%	99.77%	0.23%
Dopar Servicios, S.L.	C/ Juan de la Cierva, 23, Zaragoza	Spain	50.00%	7.50%	50.00%	7.50%
Enclama, S.L.	C/ Juan de la Cierva, 23, Zaragoza	Spain	50.00%	7.50%	50.00%	7.50%
Espacio Industrial Cronos, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Gedeco Zona Centro, S.L.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	-	100.00%	-	100.00%
Gestión de Inmuebles Salduvia (formerly Ibercaja Servicios Inmobiliarios, S.A.)	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	-	-	99.00%	1.00%
Grupo Alimentario Naturiber, S.A.	C/ Virgen Pilar Parcela 4, Fuenterroble de Salvatierra (Salamanca)	Spain	-	-	74.40%	-
Ibercaja Gestión de Inmuebles, S.A.	Pº Constitución, 10, entlo. izda., Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Gestión, S.G.I.I.C., S.A.	Pº Constitución, 4, 3ª planta, Zaragoza	Spain	99.80%	0.20%	99.80%	0.20%
Ibercaja Leasing y Financiación, S.A.	Pº Constitución, 4, 1ª planta, Zaragoza	Spain	99.80%	0.20%	99.80%	0.20%
Ibercaja Mediación de Seguros, S.A.	Pº Constitución, 4, 1ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Paticipaciones Empresariales, S.A.	Pº Constitución, 4, 4ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Patrimonios, S.A.	Pº Constitución, 4, 3ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Pensión, E.G.F.P., S.A.	Pº Constitución, 4, 8ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Viajes, S.A.	Pza. Basilio Paraíso, 2, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Vida, S.A.	Pº Constitución, 4, 8ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja, S.A.	Pza. Basilio Paraíso, 2, Zaragoza	Spain	100.00%	-	100.00%	-
Iberprofin, S.L.	Pº Constitución, 4, 4ª planta, Zaragoza	Spain	95.00%	5.00%	95.00%	5.00%
Inmobiliaria Impulso XXI, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Inmobinsa Inversiones Inmobiliarias, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	-	100.00%	-	100.00%
Mantenimiento de Promociones Urbanas, S.A.	Pº Sagasta, 4, Zaragoza	Spain	100.00%	-	100.00%	-
Residencial Murillo, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Servicios a Distancia IBD, S.L.	C/ Bari, 49, Zaragoza	Spain	95.00%	5.00%	95.00%	5.00%
Tipo Línea, S.A.	C/ Isla Mallorca, s/n, Zaragoza	Spain	100.00%	-	100.00%	-

Jointly-controlled entities:

Company	Address	Country of residence	% shareholding 2016 Direct	% shareholding 2016 Indirect	% shareholding 2015 Direct	% shareholding 2015 Indirect
Aramón Montañas de Aragón, S.A.	Pza. Aragón,1, Zaragoza	Spain	50.00%	-	50.00%	-
Ciudad del Corredor, S.L.	C/ Gran Vía, 15, Of. 1-3, Madrid	Spain	-	50.00%	-	50.00%
Corredor del Iregua, S.L.	Avda. Pío XXI, 1, Bajo, Logroño	Spain	-	50.00%	-	50.00%
Ibervalor Energía Aragonesa, S.A.	Pº Constitución, 4, Zaragoza	Spain	50.00%	-	50.00%	-
Montis Locare, S.L. (in liquidation)	Pza. Aragón, 11, Zaragoza	Spain	47.73%	-	47.73%	-
Promociones Palacete del Cerrillo, S.L.	Pº Castellana, 95, 18ª pta., Of. 18-24, Madrid	Spain	-	33.33%	-	33.33%

Associates:

Company	Address	Country of residence	% shareholding 2016 Direct	2016 Indirect	2015 Direct	2015 Indirect
Araven, S.L.	Pol. Ind. Malpica, C/ E, nº7, Zaragoza	Spain	-	50.00%	-	50.00%
C y E Badajoz Servicios Sociosanitarios, S.A.	Avda. Juan Carlos I, 17, entpta., Badajoz	Spain	33.00%	-	33.00%	-
CAI Seguros Generales, Seguros y Reaseguros, S.A.	Pº Constitución, 4, 2ª planta, Zaragoza	Spain	50.00%	-	50.00%	-
Capital Innovación y Crecimiento, S.A., S.C.R.	Pº Independencia, 32, 5ºC, Zaragoza	Spain	45.77%	-	45.77%	-
Centro de Transportes Aduana de Burgos, S.A.	Ctra. Madrid-Irún (Villafría), (KM 245), Burgos	Spain	25.45%	-	25.45%	-
Cerro de Mahí, S.L.	Pza. Roma, F-1, 1ª planta, of. 5, Zaragoza	Spain	-	33.33%	-	33.33%
Concessia Cartera y Gestión de Infraest., S.A.	C/ Severo Ochoa, 3, of 4B, Las Rozas Madrid	Spain	27.65%	-	27.65%	-
Districlima Zaragoza, S.L.	Avda. Ranillas, 107, Zaragoza	Spain	35.00%	-	35.00%	-
Europea Desarrollos Urbanos, S.L.	C/ Arturo Soria, 65, Madrid	Spain	-	20.00%	-	20.00%
Henneo (formerly Grupo Heraldo)	Pº Independencia, 29, Zaragoza	Spain	39.94%	-	39.94%	-
Inmourbe, F.I.I.F	Rua Ramalho Ortigao, 51, Lisbon	Portugal	-	-	-	32.78%
Liderazgo Inmobiliario de Aragón, S.A.	C/ Josefa Amar y Borbón, 1, Zaragoza	Spain	-	50.00%	-	50.00%
Mobart Circulo Participaciones, S.L.	Ctra. Madrid-Irún (Villafría), (KM 245), Burgos	Spain	50.00%	-	50.00%	-
Negio Constructora, S.A.	Avda. Diagonal Plaza, s/n, Zaragoza	Spain	-	-	-	20.00%
Nuevos Materiales de Construcción, S.A.	C/ San Norberto, 26, Madrid	Spain	21.93%	-	21.93%	-
Ocho17 Eficiencia Energética, S.L.	Pº Isabel la Católica, 6, Zaragoza	Spain	-	-	17.94%	2.42%
Plataforma Logística de Zaragoza, PLAZA, S.A.	Pº María Agustín, 36, Zaragoza	Spain	-	-	30.58%	-
Promopuerto 2006, S.L.	Pº Independencia, 4, 5ª pta., Zaragoza	Spain	-	45.70%	-	45.70%
Proyectos y Realizaciones Aragonesas de Montaña, Escalada y Senderismo, S.A.	Camino Molinos, 32, Zaragoza	Spain	31.28%	-	31.28%	-
Residencia Jardín Nuestra Sra. María Auxiliadora, S.A.	C/ Obispo Tobar, s/n. Tardajos (Burgos)	Spain	40.00%	-	40.00%	-
Rioja Nueva Economía, S.A.	Gran Vía Rey Juan Carlos I, 9, Logroño	Spain	42.55%	-	42.55%	-
Sociedad Gestora del Conjunto Paleontológico de Teruel, S.A.	Pol. Ind. Los Llanos, s/n, Teruel	Spain	23.41%	-	23.41%	-
Sociedad para la Promoción y Desarrollo Empresarial de Teruel, S.A.	C/ Los Enebros, 74, Teruel	Spain	22.16%	-	22.16%	-
Solavanti, S.L.	Avda. Academia Gral. Militar, 52, Zaragoza	Spain	-	20.00%	-	20.00%
Turolense del Viento, S.L.	C/ Los Enebros, 74, Ed. Galileo, 2ª planta, Teruel	Spain	-	20.00%	-	20.00%
Viacaias, S.L.	C/ Alcalá, 27, Madrid	Spain	19.30%	-	19.30%	-

APPENDIX II

FINANCIAL INFORMATION ON INVESTMENTS IN SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Group companies:

Company	Date financial statements	Contribution to consolidated profits		Contribution to consolidated reserves		Non-controlling interests	
		2016	2015	2016	2015	2016	2015
Agencia de Viajes de la Caja Badajoz, S.A.	-	-	(79)	-	79	-	-
AnexaCapital, S.A.U.	Dec-16	51	923	(3,523)	(4,133)	-	-
Asociación Técnica de Cajas de Ahorro, A.I.E. (in liquidation)	-	-	-	-	-		
Badajoz Siglo XXI	Dec-16	(1,955)	(1,002)	(12,490)	(11,488)	-	-
CAI Inmuebles, S.A., (in liquidation)	Dec-16	1,804	(454)	(176,848)	(173,197)	-	-
Caja 3 Gestión, S.A.	-	-	(55)	-	55	-	-
Caja Inmaculada Energía e Infraestructuras, S.A.	Dec-16	117	(420)	(175)	418	-	-
Cajaragón, S.L.	Dec-16	-	-	(2)	(2)	-	-
Cartera de Inversiones Lusitania, S.L.	Dec-16	(274)	(745)	(177)	568	-	-
Cerro Goya, S.L.	Dec-16	(1,352)	(1,476)	(7,865)	(6,385)	-	-
Cerro Murillo, S.A	Dec-16	(38,435)	(43,456)	385,214	429,200	-	-
Dopar Servicios, S.L.	Dec-16	3	(14)	120	135	91	98
Enclama, S.L.	Dec-16	36	71	256	185	216	198
Espacio Industrial Cronos, S.A.	Dec-16	(111)	28	(10,061)	(7,619)	-	-
Gedeco Zona Centro, S.L.	Dec-16	(239)	84	(18,903)	(18,988)	-	-
Gestión de Inmuebles Salduvia (formerly Ibercaja Servicios Inmobiliarios, S.A.)	Dec-16	(281)	706	281	378	-	-
Grupo Alimentario Naturiber, S.A.	Dec-16	102	(345)	(138)	(6,031)	-	813
Ibercaja, S.A.	Dec-16	(121)	22	(23,930)	(23,783)	-	-
Ibercaja Banco, S.A.	Dec-16	(3,527)	25,225	(31,188)	(342,796)	-	-
Ibercaja Gestión, S.A.	Dec-16	36,194	32,181	45,483	45,483	-	-
Ibercaja Gestión de Inmuebles, S.A.	Dec-16	47	4	44	40	-	-
Ibercaja Leasing y Financiación, S.A.	Dec-16	428	2,290	18,768	16,707	-	-
Ibercaja Mediación de Seguros, S.A.	Dec-16	22,050	20,507	39,390	39,390	-	-
Ibercaja Paticipaciones Empresariales, S.A.	Dec-16	62	45	55	53	-	-
Ibercaja Patrimonios, S.A.	Dec-16	2,200	1,148	2,189	2,074	-	-
Ibercaja Pensión, S.A.	Dec-16	11,304	11,256	24,400	24,400	-	-
Ibercaja Viajes, S.A.	Dec-16	34	(9)	480	489	-	-
Ibercaja Vida, S.A.	Dec-16	144,316	90,227	209,834	365,154	-	-
Iberprofin, S.L.	Dec-16	68	56	25	25	-	-
Inmobiliaria Impulso XXI, S.A.	Dec-16	(45)	124	(27,388)	(27,512)	-	-
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-16	1,345	873	31,816	30,822	-	-
Mantenimiento de Promociones Urbanas, S.A.	Dec-16	74	49	223	222	-	-
Radio Huesca, S.A.	-	-	6	-	(1)	-	-
Residencial Murillo, S.A.	Dec-16	(42,153)	(51,342)	82,416	133,927	-	-
Servicios a Distancia IBD, S.L.	Dec-16	182	189	71	52	-	-
Telehuesca, S.L.	-	-	(3)	-	3	-	-
Tipo Línea, S.A.	Dec-16	(728)	(242)	1,028	1,253	-	-
Viajes Caja Círculo, S.A.	-	-	(71)	-	71	-	-

Company	Date financial statements	Financial information					
		2016			2015		
		Capital	Reserves and val. adj.	Profit/(loss)	Capital	Reserves and val. adj.	Profit/(loss)
Agencia de Viajes de la Caja Badajoz, S.A.	-	-	-	-	-	98	(98)
AnexaCapital, S.A.U.	Dec-16	18,293	558	941	18,293	1,829	(1,272)
Asociación Técnica de Cajas de Ahorro, A.I.E. (in liquidation)	-	-	-	-	100	-	-
Badajoz Siglo XXI	Dec-16	40,950	1,160	(1,955)	40,950	(11,488)	(1,002)
CAI Inmuebles, S.A., (in liquidation)	Dec-16	64	(203,711)	7,564	64	(203,181)	(530)
Caja 3 Gestión, S.A.	-	-	-	-	-	138	(138)
Caja Inmaculada Energía e Infraestructuras, S.A.	Dec-16	1,154	9,506	14	1,154	55	(126)
Cajaragón, S.L.	Dec-16	4	(2)	-	4	(2)	-
Cartera de Inversiones Lusitania, S.L.	Dec-16	16,814	(1,555)	(1,959)	16,814	568	(745)
Cerro Goya, S.L.	Dec-16	13,503	(4,013)	(4,468)	13,503	(3,644)	(370)
Cerro Murillo, S.A	Dec-16	98,354	218	(75,836)	155,775	(124)	(57,286)
Dopar Servicios, S.L.	Dec-16	20	209	5	20	234	(25)
Enclama, S.L.	Dec-16	20	446	63	20	322	124
Espacio Industrial Cronos, S.A.	Dec-16	28	(9,340)	2	28	(10,163)	823
Gedeco Zona Centro, S.L.	Dec-16	7,185	(14,423)	(342)	7,185	(18,988)	85
Gestión de Inmuebles Salduvia (formerly Ibercaja Servicios Inmobiliarios, S.A.)	Dec-16	-	281	(281)	60	378	705
Grupo Alimentario Naturiber, S.A.	Dec-16	-	(273)	273	12,217	(7,279)	(237)
Ibercaja, S.A.	Dec-16	73,715	(22,778)	(204)	73,715	(22,443)	273
Ibercaja Banco, S.A.	Dec-16	2,144,276	394,214	189,809	2,144,276	226,960	46,869
Ibercaja Gestión, S.A.	Dec-16	2,705	51,309	36,268	2,705	45,483	32,181
Ibercaja Gestión de Inmuebles, S.A.	Dec-16	120	44	47	120	40	4
Ibercaja Leasing y Financiación, S.A.	Dec-16	3,006	16,746	1,950	3,006	15,219	1,527
Ibercaja Mediación de Seguros, S.A.	Dec-16	60	39,347	22,086	60	39,390	20,489
Ibercaja Paticipaciones Empresariales, S.A.	Dec-16	150	55	89	150	53	45
Ibercaja Patrimonios, S.A.	Dec-16	4,417	2,612	2,204	4,417	2,074	1,148
Ibercaja Pensión, S.A.	Dec-16	11,010	26,138	11,324	11,010	24,400	11,253
Ibercaja Viajes, S.A.	Dec-16	94	480	34	94	489	(9)
Ibercaja Vida, S.A.	Dec-16	135,065	170,575	146,099	105,065	352,705	89,979
Iberprofin, S.L.	Dec-16	50	25	68	50	25	56
Inmobiliaria Impulso XXI, S.A.	Dec-16	18,000	(27,388)	(64)	18,000	(27,512)	124
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-16	40,051	25,998	1,044	40,051	25,513	539
Mantenimiento de Promociones Urbanas, S.A.	Dec-16	65	223	74	65	222	49
Radio Huesca, S.A.	-	-	-	-	-	(1)	1
Residencial Murillo, S.A.	Dec-16	132,012	(99,724)	(18,155)	132,012	(39,037)	(60,687)
Servicios a Distancia IBD, S.L.	Dec-16	480	71	182	480	52	189
Telehuesca, S.L.	-	-	-	-	-	3	(3)
Tipo Línea, S.A.	Dec-16	120	1,028	(134)	120	1,253	(225)
Viajes Caja Círculo, S.A.	-	-	-	-	-	95	(95)

Jointly-controlled entities:

Company	Date financial statements	Contribution to consolidated profits		Contribution to consolidated reserves		Value of shareholding	
		2016	2015	2016	2015	2016	2015
Aramón Montañas de Aragón, S.A. (*)	Sept-16	(758)	(4,310)	(27,371)	(23,061)	29,029	29,787
Other companies		(379)	(233)	(19,079)	(18,836)	655	1,132

(*) The financial information for this company relates to the date indicated except in relation to the contribution to estimated consolidated results at 31 December 2016.

	Thousand euro			
	Financial information			
	2016		2015	
Company	Aramon, Montañas de Aragón, S.A.	Other	Aramon, Montañas de Aragón, S.A.	Other
Current assets	3,369	-	4,599	-
Non-current assets	142,554	-	151,369	-
Cash and cash equivalents	612	-	640	-
Current liabilities	9,822	-	68,937	-
Non-current liabilities	57,093	-	5,403	-
Current financial liabilities	5,279	-	62,841	-
Non-current financial liabilities	54,521	-	1,322	-
Revenue	36,659	-	33,252	-
Dividends paid	-	-	-	-
Total recognised income and expenses	(2,628)	(1,109)	(9,285)	(700)
Profit/(loss) from ordinary activities	(2,599)	(1,109)	*(9,560)*	*(700)*
Profit/(loss) after tax from discontinued operations	-	-	-	-
Other recognised income and expenses	(29)	-	*275*	-
Depreciation	1,171	-	(4,366)	-
Amortisation	12,169	-	12,388	-
Interest income	17	-	8	-
Interest expense	2,794	-	3,091	-
Corporate income tax expense/(income)	77	-	107	-

Associates:

Company	Date financial statements	Contribution to consolidated profits		Contribution to consolidated reserves		Value of shareholding	
		2016	2015	2016	2015	2016	2015
Concessia Cartera y Gestión de Infraestructuras, S.A. (**)	Sept-16 (*)	(945)	(525)	2,202	2,835	14,012	15,371
Henneo (formerly Grupo Heraldo) (**)	Dec-16 (*)	173	(613)	5,126	5,709	36,651	36,826
Other companies		13,610	3,503	(24,333)	(30,237)	55,451	52,020

(*) The financial information for this company relates to the date indicated except in relation to the contribution to estimated consolidated results at 31 December 2016.
(**) Latest available unaudited data.

	Thousand euro					
	Financial information					
	2016			2015		
Company	Concessia Cartera y Gestión de Infraest. , S.A.	Henneo (formerly Grupo Heraldo)	Other	Concessia Cartera y Gestión de Infraest. , S.A.	Henneo (formerly Grupo Heraldo)	Other
Current assets	14,742	51,804	-	11,792	48,373	-
Non-current assets	41,872	66,035	-	67,999	68,551	-
Current liabilities	221	21,683	-	1,320	22,975	
Non-current liabilities	1,000	22,964	-	23,342	21,846	-
Revenue	937	59,919	-	3,310	109,243	-
Dividends paid	-	-	-	-	-	-
Total recognised income and expenses	485	956	62,816	2,242	(511)	3,945
Profit/(loss) from ordinary activities	485	956	62,816	*2,242*	*(511)*	*3,945*
Profit/(loss) after tax from discontinued operations	-	-	-	-	-	-
Other recognised income and expenses	-	-	-	-	-	-

APPENDIX III

ANNUAL BANKING REPORT

On 27 June 2014 the Official State Gazette published Law 10/2014 on the organisation, supervision and solvency of credit institutions, which transposed Article 89 of European Parliament and Council Directive 2013/36/EU of 26 June 2013 relating to access to the business of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC (CRD IV) and repealing Directives 2006/48/EC and 2006/49/EC.

In compliance with Article 87 of Transitional Provision 12 of Law 10/2014, credit institutions are required to publish as an appendix to the audited financial statements, specifying by country in which they operate, the following information on a consolidated basis for the last completed financial year:

a) Name, nature and geographical location of the activity.
b) Business volume.
c) Number of equivalent full time employees
d) Gross profit/(loss) before taxes.
e) Corporate income tax
f) Grants or public aid received.

Therefore, the above-mentioned information is set out below:

a) Name, nature and geographical location of the activity.

Ibercaja Banco is a credit institution. Its registered office is located at Plaza de Basilio Paraíso 2 and it is entered in the Mercantile Register of Zaragoza, volume 3865, book 0,sheet 1, page Z-52186, entry 1, and the Bank of Spain Special Register, under number 2085. Its corporate webpage (electronic head office) is www.ibercaja.es, where its bylaws and other public information can be accessed.

Ibercaja Banco, S.A. engages in the banking business and is subject to the standards and regulations governing banking institutions operating in Spain.

In addition to the operations carried out directly, the Bank is the parent of a group of dependent entities that engage in various activities and together with it, make up the Ibercaja Banco Group. The Bank is therefore required to draw up the Group's consolidated annul accounts, as well as its own annual accounts.

The consolidated Group carries out all its activity in Spain.

b) Business volume.

Information on consolidated business volume is as follows, by country. Business volume has been regarded as gross income, as reflected in the Group's consolidated income statement at the end of 2016:

	Thousand euro
	31/12/2016
Spain	1,129,774
	1,129,774

c) Number of equivalent full time employees

Equivalent full time employees by country are as follows at end-2016:

	Thousand euro
	31/12/2016
Spain	5,891
	5,891

d) Gross profit before taxes.

	Thousand euro
	31/12/2016
Spain	70,770
	70,770

e) Corporate income tax

	Thousand euro
	31/12/2016
Spain	(72,292)
	(72,292)

f) Grants or public aid received.

No grants or public aid have been received by Ibercaja Banco, S.A. or any Group company during 2016.

Other information

The return on the Group's assets during the year calculated as net income dividend by the total balance sheet is 0.25%.

Ibercaja Banco, S.A.
and subsidiaries

Consolidated Directors' Report
for 2016

Ibercaja Banco, S.A. and subsidiaries

Consolidated Directors' Report for 2016

SECTION I: DIRECTORS' REPORT

Content

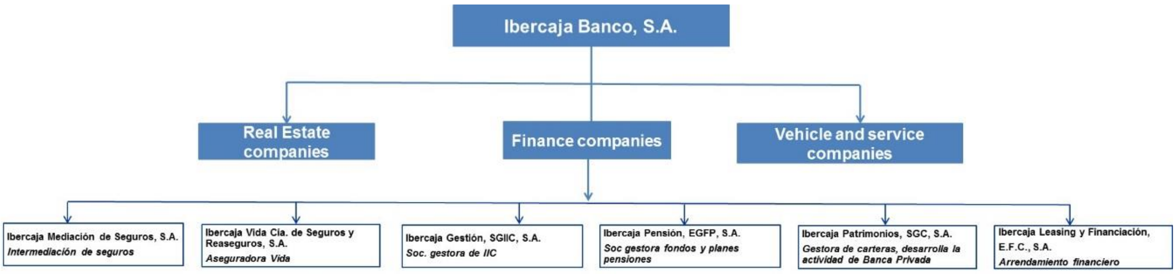
1. <u>The Ibercaja Group: current situation</u>

1.1. Description and organisational structure

Ibercaja Banco Group primarily engages in retail banking and carries out practically all of its business in Spain. Its corporate purpose is the performance of all types of activities, operations, actions, contracts and services relating to the banking business in general and which are allowed by current legislation at any given moment, including the rendering of investment and auxiliary services.

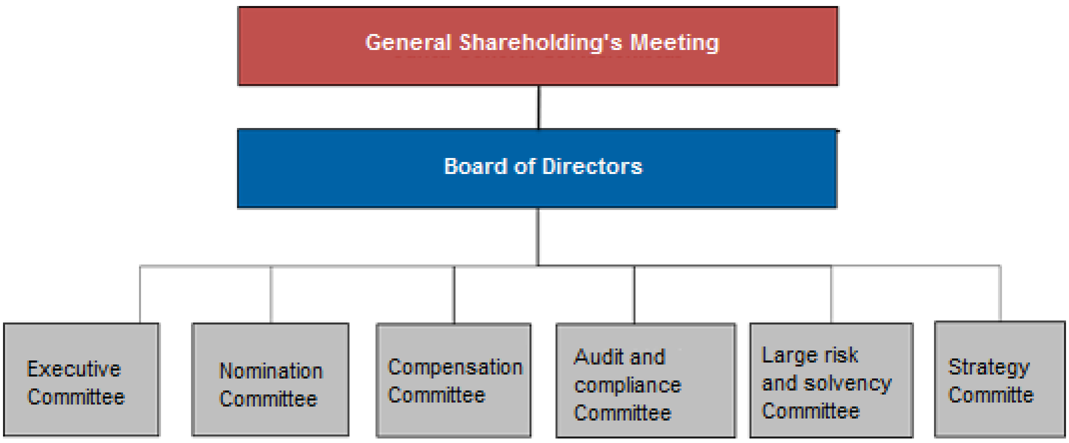
From an organisational standpoint, the Bank is the head of a group of subsidiaries, notably those of the Financial Group, which consists of companies specializing in investment funds, savings and bancassurance, wealth management and operating and finance leases, due to their importance from the standpoint of banking product diversification and profitability.

The most relevant companies within the scope of consolidation are as follows:



1.2. Corporate governance

Ibercaja Banco's governance model consists of the General Shareholders' Meeting and the Board of Directors, which has six sub-committees.



The Ibercaja Group's governing bodies, their composition and their internal rules are regulated by the By-laws and the Board of Directors' Regulations, the content of which is in line with Law 10/2014 (26 June) on the organisation, supervision and solvency of credit institutions, Royal Decree-Law 1/2010 (2 July) approving the revised Spanish Companies Act (as worded in Law 31/2014) and the Unified Code of Good Governance.

The **General Shareholders' Meeting** is the maximum decision-making body at the Entity and its resolutions are mandatory for the Board of Directors. The General Meeting has the broadest of authorities to govern the Entity and may validly adopt resolutions regarding any matters submitted for deliberation, in accordance with the law and the bylaws.

The **Board of Directors** has the broadest of authorities to manage, administer and represent the company and, except with respect to those matters reserved for the authority of the General Meeting, it is the highest decision-making body at the Bank. The Board has six committees: Executive, Nominations, Compensation, Audit and Compliance, Large risk and Solvency, and Strategy.

Executive Committee

The permanent delegation of Board authority to the Executive Committee covers all such authorities, except for those that cannot be delegated in accordance with the law or the bylaws, or with the Board Regulations.

Nominations Committee

The Nominations Committee is responsible for proposing nominations to the Board of Directors. It is specifically responsible for: evaluating the suitability of directors, establishing a target for the gender less represented on the Board and make, together with shareholders at a general meeting, proposals for the nomination, re-election or removal of independent directors, inform regarding the proposals to nominate or remove senior executives and persons with key duties, the basic conditions of their contracts and to examine and organise the succession of the Board chairman and the CEO.

Compensation Committee

The Compensation Committee has the duty of reporting, advising and proposing matters regarding compensation for directors, executives and similar personnel, as well as for the persons whose professional activity has a significant impact on the Entity's risk profile.

Audit and Compliance Committee

The Committee's duties are expressly stipulated in the Board of Directors Regulations. In particular: inform the general meeting regarding any matters raised by shareholders with respect to areas under its authority, supervise the effectiveness of the Entity's internal control, internal audit and risk management systems, including tax risks, supervise the process of preparing and presenting regulated financial information, propose the designation or re-election of the auditor, establish the appropriate relationships with the external auditor to receive information regarding its independence and receive annual information from the external auditor confirming its independence with respect to the entity or its group and issue the relevant report.

Large Risk and Solvency Committee

The Committee has the primary duty of advising the Board as to the overall current and future risk appetite of the Entity and its Group, and the strategy in this respect. It also assists the Board with supervising the application of that strategy by senior management by monitoring the Bank's solvency levels and proposing any action deemed appropriate for improvement.

Strategy Committee

The Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organization for its implementation. During 2016 this Committee regularly monitored the Strategic Plan approved by the Board of Directors, which is of great importance for the adequate management of the Entity in the medium and long-term. It also implemented quarterly follow-up measures regarding the development of the budget and the specific implementation of the mandates set out in the Strategic Plan, reporting the conclusions obtained to the Board of Directors.

Control functions

The Group has an internal control system addressing the financial and operating risks that form part of its activities. The Risk Control Unit verifies compliance with the risk limits approved by the Board of Directors and the Regulatory Compliance Unit supervises observance of the laws and govern the Group's business. Ibercaja also has an Internal Audit Unit that reviews the proper operation of the risk control systems, verifying compliance with established policies, procedures and standards. The Audit and Compliance Committee supervises the effectiveness of internal audit and control as well as the risk management systems.

The Memorandum on Rules of Conduct and Operational Security is applicable to all the employees and contains a summary of the rules, activities and criteria that must be considered. The Audit and Compliance Committee is responsible for approving updates and improvements, as well as for receiving information on any behaviour that violates the Bank's rules, principles and values.

1.3. Business model and Strategic Plan 2015-2017

The Group has €57,176 million in assets and it is the eighth largest entity by asset volume in the Spanish banking system. It primarily engages in retail banking, focusing on the financing of families and SMEs, savings management and other financial services. At the national level the Group has a 2.8% market share in loans, 3.5% in retail customers and 3.0% in deposits.

The Bank is well positioned in its traditional locations (Aragón, La Rioja, Guadalajara, Burgos and Badajoz), which account for 64% of its network and 60% of business volume. It also has significant operations in other areas that are highly significant from an economic viewpoint: Madrid and the Mediterranean coast. The Group has a share of 15% or more in six Spanish provinces. At December 2016, the network comprises 1,248 branches, five of which are company business centres, and a representative office in Lisbon. The Group has 5,895 employees.

Ibercaja is committed to a full-service banking model focused on the retail business and based on service quality and innovation. It has a stable base of 2.8 million customers, comprising families, companies and public and private institutions. There are specific channels and distinctive products tailored to each customer segment. Ibercaja complements its traditional banking services with products marketed through its Financial Group specialised in investment funds, pension plans, insurance, leasing and contract hire, and private banking services.

Strategic Plan 2015-2017 was presented in February 2015 to drive a profitable and competitive business in an increasingly demanding market, so as to create value and appeal to customers and investors in the planned stock market flotation process. Its objectives are to maximise solvency and profitability, increasing recurring revenue and cutting costs to obtain a diversified set of profitability improvement sources, build a business project recognised for its good governance, reputation and transparency, inspiring the greatest possible trust in customers and society, and increase the market share in lending and funds through growth in the strategic business lines.

Under the Plan, relevant milestones were achieved during the year, including the launch of territorial development plans, the strategic partnership with Microsoft, an agreement with a specialised operator to reduce problematic assets, launch of a renewed customer relations model and a new internal approach to leadership and team management.

As regards the outlook for 2017, persistently very low interest rates make it necessary to press on with the change of business model to focus increasingly on higher value added services that improve both customer satisfaction and business profitability. Priorities will also include the digital transformation, in view of the cultural change taking place in Spanish society and the arrival of new competitors, the FinTech companies, which are highly dynamic and technologically prepared, aspiring to take a market share of their own.

The Group has the following business lines:

Personal Banking

Personal banking is a fundamental pillar of the Group's business model. It manages 2.6 million customers that provide 84% of the business volume, including family, personal, and private banking segments.

Domestic economies represent the highest percentages of funds managed and loans and receivables. The branch network is managed to win new customers and consolidate ties with existing customers, developing attractive proposals tailored to specific needs, based on the family's circumstances and income.

The network structure includes full-service branches and branches that provide personalised services, specific business centre services and private banking services. Segmentation of the so-called “Oficinas+” and “Agro” was completed during the year. Corporate banking and personal banking specialists provide support for the network through a value added service.

Personal banking is one of the segments showing the most potential to generate volumes and results. This area serves over 170,000 customers with an average level of financial assets under a model in which a personal manager proposes financial planning, advises on investments and provides detailed information on the products and services that best meet the customer's needs. The Financial Group performs a key role in product design, as well as training managers and advising on investments in the private banking area. In 2016, the personal banking management model was deployed to ex-Caja3 customers.

Ibercaja Patrimonios SGC, S.A. is the portfolio management company responsible for the Group's private banking business. It proposes investments to customers with a high volume of financial assets, providing a specialised, personalised, quality service. Customers are advised by a personal manager and have access to all kinds of financial assets. The commercial structure consists of nine branches. Strategic Plan 2015-2017 includes the full integration of the private banking subsidiary into Ibercaja Banco so as to leverage synergies with Personal Banking and Corporate Banking, make better use of material and human resources, and stimulate competitiveness in a key business segment.

Business banking

Business development for companies, particularly SMEs, is one of the “Plan+” priorities. The purpose is to improve the Group's positioning in this business sector while providing companies with personalised services meeting all their needs. There is a specific business banking unit formed by 191 managers serving businesses with higher volumes and more complex operations. They are supported by 301 branch managers whose customers form a critical mass of SMEs.

The main milestones during the year are the opening of new specialised business centres and the presentation of a renewed “Plan+ Empresas”. Since February 2016, five company business centres have been opened in Zaragoza, Madrid, Valencia and Barcelona targeting customers with high volumes of turnover. In September, the “Plan+ Empresas” was updated for 2017-2018 with the aim of consolidating Ibercaja's position as a reference among financial institutions for SMEs and companies. Lending is forecast to grow by €2,000 million in the next two years.

Asset management

The Financial group was created in 1988 and is wholly owned by Ibercaja. It consists of companies specializing in investment funds, savings plans and pensions, bancassurance, asset management and finance and operating leases. A capacity for innovation and specialized offers place it in a notable position among Spanish financial institutions. Its products are intended for both individuals and companies and are marketed through the branch office network, supplementing the Entity's banking services.

CIU management

Ibercaja Gestión, SGIIC, S.A. is the company responsible for managing the Group’s Collective Investment Undertakings (CIU).

At end-2016, it manages assets totalling €10,403 million, which is 20.39% up on the previous year. This growth rate is the highest of the 10 largest domestic investment fund managers. The Group’s market share in funds managed or marketed stands at 4.46%, having risen by 40 basis points. This has consolidated Ibercaja's eighth position in the industry ranking.

The determined strategic commitment to asset management and the work performed by the branch network have contributed towards this growth. Ibercaja is ranked second in terms of contributions during the year. They exceeded €1,600 million, which represents 12% of funds captured in the sector, well above Ibercaja’s market share.

The management company has 67 investment funds that are adapted to any market situation and to any investor. The product range has been increased by two new equity funds and four guaranteed fixed income funds. Ibercaja also manages 14 SICAVs.

Pension plan management

Ibercaja Pensión, EGFP, S.A. is the Group company engaged in managing different kinds of pension plans.

Assets managed in company or personal plans amounted to €6,148 million at year-end 2016. This reflects growth of 3.67%, which is above the rate achieved by the industry as a whole in Spain. The Entity is ranked fifth with a market share of 5.76% or nine basis points above the figure for 2015, with 284,600 plan members.

Savings managed in personal plans amount to €2,092 million, having risen by 5.79% to achieve a market share of 2.97%. Contributions performed at an excellent level during the year, growing by 14.53%.

Assets in company plans amount to €4,056 million, 2.61% up on 2015. The Entity is ranked third in the Spanish market with a share of 11.48%, 37 basis points above the previous year. The 71,373 members work for leading companies and public administrations throughout Spain.

Insurance business

The Group’s insurance business is carried out through several companies that operate in life and non-life lines of business.

Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U. focuses on investment savings insurance and life-risk insurance for distribution through the branch network. It generates over 50% of the Financial Group’s results and has a product range that includes systematic savings policies, investment savings plans, lifetime and temporary annuities, individual systematic saving plans (PIAS), long-term individual savings policies (SIALP), insured pension plans and other products. The activities are completed by the assurance of pension commitments externalised by companies.

Technical reserves amounting to €6,595 million have risen by 8.69% and the market share has increased by 9 basis points to reach 3.71%. The insurance company is ranked six in the industry. The volume of premiums collected amounted to €1,328 million, having increased by 34.15%, bringing the market share to 4.27%, while the number of policies exceeds 900,000 following 5.66% year-on-year growth.

Ibercaja Mediación de Seguros, S.A.U. is engaged in general insurance brokerage. It markets risk insurance for individuals and companies through the branch network. Premiums written total €242 million, 6.55% up on end-2015, under 1,078,520 policies. This sound progress is attributable to the work carried out by Ibercaja's branch network, the strategy of diversification into types of insurance that meet customers' new needs, the distribution agreement with Caser and the development of the Risk Project in association with Ibercaja Vida to foment the marketing of life-risk insurance.

Other business lines

The capital market area's activities are designed to assure the availability of liquid funds in the balance sheet, manage portfolios of fixed-income and equity instruments to diversify sources of net interest income, and supplement revenue from the retail business. It also plans issues and buy-backs of securities, and arranges hedges for structured deposits, among other activities.

The Group has business interests in several sectors, including tourism, real estate, media, logistics and services. Its equity investments, historically limited, are made to support the productive fabric, preferable SMEs, through projects that help to create wealth and employment in the Entity's areas of influence, as well as to diversify the Group's revenue sources.

The Entity has a plan to optimise the management and profitability of its equity interests by reducing exposure and adapting the portfolio's volume to the Group's size. During 2016, Ibercaja implemented an active policy of divestment in non-strategic equity interests and as well as in consolidated projects that had reached a sufficient level of development and autonomy.

2. Business performance and results

2.1. Economic and financial environment

The global economy grew by nearly 3% in 2016, which was very similar to 2015. The moderate pace in the more developed countries was accompanied by more activity in the emerging economies.

In the United States, the GDP is estimated to have risen 1.6% year-on-year, favoured by growth in domestic consumptions thanks to job creation. The outcome of the presidential elections caused an unexpected reaction in the markets, anticipating the acceleration of the economic cycle due to the announcement of plans for infrastructures investment and tax cuts.

In Japan, the yen's depreciation drove external demand, offsetting weak private consumption and investment, which reacted very timidly to the government's package of incentives and to the attractive financing terms brought by the BoJ's policy.

The European Commission forecasts 1.7% growth in the Eurozone for 2016. The effects of the uncertainty caused by episodes such as Brexit, Italy's constitutional referendum and imminent elections in countries forming the core of the Union were very limited. Internal demand and, in particular, private consumption continue to be the basis of the recovery, bolstered by positive employment figures and favourable terms of financing.

In March, the ECB cut the reference rate to 0% and the deposit facility rate to -0.4% so as to use all the instruments within its reach to boost the recovery. In parallel, four new long-term funding operations were announced, between June 2016 and March 2017, with a four-year maturity and an interest rate which, under certain conditions, may be equivalent to the deposit facility rate. Simultaneously, the asset purchase programme (APP) was extended to corporate bonds (CSPP). In the last meeting held in December, the European authority ratified its monetary policy, which it expects to continue for a long period of time, and reduced the volume of asset purchases to €60,000 million per month as from April.

There was a shift in the debt markets towards higher yields in long-term instruments towards the end of the year. The yield on the German 10-year bond was no longer negative and the yield on the Spanish bond rose by over 30 bps as from September.

The stock markets became highly volatile as a result of events such as the fall in the price of crude, economic doubts in China, the United Kingdom's decision to leave the European Union and the unexpected outcome of the US elections. However, against all odds, they ended the year very positively. Expectations generated by the arrival of the new administration in the USA stimulated the main US and European indices. The Dow Jones reach all time-highs, the FTSE 100 rose 14.43%, the Dax Xetra by 6.87% and the CAC 40 by 4.86%. The selective Spanish index was an exception, having fallen for the second year running (2.01%).

Spain's economy exceeded forecasts made at the start of the year, successfully overcoming the effects of the political impasse. The GDP grew 3.2% in 2016. This favourable figure is explained basically by an expansive monetary policy, deleveraging by private agents and competitiveness in foreign trade.

Private consumption showed considerable vigour, having risen by nearly 3% thanks to the job market recovery. In turn, investment continued to perform well, having grown by around 5% in capital goods and at a more modest, though also positive, pace in construction.

The contribution from foreign trade to GDP growth rose due the upturn in exports, favoured by improvements in competitiveness and the depreciation of the euro, while imports did not yet fully reflect the escalation in crude prices from the minimum levels in January.

Employment data reflect the increased pace of economic growth. Social security affiliates reached nearly 17,850,000 at the end of December, 541,000 up on the previous year, involving all sectors but particularly services. Unemployment, though high, fell to 18.63%, impacting all economic activities.

The Consumer Price Index for December showed a year-on-year rise of 1.6%. The marked, sharp upturn after more than three years in the negative zone is explained by dynamic consumption and the increase in energy product prices.

The public sector deficit, in the absence of the final data, is highly likely to hit the forecast target of 4.6%, the highest among EU countries. Healthy consumption caused a notable increase in tax revenues, particularly VAT. This, combine with amendments to income tax legislation and the increase in excise duties, will make a decisive contribution to achieving the target set by the European authorities for the year that just ended.

Spain's banking sector faced a complicated year when the main challenges were to preserve profitability and adapt to new regulatory requirements. On the positive side, there was a reduction delinquency thanks to the improved macroeconomic conditions, balance sheets were progressively cleaned up and capital ratios became more solid following the recapitalisation process in previous years.

Expectations for lending at the start of the year were not met, the year-on-year fall amounting to 4.02%. Only consumer financing achieved a positive growth rate. Credit for productive activities felt the decline in the volume granted to large companies, deleveraging in the real estate sector and moderate growth in financing for SMEs. Home loans were still insufficient to offset repayments on the housing stock.

Low interest rates and increased competition due to abundant liquidity and weak lending caused spreads and the net interest margin to shrink. The virtually generalised reaction from Banks was to focus on personal and private banking services.

Following the restructuring of the banking system caused by the economic and financial crisis, the number of players has declined but adjustments to networks and workforces continue. Entities seek to cut operating costs and gain efficiency with a lighter structure. Major efforts are also in progress to drive technological changes.

Doubtful loans performed favourably. The system’s NPL ratio fell by 102 bps during the year to 9.18%, although the entry into force of Annex IX to Circular 4/2016 halted this trend in the final quarter. Real estate assets in the balance sheet decreased somewhat but are still a considerable burden for balance sheet profitability.

As regards regulations, in January the bail-in provisions and MREL or Minimum Requirement for Eligible Liabilities came into force. In July, the European Banking Authority (EBA) announced the findings of a new stress test to assess the resilience of European banks tin adverse situations. The findings were the basis for the SREP decision that has brought changes into capital requirements, creating two levels, one mandatory and the other as a supervisor recommendation. In October, Annex IX of Bank of Spain Circular 4/2016 came into force as a step prior to implementing IFRS 9. The Circular introduced changes in the classification of operations based on credit risk, provision calculation, estimation in provision calculation and aspects related to bank governance, particularly the supervision of risk management policies. Finally, in November the European Commission presented a new package of proposals for European banking legislative reform and harmonisation.

2.2. Most relevant aspects for the period in the Ibercaja Group

Results for the year ratify the sound performance of the retail business thanks to intense commercial activity to achieve the Strategic Plan objectives, strengthen Ibercaja's position in the asset management industry, defend margins, offset the impact of low interest rates and contain costs. This may be summarised as follows:

- The Group bolstered solvency with a fully-loaded CET1 ratio of 10.17%, which is 43 bps above the ratio for December 2015. This improvement is explained by organic capital generation through results and balance sheet optimisation. The phased-in CET1 ratio stood at 12%, following the early redemption of €163 million in contingent convertible bonds. Both levels easily exceed the SREP 2016 minimum requirement.

- New financing for SMEs and consumers was dynamic, in line with the aim of diversifying the portfolio to win market share in the Group's key strategic segments. Lending to companies rose by 21% year-on-year, entailing a 9.41% rise in financing for non-real estate productive activities.

- A more profitable mix was achieved as retail deposits grew. Off-balance-sheet products and demand deposits increased to the detriment of traditional term deposits. The growth in assets managed in investment funds was well above the industry average, indicating that the Group's management company is well perceived by customers and is becoming a reference in the Spanish market.

- The pace of new non-performing loans, after eliminating extraordinary movements caused by the new regulations, fell on the previous year in all segments. In turn, the stock of repossessed assets decreased due both to fewer additions and a higher volume of sales. The reorganisation of the property group resulted in the transfer of the property servicing subsidiary to Aktua. The purpose of this operation was to speed up the disposal of unproductive balance sheet assets so as to devote the freed resources to lending.

- The Group has a large buffer of liquid assets which exceeds 16.60% of the balance sheet. The LtD ratio is below 100%, reflecting the balance achieved between retail lending and deposits.

- Ibercaja repaid in advance, after obtaining the required ECB authorisation, €163 million or 40% of the CoCo bonds issued by Caja3 and subscribed by the FROB in 2013. Payment was made without recourse to new sources of capital due to the comfortable solvency position and compliance with the regulator's parameters.

- Low interest rates, investor backing for the Group's project and market perception of its solvency assured the successful issuance of €500 million in mortgage covered bonds at a very low cost, demand having nearly doubled supply.

- The ECB announced the definitive results of the Supervisory Review and Evaluation Process (SREP) that determines each bank's individual capital needs for 2017 on the basis of its business model, capital risk, liquidity risk, governance and internal control. The Pillar 2 requirement applicable to Ibercaja is 1.5%, one of the lowest in the Spanish banking system, reflecting the Group's prudent risk acceptance and the alignment of its management structures with best practices in corporate governance.

- From a regulatory viewpoint, adaptation to Bank of Spain Circular 4/2016, which amends Annex IX, has entailed changes to the classification of operations and estimation of provisions.

- Net profit totalled €143 million, 70% up on the previous year, which is an indication of the Bank's capacity to generate results in an unfavourable environment.

- Launch of “Plan+ Madrid”, “Plan+ Levante” and “Plan+ Burgos”. These plans are designed to increase the business volume in key regions. The SME and personal and private banking segments are a priority for achieving the targets defined. The increases in business volume targeted in the three plans total €5,800 million.

- An agreement has been entered into with Microsoft under which the technology company is the Bank’s partner of reference in its digital transformation process. The arrangement has a three-year term and seeks to make business management more dynamic, enhance customer experience and, as a result, boost satisfaction and loyalty. It will also bring a reduction in operating costs and an increase in productivity, while assuring the highest information security and privacy standards.

- Renewal of the EFQM 500+ European Seal of Excellence granted by the CEG (club for excellence in management) and the European Foundation for Quality Management (EFQM), which was first awarded to the Bank in 2007. This renewal certifies a high level of excellence in the management model, quality leadership and a focus on continuous improvement.

2.3. Analysis of balance sheet highlights

Consolidated balance sheet highlights:

	€ million			% change
	31/12/2016	31/12/2015	Change	
Cash and credit institutions	1,476	1,339	137	10.24
Loans and advances to customers (net)	32,947	32,791	156	0.47
Financial assets held for trading	18,810	20,591	(1,782)	(8.65)
Tangible assets	1,092	1,164	(71)	(6.13)
Intangible assets	199	204	(5)	(2.33)
Other assets	2,652	2,833	(181)	(6.39)
Total assets	**57,176**	**58,922**	**(1,745)**	**(2.96)**
Deposits from credit institutions and central banks	6,494	6,962	(468)	(6.72)
On-balance sheet customer funds	46,011	47,385	(1,373)	(2.90)
Customer deposits	37,005	39,029	(2,024)	(5.19)
Debt securities issued	2,147	1,973	174	8.84
Insurance contract liabilities	6,859	6,382	477	7.47
Provisions	411	317	94	29.76
Other liabilities	1,283	1,458	(175)	(11.99)
Total liabilities	**54,200**	**56,121**	**(1,922)**	**(3.42)**
Equity	2,977	2,801	176	6.29
Total equity and liabilities	**57,176**	**58,922**	**(1,745)**	**(2.96)**

Consolidated balance sheet assets totalled €57,176 million, having decreased by €1,745 million or 2.96% in relative terms. The decline relates mainly to the securities portfolio, which is €1,782 million down.

Gross loans and advances to customers amounted to €34,297 million, 0.44% below the previous year. The containment of the fall in relation to 2015 is explained by more favourable macroeconomic circumstances giving rise to expansive lending and slower deleveraging by families and companies. This sound performance, compared with the financial system as a whole, resulted in a market share gain of eight basis points.

The pace of new operations, amounting to €5,212 million, was very intense and more than 26.35% above the 2015 figure. In line with the Strategic Plan objective of increasing the flow of financing to SMEs, 55% of new loans were granted to non-property companies, representing an increase of 21% and contributing hugely to the progressive stabilisation of the Group's portfolio. Lending to families for home purchases accounted for 19.43% of the total, having risen by 66.64%, while consumer credit showed a year-on-year increase of nearly 7%.

In terms of the purpose of the loans, financing for productive activities other than real estate led the reactivation with loan stock growth of 9.41%, as compared with a decrease of 0.26% in 2015. As a result, the relative significance of this business in the total loan portfolio has increased to 21%, bringing it closer to a balanced composition. Conversely, credit for property development fell by 13.60% due to the industry's performance since the property bubble burst and the steps taken by the Bank to reduce exposure. The balance of loans granted to buy and renovate homes totalled €21,748 million, 3.37% up on the previous year. Despite the improvement in mortgage lending, the volume is still insufficient to offset repayments and cancellations.

Distribution of loans and advances to customers by purpose:

	€ million			% change
	31/12/2016	31/12/2015	Change	
Loans to individuals	22,963	23,783	(819)	(3.45)
Home loans	21,748	22,507	(758)	(3.37)
Consumer loans and other	1,215	1,276	(61)	(4.78)
Loans to companies	9,349	9,065	284	3.13
Property development	2,136	2,473	(336)	(13.60)
Non-real estate productive activities	7,213	6,592	620	9.41
Public sector and other	1,985	1,602	383	23.92
Loans and advances to customers (gross)	**34,297**	**34,449**	**(152)**	**(0.44)**

Doubtful loans total €3,061 million. The steady decline observed to the third quarter slowed following the entry into force in October of the changes brought in by Annex IX to Bank of Spain Circular 4/2016, entailing the accounting reclassification of some loans and credit facilities and bringing the year-on-year reduction in non-performing loans to -0.76%. The Group's NPL ratio stands at 8.93%, having improved by three basis points, and is above the system average of 9.18%. Setting aside property developer lending, the NPL ratio stands at 5.71% and the ratio for home loans, the Group's largest exposure, is 4.31%, one of the lowest in Spain's banking system.

Provisions, including allowances for contingent risks and commitments, amount to €1,388 million, representing 44.66% coverage of doubtful risks.

Non-performing loans and coverage:

	€ million & %	
	2016	2015
Doubtful loans and advances to customers	3,061	3,085
Loans and advances to customers (gross)	34,297	34,449
NPL ratio (*)	**8.93**	**8.95**
Total doubtful risks	3,109	3,137
Coverage of total risks	1,388	1,684
Coverage ratio (%)	**44.66**	**53.70**

The gross carrying amount of the Group's portfolio of property foreclosed or acquired in lieu of debts totals €1,725 million, having decreased by 6.33% during the year. Coverage for these real estate assets (including initial write-downs and the provisions recorded subsequent to the foreclosure of the property) stands at 52.21%, while coverage for the land, which could sell more slowly, is at 60%. Additions of foreclosed properties were well below the previous year, while sales of real estate assets in the balance sheet rose by 8% in unit terms and 10% in terms of their gross carrying amount, contributing positively to results given the high level of related provisions. Seventy percent of those sales relate to housing, 24% to land and 6% to commercial assets.

In March, Ibercaja sold 100% of Gestión de Inmuebles Salduvia, S.A. to Global Acamar S.L., a subsidiary of the Aktua Group, with which a contract for services has been concluded whereby the acquiring party will be exclusively responsible for the administration, management and marketing of the real estate assets covered by the contract, amounting to approximately €2,400 million, including on-balance sheet properties, properties foreclosed in the future and third-party assets financed by Ibercaja in respect of which the Entity collaborates in the management and completion of sales following property development. This transaction generated extraordinary income of approximately €69.3 million for the Group in 2016, allowing it to focus on the traditional financial business while at the same time promoting property sales in the retail channel, taking into account the Aktua Group’s specialisation and experience. Ibercaja also uses this channel to capture and link customers since it is the preferred lender in the sale transactions.

The portfolio of fixed income securities and equity interests amounts to €18,810 million, €6,490 million of which are associated with the Group's insurance business. The reduction of €1,782 million forms part of the policy launched in recent years to reduce its relative significance and shift the balance towards the retail business. By type, fixed income totals €18,194 million, representing 97% of the total following a reduction of €1,772 million due mainly to maturities during the year and disposals in response to market opportunities. Equity interests amount to €615 million, consisting mainly of listed shares in Spanish and foreign companies, as well as interests in unlisted companies. The balance has decreased by €9 million due to sales of listed shares.

According to the accounting classification, available-for-sale financial assets amount to €11,476 million, representing 61.01% of the total. Their volume fell by €4,123 million due partly to the transfer of fixed income securities to the held-to-maturity portfolio. The held-to-maturity balance stands at €4,546 million, accounting for 24.17% of the total, having risen by €1,883 million due to the above-mentioned transfer, less various maturities of government securities and private fixed income during the year.

The securities portfolio breaks down as follows:

	€ million			**% change**
	31/12/2016	**31/12/2015**	**Change**	
Financial assets held for trading	1	1	-	(0.14)
Debt securities	1	1	-	(0.14)
Financial assets at fair value through profit or loss	49	53	(4)	(6.87)
Debt securities	5	5	(1)	(12.37)
Equity instruments	44	47	(3)	(6.26)
Available-for-sale financial assets	11,476	15,599	(4,123)	(26.43)
Debt securities	11,041	15,157	(4,116)	(27.15)
Equity instruments	435	442	(7)	(1.59)
Loans and receivables	2,602	2,141	461	21.54
Debt securities	2,602	2,141	461	21.54
Held-to-maturity investments	4,546	2,663	1,883	70.72
Equity interests	136	135	1	0.49
Total securities portfolio	**18,810**	**20,591**	**(1,782)**	**(8.65)**
Fixed income	18,194	19,967	(1,772)	(8.88)
Variable income	615	624	(9)	(1.49)
Equity interests	136	135	1	0.49
Other equity instruments	479	489	(10)	(2.04)

Assets in credit institutions and cash amount to €1,476 million following a rise of €137 million, relating mainly to deposits in central banks. Liabilities relating to credit institutions and central banks total €6,494 million, having fallen by €468 million. ECB funding in the amount of €3,367 million rose by €1,314 million on end-2015. In June, the amount utilised under the TLTRO programme was repaid in advance before participating in the new TLTROII auction in the amount of €3,372 million maturing in 2020. In turn, deposits from credit institutions fell by €1,781 million due to a reduction in asset repos.

As regards the other balance sheet assets, tangible assets amount to €1,092 million, having declined 6.13% due largely to the reduction in own-use assets. Intangible assets total €199 million, consisting mainly of goodwill and other items generated on the Caja3 acquisition, as well as computer software. The -2.33% decrease relates to period amortisation charges. Finally, deferred tax assets amount to €1,373 million, €647 million of which are deemed to be monetisable.

Customer funds managed total €64,273 million following 3.67% year-on-year growth. The balance sheet items, which include customer deposits, debt securities issued and insurance contract liabilities total €46,011 million, having decreased by 0.70%. This is explained by the Entity's policy of shifting customer savings towards off-balance-sheet products due to the low yields on term deposits and the performance of funds linked to the wholesale business. In this respect, covered bonds matured in the amount of €818 million, CoCo bonds were redeemed in the amount of €183 million and a covered bond issue of €500 million was completed.

Off-balance-sheet funds performed extremely well (+16.62%), driven particularly by investment funds managed, in which assets grew by over 20%, three times the rate achieved in the system as a whole. Ibercaja's market share in both investment funds and pension and life insurance plans rose to the extent that the Group's share of asset and insurance policy management increased by 22 basis points in the last 12 months.

Provisions in balance sheet liabilities amount to €411 million, consisting mainly of allowances for pension funds and similar obligations, and personnel expenses pending payment. During the year, provisions were recorded for future legal contingencies resulting from floor clauses in the former Caja3's mortgage portfolio.

Equity stands at €2,977 million, having risen by €176 million during the year. Shareholders' funds amount to €2,753 million after rising by €119 million due to the contribution from profits for the year. Valuation adjustments in equity total €223 million, representing an increase of €58 million due to higher underlying gains in the available-for-sale assets portfolio.

2.4. Income statement

Ibercaja reports a net profit of €143 million, reflecting the Group's capacity to generate profits in an environment in which interest rate levels are a serious obstacle to income from lending and the fixed income portfolio. The retail business performed well thanks to the significant contribution from lending to SMEs, sustained growth in assets managed, cost savings and the defence of margins, allowing the customer spread to increase with respect to December 2015. Considerable extraordinary profits were also generated, which allowed other non-recurring impacts during the year to be offset, coverage to be strengthened and new provisions to be recorded for possible contingencies.

Income statement highlights:

	€ million			% change
	31/12/2016	31/12/2015	Change	
Net interest income	**567**	**632**	**(64)**	**(10.19)**
Net fees and commissions and exchange differences	340	333	7	2.07
Net gains(losses) on financial assets and liabilities	170	86	83	96.98
Other operating profit/(loss)	53	(10)	63	n.a.
Other operating income/expenses	30	(18)	48	n.a.
Dividends and results of equity-accounted entities	23	8	15	n.a.
Gross margin	**1,130**	**1,041**	**89**	**8.55**
Operating expenses	652	656	(4)	(0.63)
Profit/(loss) before write-downs	**478**	**384**	**93**	**24.22**
Provisions, impairment and other write-downs	413	294	119	40.57
Other gains/(losses)	6	28	(21)	(77.10)
Profit/(loss) before taxes	**71**	**118**	**(47)**	**(40.15)**
Taxes	(72)	34	(106)	n.a.
Consolidated profit/(loss) for the year	**143**	**84**	**59**	**70.15**
Profit/(loss) attributed to parent entity	**143**	**84**	**59**	**69.87**

Net interest income totals €567 million, 10.19% below the previous year. The tightening of the margin is explained by a lower contribution from the wholesale business, down €52 million). However, the retail contribution remained stable with respect to 2015. The adaptation of liability costs and dynamic lending offset the decline in interest income due to a negative Euribor. The customer spread of 1.27% therefore improved by eight basis points on 2015.

Net fees and commissions contributed €340 million to the income statement, 2.07% more than in December 2015. By type, fees and commissions from the marketing of non-banking financial products increased by 6.84%, while fees and commissions from banking services fell by 2.71%, due basically to the expiration of the servicer contract entered into with Sareb to administer the assets transferred from Caja3. Setting aside this effect, banking fees and commissions rose by 2.17%.

Net gains/(losses) on financial assets and liabilities amounted to €170 million They derive mostly from movements in the portfolio of available-for-sale financial assets, mainly fixed-income securities.

The headings "Other operating income/expenses" contributed €30 million to results. Among other amounts, this item includes the extraordinary income from the sale to Aktua of the property management and marketing business (€69.3 million), less the contribution to the Deposit Guarantee Fund (€45 million), the contribution to the National Resolution Fund (€14 million) and the charge arising from the conversion of deferred tax assets into debt claims against the Spanish tax administration (€6 million).

Income from equity instruments amounted to €11 million, having risen by 6.45% due to the increase in dividend income following the improvement in investees' results. Additionally, the share of profits of equity-accounting entities totalled €12 million thanks to the profit contributed by Viacajas following the sale of its stake in Visa Europe.

The gross margin, obtained by aggregating the items referred to above, totals €1,130 million, nearly 9% above the 2015 figure. Genuine banking income, i.e. net interest income, fees and commissions, account for 80% of the total.

Operating expenses totalling €652 million decreased by nearly 1%. Personnel expenses fell by 4.71% thanks to savings brought about by workforce reductions under last year's agreement with employees. General overheads and depreciation/amortisation charges rose by 6% due to the growth in commissions transferred for the marketing and management of real estate. Setting aside the sale of the real estate servicing business, operating expenses fell by 3.31%. The cost-to-income ratio stands at 57.73%, 5% above the previous year.

The profit before write-downs amounts to €478 million, 24.22% up on the previous year. Provisions and write-downs totalling €413 million were reflected in impairment losses on financial assets, non-financial items, non-current assets held for sale and appropriations to provisions due to the entry into force of Bank of Spain Circular 4/2016, the effect of the recent European Court of Justice judgement on floor clauses and the anticipation of possible contingencies.

Write-downs associated with credit risk and properties amounted to €291 million, having risen by 16.22% due to the impact of the BoS Circular. The Group's cost of risk, measured based on these impairment losses in relation to the loan portfolio, stands at 0.85% (0.54% excluding extraordinary items). Additionally, €96 million has been provisioned for contingent risk and commitments and other impairment losses. This includes €20 million, in addition to the €30 million already provisioned, to cover legal contingencies derived from the floor clauses in the Caja3's mortgage portfolio.

The item Other gains/(losses) shows a net amount of €6 million as compared with €28 million in December 2015. The change is explained by a reduction in gains from the sale of tangible assets, own-use properties that were not needed following the network restructuring process having been sold in 2015, and by the payment of commissions to Aktua for the marketing of repossessed properties.

Profit before tax amounted to €71 million. The extraordinary effect of a binding ruling from the Tax Administration in relation to tax losses arising from the vertical merger of Banco Grupo Caja3 had a positive impact on accrued tax, resulting in a net profit of €143 million for the year, 70% above the 2015 profit.

3. Financing and liquidity structure

Ibercaja has been traditionally characterized by a conservative liquidity policy based on the clear vocation of financing the growth of credit activities using retail resources, limiting the use of wholesale markets. This policy has the objectives of managing liquidity and diversifying sources of financing in a prudent and balanced manner, anticipate needs to comply with obligations on a timely basis to prevent investing activities from being affected and ensuring the continuity of the business.

The basic principles that govern its strategy are: active management through a regular control system based on limits and internal indicators documented in the Liquidity Manual, establishment of measures and actions in the event of a crisis scenario (contingency plan), taking advantage of the various alternatives offered by the market to diversify investments in both terms and highly-liquid instruments, while maintaining an important asset buffer to provide collateral to the ECB to cover any possible tension.

Liquidity risk is measured taking into account estimated cash flows for assets and liabilities and additional guarantees or instruments which are available to assure alternative sources of liquidity as necessary. Short, medium and long-term outlooks are prepared in order to know financing needs and limit compliance, taking into account the latest macroeconomic tendencies because of their impact on the performance of assets and liabilities in the balance sheet, and contingent liabilities and derivative products. Similarly, liquidity risk is controlled through the establishment of limits to exposure within levels that are compatible with the approved policies.

Note 3.4. to the annual accounts describes the liquidity risk management strategy and policies and measurement and control procedures in greater detail.

Retail customer deposits are the main source of outside financing. Over 80% of the total are classed as stable, based on Bank of Spain regulations, which highlights the linkage and trust placed in the Entity by its customers. The loan-to-deposit (LtD) ratio, at 97.76%, reflects the self-funding capacity in the retail business.

The volume of liquid assets, practically all of which are eligible as collateral with the ECB, amounts to €9,493 million or 16.60% of assets. Additionally, the capacity to issue mortgage covered bonds and territorial bonds stands at €7,847 million, so that availability totals €17,340 million.

The liquidity coverage ratio (LCR), which measures the level of high-quality liquid assets free of charges to overcome a liquidity stress scenario in 30 days, stands at 255.90%, well above Basel III requirements. In turn, the NSFR, applicable as from 2018, is at 121.40%, expressing the proportion of stable funding for one year covered by stable liabilities, so as to ensure a balanced balance sheet structure, limiting excessive dependence on short-term whole sale funding.

Available ECB facilities amount to €4,218 million. Eighty-five percent of the eligible assets not pledged under ECB facilities are Spanish government securities, which would allow immediate liquidity to be obtained if necessary.

The level of overcollateralisation, measured as the eligible portfolio in relation to outstanding mortgage covered bonds, stands at 270.75%, easily exceeding the legal minimum of 125% and the average for financial institutions.

Maturities of wholesale market issues shows a staggered redemption schedule to 2027. In 2017 and 2018, redemptions amounted to €766 million and €467 million, respectively, and were settled without difficulty using available liquidity.

Liquidity indicators:

	€ million	
	2016	**2015**
Volume of liquid assets	9,493	11,272
Mortgage covered and territorial bond issuance capacity	7,847	7,127
Availability of liquid assets	**17,340**	**18,399**
Liquid assets/Total assets	16.60	19.13
Loan-to-Deposit (LtD) ratio	97.76	96.67

As regards expected liquidity trends and fluctuations, in view of business prospects, wholesale assets and liabilities are likely to be progressively replaced by retail investments and funds. In the short and medium term, the Group will continue to have adequate liquidity levels in line with both internal management limits and regulatory limits, given the limited relevance of wholesale maturities, the stability of retail deposits and the situation in capital markets.

4. Capital management

The Group's capital management is designed to ensure that regulatory requirements are fulfilled at all times and to maintain an adequate relationship between the risk profile and own funds. Capital adequacy is assessed on a recurring basis applying procedures to identify, measure and aggregate risks to determine the capital necessary to cover them. In addition to the minimum regulatory capital required, the Group sets a capital target that easily exceeds actual needs. Capital sources and consumption are projected on the basis of business performance and expected medium-term results.

The expected evolution of Ibercaja Banco’s capital and solvency indexes shows the Entity's capacity to handle stress situations. Nonetheless, in case of an extremely adverse change to the macroeconomic environment, applicable regulations or the banking business generate the need for alternative capital sources to cover a possible shortfall, the Group, following European Banking Association (EBA) guidelines and recommendations, as well as the provisions of Law 11/2015 (18 June) on the recovery and resolution of credit institutions and investment firms, has defined a recovery plan to prevent and guarantee its capacity to react in the event of the deterioration of its solvency or funding capacity. The objective is to maintain capital and liquidity levels that allow unexpected losses in severe stress situations to be overcome. As part of the recovery plan, Ibercaja has defined quantitative and qualitative indicators for the early detection of risk scenarios. The indicators have been integrated with the Entity's current control, follow-up and governance structures to guarantee their effectiveness, monitoring, review and relationship with the decision-making process. Early alerts and recovery thresholds have also been stablished for each indicator. The Entity has operational contingency plans that would activate the implementation of ordinary management measures to mitigate the risk that the Bank could reach a recovery situation.

On 1 January 2014, the Basel III solvency regulations came into force, transposed into European legislation by Regulation 575/2013 and Directive 2013/36/EU, and into Spanish law by Royal Decree-Law 14/2013 and Law 10/2014 (26 June) on the organisation, supervision and solvency of credit institutions. In addition, Bank of Spain Circular 2/2016 (2 February), which completed the adaptation of Spanish legislation to Regulation 575/2013 and Directive 2013/36/EU, was published in February 2016. The new capital standards impose higher minimum requirements and restrict eligibility criteria for some instruments, particularly at the highest quality Common Equity Tier 1 (CET1) level.

The ECB announced the definitive results of the Supervisory Review and Evaluation Process (SREP) that determines each bank's individual capital needs for 2017 on the basis of its business model, capital risk, liquidity risk, governance and internal control. The decision means that Ibercaja must maintain a phased-in CET1 ratio of 7.25% and a total capital ratio of 10.75%. These ratios include the minimum required for Pillar 1 (4.5% CET1 and 8% total capital), the requirement for Pillar 2 (1.5%) and the capital conservation buffer (1.25%). The Pillar 2 requirement applicable to Ibercaja is 1.5%, one of the lowest in the Spanish banking system, reflecting the Group’s prudent risk acceptance and the alignment of its management structures with best practices in corporate governance.

Total eligible capital stands at €3,296 million, entailing a 14.23% solvency ratio. The phased-in CET1 ratio, which measures the relationship between Tier 1 capital and risk-weighted assets, stands at 12%, having risen by five basis points since December 20215, even taking into account the early redemption of €163 million in CoCo bonds issued by Caja3 in 2013. The surplus over the regulatory minimum (4.5%) is €1,737 million and the surplus over the ECB's requirement for 2016 (9.25%) is €636 million. The improved capital situation is explained mainly by the good results for the year and the optimisation of the balance sheet structure.

Applying the standards stablished for the end of the transition period prior to the full implementation of Basel III, the fully-loaded CET 1 ratio, at 10.17%, is 43 bps above the figure for 2015. The excess amount over the regulatory minimum of 7%, which includes a 2.5% capital conservation buffer, is €733 million.

At 31 December, the phased-in leverage ratio (phased in) stands at 5.37%, above the minimum reference level of 3% set by the Basel Committee.

Evolution of solvency and main indicators:

	€ million & %	
	2016	**2015**
Computable equity	3,296	3,385
CET1 phased-in (%)	12.00	11.95
Solvency ratio phased-in (%)	14.23	14.40
Leverage ratio phased-in(%)	5.37	5.16
CET1 fully-loaded (%)	10.17	9.74

5. Risk management

Overall risk management is essential to preserve the Entity's solvency. Among the strategic priorities is the development of systems, tools and structures that allow risk exposure levels to be permanently measured, monitored and controlled, assuring an adequate relationship with the Entity's own funds and responding to the requirements of regulations, supervisors and markets.

Risk management is carried out under the Risk Appetite Framework, the basic objective of which is to establish a set of principles, procedures, controls and systems to define, communicate and monitor the Group's risk appetite, this being the risk level or profile that Ibercaja is willing to assume and maintain, in terms of both type and amount, and its level of tolerance.

Credit risk is the most relevant in the banking business, although risk management also provides for counterparty, concentration, market, liquidity, interest rate, operational, business, reputational, insurance and other risks.

Note 3 to the Ibercaja Banco Group's 2016 consolidated annual accounts provides more extensive and detailed information on the management of each type of risk.

6. Human resources and branch network

The Ibercaja Group has a workforce of 5,895 persons. During the year, there were 68 lay-offs as part of the restructuring process in Spain's financial system to bring personnel structure into line with business needs. A total of 5,527 work for the parent entity.

The human resource policy has the objective of developing professional and personal capacities, as well as adapting profiles to each job post and there is an employee evaluation system that measures performance and competencies and identifies capacities and areas for improvement.

Another principle forming part of the foundation of the human resources policy is the active promotion of equal opportunities and non-discrimination of gender. The Equality Plan, which has been agreed with employee representatives, faces the challenge of attaining a balanced composition of men and women throughout all professional levels and to adopt measures to reconcile working and personal lives.

The entity encourages talent development through training programmes and internal promotion for the highest possible number of employees. In 2016, 799 employees were promoted.

Training programmes incentives career development and respond to needs that arise in a highly dynamic banking environment. To sum up the year, nearly 300,000 hours of face-to-face and on-line training courses were provided.

At the end of 2016, there are 1,248 branches (including five company business centres) distributed throughout Spain and one representative office in Portugal. Thirty branches were closed during the year as part of the streamlining plan implemented following the Banco Grupo Caja3 acquisition to merge offices that were small or very close together. Business continuity, proximity to customers and the availability of services even where the population is very small have been prioritised at all times. The Group's private banking subsidiary, Ibercaja Patrimonios, has nine branches.

Branches are distributed in Spain's regions as follows: 439 points of sale in Aragón, 192 in the Madrid region, 121 in Extremadura, 109 in La Rioja, 96 in Castilla y León, 96 in Catalonia, 67 in Castilla-La Mancha, 62 in the Valencia region, 32 in Andalusia and 34 in other regions.

7. Research, development and technology

Ibercaja is implementing new technological and organizational projects or improving existing resources in order to increase the quality of customer service, make operations at offices more agile and respond to regulatory requirements. In 2016, activities focused on projects related to regulatory requirements and the Strategic Plan, as well as updating systems and platforms.

The most relevant actions, some of which are operational and others in progress, include the following:

- Adaptation to the changes brought in by Annex IX to Circular 4/2016, entailing the modification of accounting processes and other changes related to risks and provisions under the new requirements.

- Update of the model employed for work with companies, providing new commercial and rating tools. This strategic improvement will continue in the following years to seek financing approaches that are better suited to customer profiles and activities.

- Various initiatives designed to facilitate customer operations such as the new mobile banking app, contactless cards and the commercial portal.

- Launch of numerous projects and investments to achieve the highest standards in cybersecurity, as part of the Security Master Plan.

- In the field of human resources, a platform is being developed to provide a more complete overview of the Entity's human capital management in the short term.

- Progress has been made on a variety of matters generated by regulatory requirements: implementation of Phase II of the CIRBE and work related to the Stock Market Reform Law.

8. Environmental information

The Group is aware of the need to reconcile business development with the preservation and care of the environment. It has defined an environmental policy that constitutes the framework of reference for all environmental action. It is based on compliance with general environmental legislation, the prevention of pollution from its own processes, adequate waste management, making employees aware of the responsible use of natural resources and the communication of the actions taken by customers and suppliers.

The Environmental Management System Certificate issued by AENOR, which certifies that the Central Services building meets the requirements of Standard UNE-EN ISO 14001:2004.

It believes that it substantially complies with environmental legislation and it maintains procedures to ensure and guarantee compliance. During 2016 no significant investments were made and no significant contingencies are deemed to exist with respect to the protection and improvement of the environment.

9. Information regarding treasury shares

There have been no transactions involving treasury shares in 2016.

10. Other information

10.1. Dividend policy

The proposal to distribute dividends by charging 2016 profits that the Board of Directors will present for the approval of Shareholders at a General Meeting totals €35,7 million.

Taking into consideration the current trend towards business and profit normalization after the intense regulatory requirements that were in place of the past few years, over the coming few years the Entity proposes continuing with the policy of compensating its shareholders. Based on its capital position, the Bank does not have any restriction or limitation whatsoever on the distribution of dividends. However, it will distribute its profits in a prudent manner such that it does not affect the objective of maintaining a capital cushion, even in the event that there is an impairment of the economic situation and financial conditions.

10.2. Credit ratings

The credit rating agency Fitch ratified Ibercaja's long-term rating, pointing out the strength of its regional franchise, its sound funding and liquidity position, the improvement in credit quality indicators and the contribution from the insurance business as a source of diversification and recurring revenue. The outlook assigned to the rating is positive due to the favourable trend in capital and asset quality, which could lead to a rating upgrade in the medium term.

Standard & Poor’s maintained Ibercaja’s BB/B rating in 2016. This is based on the stable retail franchise, conservative management approach, above-average credit quality and solid funding and liquidity profile. The positive outlook indicates a possible rating upgrade as a result of an improvement in capital.

The rating issued by Moody’s for deposits remains at B1 with a stable outlook. The agency highlights Ibercaja’s business positioning in its traditional zones, bolstered by the Banco Grupo Caja3 acquisition, the improvement in asset quality indicators, particularly following last year's sale of a portfolio of doubtful loans linked to the property development segment, and the sound liquidity position provided by a broad base of retail deposits and a high proportion of liquid assets.

Credit ratings:

	Long term	Short term	Outlook
Standard&Poors	BB	B	Positive
Moody’s (*)	B1	NP	Stable
Fitch Ratings	BB+	B	Positive

(*) The agency upgraded the rating from “BB” to “BB+” in February 2017.

10.3. Average payment period to suppliers

The average supplier payment period during 2016 was 20 days, which is below the legal maximum stipulated in Law 15/2010 (5 July) on measures to combat late payment in commercial transactions.

11. Prospects and foreseeable development of the business

Preliminary indicators indicate that Spain's economy will continue to perform favourably in 2017. Market consensus estimates GDP growth of 2.4%, somewhat below the figure for 2016. The slight slowdown is basically due to more moderate internal demand. Investment in capital goods will be less dynamic, while the real estate sector will speed up thanks to good financing terms, stock reduction and a reduction in families' debts. The contribution from foreign trade will be below the 2016 level due to an uncertain international context, in view of protectionist risks and the impact of crude prices on the value of imports.

For the Spanish banking system, good macroeconomic prospects should lead to a moderate reactivation of demand for credit that will relieve the still complicated circumstances caused by extremely low interest rates, excessive unproductive assets on the balance sheet and regulatory pressure. The capacity to generate revenue from alternative sources other than lending, improved productivity and the reduction in irregular investment are considered to be the keys to overcoming difficulties during the year.

At Ibercaja, 2017 will be the final year of the current strategic cycle. Important challenges will be addressed along the path towards strengthening the Group's competitive position and progressing to reach the profitability levels demanded by the market. There are plans to accelerate projects in progress for the following purposes:

- Increase new lending, particularly in the non-real estate productive activities segment, as a way to generate revenue and improve margins while preserving market share in home loans.

- Direct growth in funds towards a more profitable mix by promoting asset management, the Group's most relevant speciality, using as levers increased penetration in personal banking and private banking customers.

- Persevere with the cost containment policy and optimise the Group's operating efficiency with the aim of converging with the industry's most demanding levels.

- Reduce the relative significance of irregular investment and of real estate assets in the balance sheet.

- Bolster the customer relations model based on service quality, which will become a distinctive factor for Ibercaja and a competitive advantage in an increasingly demanding market.

12. Events after the reporting date

There were no events other than the aspects mentioned in Note 13.1 that could have a significant effect on these consolidated annual accounts between the year end and the issuance date.

Alternative Performance Measures

In accordance with the recommendations issued by the European Securities and Markets Authority, the Alternative Performance Measures (APM) employed in this report are described below:

Customer spread (%): difference between the average yield on the loan portfolio and the cost of retail funds.

Other operating income and expenses: sum of the net amounts of other operating income and expenses and income and expenses from assets and liabilities under insurance or reinsurance contracts.

Cost-to-income ratio: quotient of administration expenses plus depreciation/amortisation and the gross margin.

Profit/(loss) before write-downs: gross margin less operating expenses (administration expenses and depreciation/amortisation).

Provisions, impairment and other write-downs: sum of provisions, impairment of financial assets not carried at fair value through profit or loss, impairment of investments in jointly-controlled entities or associates, impairment of non-financial assets and the portion of gains or losses from non-current assets and disposal groups held for sale that cannot be classified as discontinued operations which relates to impairment losses on non-current assets held for sale.

Cost of risk: percentage of write-downs associated with credit risk and real estate in relation to gross loans and advances to customers.

Other gains/(losses): sum of gains/(losses) on the derecognition of non-financial assets and equity interests, and gains/(losses) on non-current assets and disposal groups held for sale that cannot be carried as discontinued activities (excluding impairment losses on non-current assets held for sale included in provisions, impairment balances and other write-downs).

NPL ratio: quotient between doubtful balances in loans and advances to customers in the public consolidated balance sheet and total loans and advances to customers.

NPL coverage ratio: relationship between total asset impairment losses and provisions for contingent risks and commitments and doubtful risks.

Loan-to-Deposit (LtD) ratio: quotient between net loans excluding securitisations and retail funding.

SECTION II: ANNUAL CORPORATE GOVERNANCE REPORT

ANNUAL CORPORATE GOVERNANCE REPORT FOR ENTITIES OTHER THAN SAVINGS BANKS THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

IDENTIFICATION DETAILS OF ISSUER

YEAR-END DATE OF REFERENCE **31/12/2016**

C.I.F. **A-99319030**

Company name

IBERCAJA BANCO, S.A.

Registered address:

Plaza de Basilio Paraíso nº 2
50008 Zaragoza (España)

ANNUAL CORPORATE GOVERNANCE REPORT FOR ENTITIES OTHER THAN SAVINGS BANKS THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

A STRUCTURE OF OWNERSHIP

A.1 Details regarding shareholders or most significant members of the company at the year-end:

Name of the significant shareholder	% of share capital
Fundación Bancaria Ibercaja	87.80%
Fundación Caja de Ahorros de la Inmaculada de Aragón	4.85%
Fundación Ordinaria Caja de Badajoz	3.90%
Caja Círculo Fundación Bancaria	3.45%

A.2 Indicate if there are family, commercial, contractual or corporate relationships between owners of significant shareholdings and, to the extent that the company has knowledge of them, detail them below unless they are scantly relevant or arise from ordinary commercial transactions:

Name of related person or company	Type of relationship	Brief description

A.3 Indicate if there are commercial, contractual or corporate relationships between the owners of significant shareholdings and the company, detail them below unless they are scantly relevant or arise from ordinary commercial transactions:

Name of related person or company	Type of relationship	Brief description
Fundación Bancaria Ibercaja	Corporate	Protocol for the management of the financial interest held by Fundación Bancaria Ibercaja in Ibercaja Banco, S.A. in accordance with the provisions of Law 26/2013 (27 December).

A.4 Indicate the legal and bylaw restrictions, if any, on the exercise of voting rights and the legal restrictions on the purchase or sale of ownership interests in the capital stock:

Yes ☐ No ☑

Description of the restrictions

B GENERAL MEETING OR EQUIVALENT BODY

B.1 List the quorum that is necessary to validly call to order a general meeting or equivalent body as established in the Articles of Association. Describe how this is different from the minimum system established by the Spanish Companies Act 2010 or any other applicable legislation.

A General Meeting, whether ordinary or extraordinary, will be validly called to order on first call or on second call when the shareholders that are present or represented hold the percentage of voting rights established by law. Notwithstanding the above, a General Meeting will be validly called to order as a Universal Meeting provided that all share capital is present or represented and those in attendance unanimously agree to hold the meeting and approve the agenda. The validity of calling the meeting to order will be determined with respect to each of the resolutions that must be adopted and any absences that take place once the General Meeting has been validly called to order will not affect the holding of the meeting. In order to validly call the meeting to order, even if held as a Universal Meeting, the attendance of the Company's directors is not necessary.

B.2 Explain the system for adopting resolutions. Describe how this is different from the system established by the Spanish Companies Act 2010 or any other applicable legislation.

The system for adopting corporate resolutions is in line with the system established by the Spanish Companies Act.

Except in those cases in which the law or the bylaws establish a qualified majority, resolutions will be adopted by the ordinary majority of votes cast shareholders present or represented at the meeting, and a resolution will be understood to be accepted when it obtains more votes in favour than against.

Those attending the general meeting will have one share for each share that they possess or represent.

Once a resolution has been submitted to a vote and the votes have been counted, the Chair will report the results and declare, if appropriate, the resolution validly adopted.

B.3 Briefly indicate the Resolutions adopted by shareholders at a General Meeting or equivalent body held during the year to which this report refers and the percentage of votes with which each Resolution was adopted.

On 27 April 2016 an Ordinary General Meeting was called through an announcement published on the corporate website, which all Shareholders attended and unanimously adopted resolutions to: (i) approve the 2015 individual and consolidated annual accounts for Ibercaja Banco, S.A. that were prepared by the Board of Directors at the meeting held on 8 March 2016, (ii) approve the management of the Board of Directors and (iii) the application of the profit for the year.

During that meeting the Meeting approved, in an advisory capacity and also unanimously the Annual Compensation Report for the Entity’s directors and to re-elect PricewaterhouseCoopers Auditores, S.L as auditors for 2016 and 2017.

On 30 August 2016 the Extraordinary General Shareholders’ Meeting was held during which following the favourable report of the Nominations Committee, Mr Jesús Tejel Giménez and Mr Félix Santiago Longás Lafuente were designated independent outside directors. The Meeting also unanimously resolved to re-elect Mr Amado Franco Lahoz, Mr José Luis Aguirre Loaso and Mr Jesús Bueno Arrese as proprietary outside directors at the request of Fundación Bancaria Ibercaja.

The Extraordinary General Meeting held on 28 October 2016 unanimously resolved to appoint Mr Emilio Jiménez Labrador, a proprietary outside director, replacing Mr Francisco Manuel García Peña, at the request of Fundación Ordinaria Caja de Badajoz.

B.4 State the address and manner of accessing the entity's website to obtain information regarding corporate governance.

The information regarding corporate governance at Ibercaja Banco is accessible through the website http://www.ibercaja.com, under section “Shareholders and investors” http://www.ibercaja.com/accionistas-e-inversores/gobierno-corporativo-y-politica-de-remuneraciones

B.5. Indicate whether or not meetings have been held with any unions that may exist, holders of securities issued by the entity, the purpose of the meetings held during the year to which this report relates and the main agreements reached.

In 2016 no meeting was held with the various syndicates of the holders of securities issued by Ibercaja Banco or Banco Grupo Cajatres.

C MANAGEMENT STRUCTURE OF THE COMPANY

C.1 Board or governing body

C.1.1 State the maximum and minimum numbers of Directors stipulated in the Articles of Association:

Maximum number of Directors / members of the governing body	15
Minimum number of Directors / members of the governing body	5

C.1.2 Complete the following table regarding the members of the Board of Directors or Governing Body, and their status:

DIRECTORS / MEMBERS OF THE GOVERNING BODY

Name of the Director/Member of the governing body	Representative	Latest date of appointment
Amado Franco Lahoz		30-08-2016
José Luis Aguirre Loaso		30-08-2016
Jose Ignacio Mijangos Linaza		29-10-2015
Víctor Manuel Iglesias Ruiz		28-01-2015
Jesús Máximo Bueno Arrese		30-08-2016
Gabriela González-Bueno Lillo		24-07-2013
Jesús Solchaga Loitegui		24-07-2013
Juan María Pemán Gavín		24-07-2013
Vicente Cóndor López		27-01-2014
Jesús Barreiro Sanz		11-11-2014
Jesús Tejel Giménez		30-08-2016
Félix Santiago Longás Lafuente		30-08-2016
Emilio Jiménez Labrador		28-10-2016

C.1.3 Name the Board members, if any, who are also directors or executives of other companies in the same group as the entity:

Name of the Director/Member of the governing body	Name of the Group company	Position
Jesús Solchaga Loitegui	Cerro Murillo, S.A.	Director
Jesús Solchaga Loitegui	Ibercaja Mediación de Seguros, S.A.U.	Director
Jesús Solchaga Loitegui	Residencial Murillo, S.A.	Director
Jesús Barreiro Sanz	Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U.	Director

C.1.4 Fill-in the following table with information regarding the number of female Directors on the Board Directors and Committees, and the evolution of this figure over the past four years:

	Number of Directors							
	2016		2015		2014		2013	
	No.	%	No.	%	No.	%	No.	%
Board of Directors	1	7.69%	1	9%	1	11%	1	10%
Executive Committee	1	12.5%	1	12.5%	1	14%	-	-
Audit and Compliance Committee	1	20%	1	25%	1	33%	1	33%
Nominations Committee	-	-	-	-	-	-	-	-
Compensation Committee	-	-	-	-	-	-	-	-
Large Risk and Solvency Committee	-	-	-	-	-	-	-	-
Strategy Committee	1	25%	1	33%	-	-	-	-

C.1.5 Complete the following table regarding aggregate compensation for Directors or members of the Governing Body that accrued during the year.

Compensation	Thousand euro	
	Individual	**Group**
Fixed compensation	937	-
Variable compensation	107	-
Per Diems	353	-
Other compensation	167	-
TOTAL:	**1,564**	**-**

C.1.6 Identify the members of senior management who are not Executive Directors and indicate the aggregate compensation accrued to them during the year:

Name	Position
Francisco José Serrano Gill de Albornoz	Assistant General Manager-General Secretary
Maria Pilar Segura Bas	Assistant General Manager
Luis Miguel Carrasco Miguel	Assistant General Manager
Luis Fernando Allué Escobar	Deputy Director General
José Palma Serrano	Deputy Director General
Antonio Martínez	Deputy Director
Maria Raquel Martínez Cabañero	Deputy Director
José Ignacio Oto Ribate	Deputy Director
Rodrigo Galán Gallardo	Deputy Director
Angel Carlos Serrano Villavieja	Deputy Director
Maria Teresa Fernández Fortún	Deputy Director

Total senior management compensation (thousand euro)	1,940

C.1.7 Indicate whether the bylaws or the Board Regulations establish any limit on the term of office for Directors or members of the Governing Body:

Yes ☑ No ☐

Maximum term (years)	5

C.1.8 Indicate whether the individual and consolidated annual accounts presented to the Board or Governing Body for approval are previously certified:

Yes ☐ No ☑

If appropriate, name the person(s) who certify the Entity's individual or consolidated annual accounts before they are approved by the Board or Governing Body:

Name	Position

C.1.9 Explain the mechanisms, if any, established by the Board or Governing Body to avoid a qualified audit report on the individual and consolidated annual accounts from being presented to shareholders at a General Meeting or equivalent body.

The Audit and Compliance Committee authorities granted by the Articles of Association are intended to serve as a conduit for communication between the Board of Directors and the auditors, evaluating the results of each audit and the responses of the management team to the auditors' recommendations, and mediating in cases of disagreements between the auditors and the management team regarding the principles and criteria applicable in the preparation of the financial statements. In addition, the Audit and Compliance Committee is also responsible for receiving information regarding the audit plan from the external auditor as well as the results of its execution and verifying that senior management takes into account the recommendations made, ensuring that the opinion on the annual accounts and the main content of the audit report are worded clearly and precisely.

C.1.10 Is the Secretary to the Board of Directors or Governing Body a Director?

Yes ☑ No ☐

C.1.11 Describe any mechanisms established by the Company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Among the duties assigned to the Audit and Compliance Committee, Article 19 of the Board Regulations includes the duty of ensuring the independence of the external audit, establishing the appropriate relationships with the auditor to receive information regarding those issues that may put the auditor's independence at risk.

In any event, the Audit and Compliance Committee must receive a written statement of independence from the auditor with respect to the Company or any directly or indirectly related companies, as well as information regarding additional services of any nature rendered to these companies by the auditor, or by persons or companies associated with the auditor in accordance with the provisions of Law on Audits.

The Committee will issue, prior to the issue of the audit report, an annual report expressing its opinion as to the auditor's independence. In any event, this report must contain an evaluation of the rendering of the additional services referred to in the preceding section, taken individually or as a whole, other than the legal audit and with respect to the independence system or audit regulations.

It must also ensure that the company and the auditor respect rules in force regarding the rendering of services other than audit services, business concentration limits affecting the auditor and, in general, all of the rules established to ensure the independence of auditors and examine the circumstances of any resignation of an external auditor.

C.2 Board of Directors or Governing Body Committees.

C.2.1 List the Board of Directors or Governing Body Committees:

Name of the Committee	No. of members
Executive Committee	8
Audit and Compliance Committee	5
Nominations Committee	4
Compensation Committee	4
Large Risk and Solvency Committee	4
Strategy Committee	4

C.2.2. List all of the Board or governing body committees, their members and the proportion of executive, proprietary, independent and other outside directors holding positions (the entities that are not legal capital companies will not complete the category of director ion the relevant box and will provide an explanation of the category of each director in the text box in accordance with their legal form and the manner in which they comply with the conditions relating to the composition of the audit, nominations and compensation committees)

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Category
Mr. Amado Franco Lahoz	Chairman	Proprietary
Mr. José Luis Aguirre Loaso	Director	Proprietary
Mr. Víctor Iglesias Ruiz.	Director	Executive
Mr. Jesús Máximo Bueno Arrese	Director	Proprietary
Ms. Gabriela González-Bueno Lillo	Director	Independent
Mr. Vicente Condor López	Director	Independent
Mr. Juan María Pemán Gavin	Director	Proprietary
Mr. Jesús Barreiro Sanz	Secretary	Proprietary

% of Executive Directors	12.65%
% of Proprietary Directors	62.5%
% of Independent Directors	25%
% of Other outside Directors	-
Number of meetings	23

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarize the most important action that it took during the year.

The permanent delegation of authority by the Board of Directors to the Executive Committee consists of all the Board's authorities, except for those that cannot be delegated. Its resolutions are valid and binding without the full board having to subsequently ratify the decision. In those cases, in which, in the opinion of the Chairman or three members of the committee, the importance of the matter so merits, the resolutions adopted by the committee will be ratified by the full Board.

The Executive Committee will be validly called to order with the attendance, present or represented, of at least one-half plus one of its members and will adopt resolutions with a majority vote of the Directors forming part of the committee, present or represented, and the Chairman will have a casting vote. A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

During the course of its regular ordinary meetings the Executive Committee has received reports from the Chair and CEO regarding, among other things, the main macro-economic figures and the evolution of information regarding the Entity: balance sheet and income statement, evolution of the Company's securities portfolio, customer funds and customer loans, market share, liquidity management, non-performing and coverage rates, business volumes and the results obtained by the Group's subsidiaries. It has also issued its opinions regarding the financing operations that have been submitted for its consideration when its authorization or ratification is required due to the amount concerned or the status of the applicants. It has ratified the transactions approved, denied or ratified by the Credit Risk Committee, it has adopted several resolutions to divest from investee companies and received disciplinary case files in the terms established by employment legislation and in the collective agreement.

AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Category
Ms. Gabriela González-Bueno Lillo	Chairman	Independent
Mr. Jesús Máximo Bueno Arrese	Director	Proprietary
Mr. Vicente Condor López	Director	Independent
Mr. Juan María Pemán Gavin	Director	Proprietary
Mr. Jesús Tejel Giménez	Director	Independent
Mr. Jesús Barreiro Sanz	Secretary	No member

% of Executive Directors	-
% of Proprietary Directors	40%
% of Independent Directors	60%
% of Other Outside Directors	-
Number of meetings	14

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarize the most important actions that it took during the year.

The Committee's duties are expressly stipulated in the Board of Directors Regulations. In particular:

- Inform the Shareholders' Meeting about issues raised by shareholders regarding matters within its sphere of competence.
- Supervise the effectiveness of the Entity's internal control and risk management systems, including taxes.
- Supervise the process of preparing and presenting regulated financial information.
- Propose the designation or re-election of the auditor.
- Establish appropriate relationships with the external auditor to receive information regarding matters relating to the auditor's independence.
- Receive annual written confirmation from the auditor regarding its independence respect to the Entity or the group, issue of the relevant report.

The committee chair must be an independent Director and replaced every four years and may be re-elected again after one year elapses after leaving the position. The Secretary to the committee will be the Secretary to the Board of Directors.

The Executive Committee will be validly called to order with the attendance, present or represented, of at least one-half plus one of its members and will adopt resolutions with a majority vote of the Directors forming part of the committee, present or represented, and the Chairman will have a casting vote. A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

The Committee will meet as many times as called by the Committee or its Chairman and at least once per quarter. The Committee may require the attendance of the Company's auditor. One of its meetings will be necessarily dedicated to evaluate the efficiency and compliance with the rules and procedures for the governance of the Company and prepare information that the Board must approve and include in the annual financial reporting documentation.

The Committee was informed during the year of all requests and notifications received from supervisory bodies within the scope of its competencies. It has received information regarding and reported on the transactions to be carried out with related parties and it has received regular reports regarding compliance with regulations and on internal audits, as well as the reports issued by the external auditor. It has received and supervised the process of preparing and presenting regulated financial information. It has reviewed the Entity's annual accounts and the financial information to be provided on a regular basis to the markets by the Board and supervisory bodies.

Identify the director pertaining to the audit committee that has been designated based on his/her knowledge and experience with accounting, audit or both, and report the number of years that the Chair of this committee has been in that position.

Name of the director with experience	Ms. Gabriela González-Bueno Lillo
Number of years the chair has been in that position	2 years

NOMINATIONS COMMITTEE

Name	Position	Category
Mr Jesús Solchaga Loitegui	Chairman	Independent
Mr. Félix Santiago Longás Lafuente	Director	Independent
Mr. Jose Ignacio Mijangos Linaza	Director	Proprietary
Mr. Jesús Barreiro Sanz	Secretary	Proprietary

% of Executive Directors	-
% of Proprietary Directors	50%
% of Independent Directors	50%
% of Other Outside Directors	-
Number of meetings	6

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarize the most important action that it took during the year.

The Nominations Committee is responsible for proposing nominations to the Board of Directors. In particular, it is responsible for:

- Evaluating the suitability of directors.
- Establishing a representation target for the gender less represented on the board.
- Make proposals for the nomination, re-election or removal of independent directors for Shareholders at a general meeting.
- Report proposed nominations and removal of senior executives and employees with key duties and the basic conditions of their contracts.
- Examine and organize the succession of the Chair and the CEO.

The Committee will have a minimum of three and a maximum of five non-executive members, at least two of which must be independent Directors. The Committee will meet as many times as called by the Committee or its Chair and at least once per quarter.

A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

During the year the Committee reported the proposal to nominate the CEO, the nomination of directors as well as employees with key duties at the Entity (members of the Management Committee and the person responsible for regulatory compliance).

COMPENSATION COMMITTEE

Name	Position	Category
Mr Jesús Solchaga Loitegui	Chairman	Independent
Mr. Félix Santiago Longás Lafuente	Director	Independent
Mr. Jose Ignacio Mijangos Linaza	Director	Proprietary
Mr. Jesús Barreiro Sanz	Secretary	Proprietary
Mr Jesús Solchaga Loitegui	Chair	Independent

% of Executive Directors	-
% of Proprietary Directors	50%
% of Independent Directors	50%
% of Other Outside Directors	-
Number of meetings	1

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarize the most important action that it took during the year.

The Compensation Committee has the duty of reporting, advising and proposing matters regarding compensation for directors, executives and similar personnel, as well as for the persons whose professional activity has a significant impact on the Entity's risk profile.

The Compensation Committee will have a minimum of three and a maximum of five non-executive members, at least two of which must be independent Directors.

The meetings will be validly called to order with one-half plus one of the Directors that form part of the Committee present or represented. A minutes book will indicate the resolutions that have been adopted through a majority vote of the members of the committee and be made available to all members of Board of Directors.

During the year, the Compensation Committee informed, advised and presented to the Board of Directors proposals regarding compensation for directors, senior executives, as well as for the persons whose professional activity has a significant impact on the Entity's risk profile.

LARGE RISK AND SOLVENCY COMMITTEE

Name	Position	Category
Mr. Vicente Condor López	Chairman	Independent
Mr. Jesús Máximo Bueno Arrese	Director	Proprietary
Mr. José Luis Aguirre Loaso	Director	Proprietary
Mr. Jesús Tejel Giménez	Director	Independent
Mr. Jesús Barreiro Sanz	Secretary	No member

% of Executive Directors	-
% of Proprietary Directors	50%
% of Independent Directors	50%
% of Other Outside Directors	-
Number of meetings	5

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarize the most important action that it took during the year.

The Committee has the primary duty of advising the Board of Directors as to the overall current and future risk appetite of the Entity and its Group, and the strategy in this respect. It also assists the Board with supervising the application of that strategy by senior management by monitoring the Bank's solvency levels and proposing any action deemed appropriate for improvement.

It will consist of a minimum of three and a maximum of five Directors, who will not perform executive duties at the Entity and which possess the appropriate knowledge, capacity and experience to understand and control the risk strategy and the Entity's appetite for risk. At least one third of the members will be independent and the Chair will be independent in any case. The Committee will adopt its resolutions by a majority vote of the directors that form part of the committee and are present or represented at the meeting, and the Chair will have a casting vote.

During the year Committee informed the Board of Directors of the Entity's Risk Appetite Framework, the quarterly monitoring reports as well as the annual capital and liquidity self-assessment report for 2015. The Committee informed the Board of proposals to amend the Risk Management Procedures and Policies Manuals.

STRATEGY COMMITTEE

Name	Position	Category
Mr. José Luis Aguirre Loaso	Chairman	Proprietary
Ms. Gabriela González-Bueno Lillo	Director	Independent
Mr. Félix Santiago Longás Lafuente	Director	Independent
Mr. Emilio Jiménez Labrador	Director	Proprietary
Mr. Jesús Barreiro Sanz	Secretary	No member

% of Executive Directors	-
% of Proprietary Directors	50%
% of Independent Directors	50%
% of Other Outside Directors	-
Number of meetings	4

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarize the most important action that it took during the year.

The Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organization for its implementation.

The Committee will have a minimum of 3 and a maximum of 5 members that will be designated based on their knowledge, aptitudes and experience of the Directors with respect to the Committee's duties. The Board of Directors will designate the chair, and the Secretary will be the Secretary to the Board.

The Committee will meet as many times as called by the Committee or its Chair and at least once per quarter. The Committee will adopt its resolutions by a majority vote of the directors that form part of the committee and are present or represented at the meeting, and the Chairman will have a casting vote. A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

The Committee regularly monitored the Strategic Plan approved by the Board of Directors. It also implemented quarterly follow-up measures regarding the development of the budget and the specific implementation of the mandates set out in the Strategic Plan, reporting the conclusions obtained to the Board of Directors.

D RELATED PARTY OPERATIONS AND INTRA-GROUP OPERATIONS

D.1 Provide details of the transactions carried out between the Company or its group companies, and shareholders, cooperative members, proprietary rights holders or those of any other equivalent nature at the Company.

Service agreement concluded with Fundación Bancaria Ibercaja in the amount of €360,888.

During the year the following were formalised (1) the acquisition from the Entity’s shareholder Fundación Caja Badajoz, of its 27.44% stake in the building which housed the head office of the Savings Bank located at plaza San Francisco nº 17, Badajoz for €2 million plus the relevant taxes in line with the property valuation carried out by TINSA, (2) the transfer for €21,900 of the concession for the use of three parking spaces located at Plaza San Atón, Badajoz in favour of Fundación Caja Badajoz, and(3) the lease of commercial premises from Fundación Bancaria Ibercaja, located in Teruel,for € 1,176 a month.

D.2 List any significant transactions between the Company and/or Companies in its group, directors or members of the governing body and company executives.

See explanatory note. All transactions in favour of the members of the Entity’s Board of Directors or executives form part of the Entity’s ordinary business, were carried out on an arm’s length basis and are immaterial, taking into account the criteria set out in the relevant explanatory note. The terms and conditions of this financing transactions were reported to the Bank of Spain in accordance with Article 26.5 of Law 10/2014, Article 35 of Royal Decree 84/2015 and Article 35.5 of Bank of Spain Circular 2/2016.

D.3 Provide details of intra-group transactions.

During the year no significant intra-group transactions were carried out.

D.4 Explain the mechanisms established to detect and resolve possible conflicts of interest between the Entity or its Group and its Directors, or members of the Governing Body, or executives.

The Directors have the obligation adopt the measures that are necessary to avoid situations in which there may be a conflict of interest with the business and their duties to the Entity, as is stipulated by Article 33 Board of Directors Regulations.

Directors must inform the Board of Directors of any direct or indirect conflict situation that they, or persons related to them, may have with respect to the interests of the Company or its group companies, as well as all positions that they hold and the duties that they perform at other companies or entities and, in general, any event or situation that may be relevant to their duties as a Company Director. Directors must abstain from participating in the deliberation and voting of resolutions or decisions in which the Director or a related person (as defined by Article 36 of the Regulations), has a direct or indirect conflict of interest.

Conflict of interest situations involving Directors must be reported in the annual accounts.

The Entity has internal procedures to avoid the granting of loans, guarantees or other surety without the prior authorization of the competent governing bodies.

E CONTROL AND RISK MANAGEMENT SYSTEMS

E.1 Explain the scope of the Risk Management System.

The Group's risk management is organized through the "Risk Appetite Framework" (RAF). Ibercaja's RAF as the fundamental objective of establishing a group of principles, procedures, controls and systems that define, report and monitor the Group's risk appetite. This is understood to be the level of risk profile that Ibercaja Group is willing to assume and maintain in terms of type and amount, as well as its tolerance level.

Ibercaja Group has risk management policy and procedures manuals that are reviewed and approved by the Board of Directors on an annual basis.

The Risk Appetite Framework is consistent with the capital and liquidity planning in Basel Pillar II, which is intended to ensure an adequate relationship between the Company's risk profile and the equity it effectively has on hand. The Entity self-assesses capital and liquidity on a recurring basis using a process that applies a series of procedures to identify, measure and aggregate risks, determine the capital required to cover them, plan capital in the medium-term and established the target capital and reserves that allows it to maintain an adequate cushion above the minimum legal requirements.

The entry into force of the Single Supervisory Mechanism (SSM) in November 2014 obligates the European financial sector to adapt risk policies and procedures as well as the control environment. The “Supervisory Review and Evaluation Process” (SREP) is how the SSM performs continuous evaluations of entities. The internal evaluation process for capital and liquidity adequacy under Pillar II (also called ICAAP & ILAAP) is a key part of the SREP process.

Finally, the Entity has defined a recovery plan to prevent and guarantee its response capacity to situations of a deterioration in its solvency or financing capacity in accordance with the Bank Recovery and Resolution Directive (BRRD Directive 2014/59, BRRD), Law 11/2015 on the recovery and resolution of credit institutions and investment services companies and the European Banking Association (EBA) directives and recommendations relating to the content of the recovery plans. The recovery plan forms part of the existing risk management process and it is updated at least on an annual basis.

The Risk Management System operates in an integral and continuous manner, consolidating that management by business area, geographic zone or subsidiary at the corporate level.

E.2 Identify the governing bodies at the entity that are responsible for preparing and executing the Risk Management System.

The Company has a robust organizational structure that allows it to ensure effective risk management and control. The Governing Bodies are structured as follows:

- The Board of Directors is responsible for establishing and supervising the risk reporting and control systems, approving the Risk Appetite Framework as well as for the policies, manuals and procedures relating to risk management.
- Among other responsibilities, the Large Risk and Solvency Committee proposes the establishment of limits by type of risk and business, reporting the Group's Risk Appetite Framework in a manner consistent with the Entity's other strategic policies and frameworks, evaluating the Group's risk management, reviewing the risk control systems and proposing measures to mitigate the impact of identified risks.
- the Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organization for its implementation.
- The Audit and Compliance Committee, which supervises the effectiveness of internal control, internal audit and risk management systems, regularly reviews the matters so that primary risks are identified, managed and adequately reported.

  The following Executive Committees have been created with the involvement of the Entity's senior management.

- The Overall Risk Committee is responsible for defining and monitoring the Group's risk strategies and policies, establishing objectives and strategies to develop the structure and composition of balance sheet items, analysing the sensitivity of results and the Company's equity in various scenarios, analysing compliance with the tolerance levels that have been established, as well as planning the Group's medium-term capital.
- The Audit Committee is responsible for preparing the Internal Audit Annual Operating Plan presented to the Audit and Compliance Committee, receiving regular information regarding the results set out in the internal audit reports and implementing the proposed improvement recommendations to mitigate any observed weaknesses.

The organizational outline provides the Entity with an overall risk governance and management structure, aligned with market trends and with the Ibercaja Group's current business complexity, using three lines of defence (management, control and audit). This structure guarantees the standardisation of policies and risk control at Ibercaja and all the companies forming part of the Group.

E.3 Indicate the primary risks that could affect the attainment of business objectives.

The material financial and non-financial risks affecting Ibercaja Group that are taken into account in the Risk Appetite Framework are as follows:

- Business and profitability risk: Possibility of incurring losses as a result of not generating sufficient profitable business volume to cover the costs incurred. A variant of business risk is strategic risk, which is defined as the likelihood of incurring losses as a result of the selection of a strategy that is finally determined to be inadequate to remain and compete in the market.
- Credit risk: Possibility of losses being generated due to borrowers defaulting on their payment and losses in value due to the impairment of borrowers' credit ratings.
- Concentration risk: Possibility of incurring losses as a result of a position or group of positions that are sufficiently important with respect to capital, total assets or the general risk level, and could endanger the solidity of the Entity.
- Operational risk: Risk of loss resulting from a failure to adequately design or implement processes, personnel and internal systems, or it may derive from external events.
- Interest rate risk: This is defined as the possibility that the financial margin or the Entity's equity will be affected by adverse changes in market interest rates to which asset, liability or off-book transaction positions are referenced.
- Market Risk: This is defined as the possibility of incurring losses due to maintaining market positions as a result of adverse movements in financial variables or risk factors (interest rates, exchange rates, share prices, etc.) that determine the value of those positions.
- Liquidity risk: Possibility of incurring losses due to not having access to sufficient liquid funds to meet payment obligations.
- Reputational and compliance risk: This is defined as the risk of legal or regulatory penalties, significant financial loss, or loss of reputation, suffered by an Entity due to the breach of laws, regulations, rules, standards for the self-regulation of the organization, and codes of conduct applicable in its financial activities; this risk is inherent to such activities, given that they are highly regulated and subject to on-going supervision by the authorities.
- Risk associated with the perception of the various stakeholders.

E.4 State whether the entity has a risk tolerance level.

As mentioned in paragraph E.1, risk management is ordered through the "Risk Appetite Framework" the fundamental objective of which is establishing a group of principles, procedures, controls and systems that define, report and monitor the Group's risk appetite. This is understood to be the level of risk profile that Ibercaja Group is willing to assume and maintain in terms of type and amount, as well as its tolerance level.

It must be oriented towards attaining the objectives of the strategic plan in accordance with the lines of action established therein. The management of the various risks has the objective of attaining a risk profile that falls within the desired appetite level defined based on established limits and the most adequate management measures to do so are implemented.

The RAF contains the risk appetite statement, the risk limits and the duties and responsibilities of the various governing and management bodies that supervise implementation and monitoring.

The Risk Appetite Framework defined by Ibercaja Group is characterized by:

- Alignment with the strategic plan and capital planning.

- Integration into the entity's risk culture, with the involvement of all levels of responsibility.
- Flexibility, capable of adapting to changes in the businesses and market conditions and therefore it must be regularly reviewed at least on an annual basis.
- Associated with the information management systems.

The RAF takes an overall view of the Consolidated Group and takes into consideration all risks that affect the performance of the Group's business and attaining its business objectives described in section E.3.

Ibercaja Group's Risk Appetite Framework is based on strategic principles, corporate governance and risk management that, together, constitute the Group's Risk Appetite Statement.

E.5 State the risks that have materialized during the year.

The risks that affect the Group are inherent to the financial activity carried out by the Entity, and are described in section capital E.3. Established control systems have functioned adequately throughout the year.

E.6 Explained the response and supervision plans for the entity's primary risks.

The thresholds that allow the risk profile to be placed into the following categories have been defined for each of the metrics taken into consideration in the Risk Appetite Framework:

- Compliance: the risk level that the Entity is willing to assume to in accordance with its strategic and business objectives. This is a normal risk situation at the target risk level.
- Alert: this is an intermediate level of monitoring the risk appetite with the objective of detecting whether or not the risk profile is significantly deviating from tolerance levels and, therefore, requires additional monitoring.
- Non-compliance: limit at which a non-compliance situation commences that activates specific action plans for measures.

The Overall Risk Committee is the management and control body that is responsible for establishing an action plan to attain the target risk level and must report on the monitoring of the situation at least on a quarterly basis to the Large Risk and Solvency Committee (or more frequently if considered necessary).

The action plans to be implemented will consist of one of the following:

- Proposal of measures to reduce the risk to compliance levels.
- Evaluation of the adequacy of the limits or thresholds as a result of unexpected events or changes in the strategic targets or the Entity's business.
- Temporary approval of exceeded limits.

F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICRMS)

Describe the mechanisms that make up the control and risk management systems with respect to the financial reporting information control system (ICSFR) at the entity.

F.1 Control environment at the Entity

State whether at least the following exists and, if so, describe the main characteristics:

F.1.1. Which bodies and/or areas are responsible for: (i) the existence and maintenance of an adequate and effective IFRCS; (ii) it is implementation; and (iii) its supervision.

The Entity's Board of Directors and Senior Management are conscious of the importance of guaranteeing the reliability of financial information reported to the market for investors and therefore these bodies are fully involved in the development of the ICSFR.

The Board of Directors assumes the responsibility of establishing and supervising the risk control and reporting systems, as is formally stated in its Regulations and this responsibility covers the ICSFR.

One of the authorities falling to the Board that cannot be delegated in accordance with the Board Regulations is "to be informed of and supervise the procedures that guarantee the quality and integrity of financial information, prepare the individual and consolidated annual accounts, approved the Annual Banking Record and Capital Self-Assessment Report, be informed of the content of the report that is of prudent relevance and approve and agree to the sending of the half-yearly financial report.

The Company has a Financial Information Disclosure Policy that has been approved by the Board of Directors and establishes the actions and procedures that encourage the highest level of transparency with the ultimate objective of ensuring that the disclosed financial information is clear, relevant, reliable and comparable, as defined by Rule Seven of Bank of Spain Circular 4/2004, as well as within the conceptual framework of IFRS.

Senior Management has assumed the responsibility of designing and implementing the IFRCS through the Control Department, since it centralizes the large majority of the activities intended to attain an adequately functioning ICSFR.

Finally, the Audit and Compliance Committee, in accordance with the Board Regulations, has been delegated the following basic responsibilities relating to the internal control and reporting systems:

- With respect to the reporting and internal control systems, " verify the adequacy and integrity of the internal control systems, supervise the effectiveness of the internal control and risk management systems, including tax systems, regularly reviewing those systems so that the main risks are identified, managed and reported adequately and discuss any significant weaknesses in the internal control system detected during the audit with the auditor.

- With respect to the financial information, "be informed of and supervise the process of preparing and presenting the Company's regulated financial information and, if appropriate, that relating to the Group, as well as its integrity by reviewing compliance with legislation, the adequate definition of the scope of consolidation and the proper application of accounting policies. In addition, the review of the company's accounts, supervise compliance with legal requirements and the proper application of accounting principles generally accepted in Spain and receive proposals from management to change accounting principles and policies, review the regular financial information that the Board must provide to the markets and supervisory bodies and, in particular, the information not covered by the audit of the annual accounts that is of prudent relevance. Be informed of and supervise the preparation of the regulated financial information that the Company must regularly make public and ensure that the interim accounts are prepared using the same accounting policies as the annual accounts and, in that respect, consider the appropriateness of a limited review by an external auditor".

F.1.2. Do the following elements exist, especially with respect to the process of preparing financial information:

- **Which Departments and/or mechanisms are responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority and the appropriate distribution of tasks and functions and (iii) ensuring that there are procedures in place for making them known to company employees, especially with regard to the process of preparing financial information.**

In accordance with the provisions of the Board regulations the Nominations Committee assists the Board with nominations, elections and the removal of directors and senior executives.

The Organization Department at Ibercaja is responsible for ensuring an efficient organizational structure at the company, the finding the most productive distribution of tasks and resources, as is stated in its mission statement and it contributes, by defining duties, resources and responsibilities, to the adequate operation of the internal control system with respect to the preparation of financial information.

The Human Resources Department is responsible for establishing the competencies of each position within the framework of the duties assigned to each unit, as well as determining the functional and hierarchical dependencies that are coherently appropriate in coordination with the department involved.

The current executive structure and the definition of the primary duties has been approved by the Board of Directors of Ibercaja at the proposal of the CEO. Intern, each Department, together with the Organization Department, has defined the structure of its area into Units or Departments, specifying the associated duties, which have been ratified by the CEO.

This structure is available to all employees in the Regulations published on the Entity's intranet and it is revised should there be any organizational change made.

As regards the process of preparing financial information, this is the responsibility of the Control Department, which includes the General Accounting, Management Control, Management Information (SIG), Overall Risk Control, Innovation, Management Information System Control and Quality, Internal Control and Validation units. The Control Department and, in particular, the General Accounting Unit, is responsible for the General accounting process at Ibercaja and for the Group's consolidation for accounting purposes as subsidiary accounting is decentralized and they are responsible for the management and preparation of their individual accounts in accordance with the guidelines issued by the parent company.

The persons responsible for the Control Department are those that define the lines of responsibility and authority and assign tasks and duties for each job post, applying criteria of efficiency and effectiveness and ensuring that there is an adequate segregation of tasks in this process, as well as guaranteeing continuity of those tasks and duties.

- **Code of conduct, approval body, level of dissemination and instruction, principles and values contained in the code (indicate whether there are specific references to accounting procedures and financing reporting), body in charge of analysing noncompliance and proposing corrective/disciplinary actions.**

  The Professional Ethics and Conduct Standards are set out in the regulations and are regularly distributed for the general knowledge of employees through various channels. Ibercaja Banco employees must follow these rules as part of a daily working attitude, not just as imposed obligations, and they form part of the Entity's culture, values and manner of operating.

  The objective is to provide information regarding professional integrity and ethics, the handling of information, personal data protection, securities market regulations, money-laundering prevention and other areas that are applicable to the Financial Institution and for which Ibercaja provides the necessary information and training through various channels.

  The monthly bulletin "RRHH Informa" reports modifications to the Professional Ethics and Conduct Rules.

  The Entity has a Memorandum of Rules of Conduct and Operating Security that summarizes standards, actions and criteria that must be taken into account by all employees. In particular, emphasis is placed on the importance of the proper entry of information into automated systems that affects the reliability and the guarantees for the processes carried out subsequently, particularly with respect to risk operations. This document is available on the Entity's Intranet.

  The Group's Internal Audit Statutes include the ethics rules that are applicable to the Internal Audit area and they are known and accepted by all Internal Audit personnel.

- **A reporting system which allows employees to report financial and / or accounting irregularities, breaches of the Code of Conduct and irregular activities within the organisation to the Audit Committee.**

  All Ibercaja Banco employees may use the intranet to access a "Criminal Risk Prevention Reporting Channel” to send an e-mail to the Regulatory Compliance Unit of any possible risks or failures to comply with criminal legislation, including financial and accounting matters, that may arise within the organisation during the course of their activities.

  The Regulatory Compliance Unit maintains a database of all reports received and processes them in accordance with the provisions of the criminal risk management and prevention model, and guarantees the confidentiality of the reporting party all times.

  The Regulatory Compliance Unit regularly issues reports to the Audit and Compliance Committee that include information regarding any reports received and the results of the subsequent process. The Board of Directors is informed of the actions taken in this area at least once per year.

- **Training and regular refresher programmes for personnel involved with the preparation and review of financial information, as well as the evaluation of the FRICS, covering at least the accounting, audit, internal control and risk management rules.**

  The Entity has an annual training plan, which is designed in accordance with their professional category and department / unit to which the employees belong. These training courses are offered by external and internal personnel through both on-line and in- person courses.

  Ibercaja has mechanisms that allow it to ensure that the personnel directly involved with the preparation of financial information, as well as its supervision, have the capacity and professional competency that is necessary to carry out their duties. In this connection, employees are constantly informed of current legislative requirements and have sufficient capacity to efficiently perform their tasks and duties.

  The persons responsible for each Unit and Department identify training needs and manage the necessary training action in cooperation with the Human and Material Resources Department, and keep records of the training.

  The technical updates are received by the General Accounting Unit within the Bank of Spain Financial Reporting Department and they are also received through other channels such as CECA. It also receives alerts from different professional service firms with technical updates.

  The Company has the e-learning platform Ibercampus, which is a virtual space that offers diverse courses for all employees. In 2015 Ibercampus implemented the training itineraries defined for each profile and this has allowed more than 98% of employees to acquire knowledge in fundamental areas for their jobs: skills, products and services, financial legislation, banking business, financial platform, etc.

  The training regarding accounting, audit, internal control and risk management that has been provided throughout 2016 was focused on internal training sessions at the Department level that covered internal control, risk management and, particularly, legislative novelties regarding accounting and audit and the impact that those changes have on the normal performance of their duties.

  External training is fundamentally for new employees that attend accounting courses provided by the Spanish Confederation of Savings Banks (CECA) and to cover specific training needs that may be identified, and they materialize in seminars or meetings with consultants or regulators.

F.2 Evaluation of financial information risks

Describe at least:

F.2.1. The main characteristics of the risk identification process, including error or fraud:

- **Whether the process exists and is documented.**

  Ibercaja has developed and applied a procedure to identify the material areas or headings in the financial statements and critical management processes involving the potential impact of error and fraud risks that could significantly affect the Group's financial information.

  This procedure is set out in the Policies for identifying processes and relevant areas and the associated risks, and the execution responsibility falls to Control Department while supervision is the responsibility of the Audit and Compliance Committee.

- **Whether the process covers all financial reporting objectives (existence and occurrence; integrity; evaluation; presentation, disclosure and comparability; rights and obligations), whether it is regularly updated and how frequently.**

  The procedure has been designed taking into account all of the financial information objectives set out in the document "Internal control over financial reporting in listed companies" issued by the Spanish Stock Market Commission (existence, integrity, measurement, presentation and disclosures and rights and obligations).

  This procedure is expected to be applied at least once per year using the most recent financial information. Furthermore, this risk evaluation will be carried out when circumstances arise that have not been previously identified that reveal possible errors in the financial information or when there are substantial changes in operations that could give rise to the identification of new risks.

- **The existence of a process for identifying the scope of consolidation, bearing in mind the existence of complex business structures, instrumental entities or special purpose vehicles, among others.**

  In this connection, and with respect to the sources of information used to apply the procedure, any changes in the Group's structure such as modifications to the scope of consolidation or to the lines of business, or other relevant events are taken into account, among other things. Ibercaja therefore has a specific procedure for reviewing the scope of consolidation that is applied by the General Accounting Unit.

  The possible risks relating to the proper identification of the scope of consolidation are documented in the Accounting Close Procedure and the Preparation of the Consolidated Financial Statements, which is one of the three transversal processes at the Bank.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.), to the extent that they affect the financial statements.**

  The criteria to be followed for all types of risks to be identified and that are included in the design of the procedure are both quantitative (balance and granularity) and qualitative (degree of process automation, standardisation of operations, level of accounting complexity, changes with respect to the preceding year, identified control weaknesses, etc.). In addition to considering the identification of error and fraud risks involving publish financial information, it also takes into account the effect of other types of risks such as operating, technology, financial, legal, reputational or environmental risks.

  This evaluation process covers all financial reporting objectives: (i) existence and occurrence; (ii) integrity; (iii) measurement; (iv) presentation; (v) and rights and obligations; and it effectively takes into consideration other types of risks (operating, technological, financial, legal, reputational, environmental, etc.)

- **Which governing body supervises the process.**

  The Board of Directors Regulations stipulate that one of the Board's duties is to define and review the structure of the group of companies of which the Bank is the parent at least once per year and after having received a report from the Strategy Committee.

  The Audit and Compliance Committee must review the adequate demarcation of the scope of consolidation and is responsible for informing the Board of Directors, as is stipulated in the Board Regulations, regarding the creation or acquisition of shareholdings in special-purpose vehicles or companies domiciled in countries or territories that are classified as tax havens, as well as any other similar transaction or operation which, due to its complexity, could harm the transparency of Ibercaja Bank Group.

  Through this procedure in 2016 Ibercaja has updated the process to identify the transactions, areas and processes that are relevant with respect to the generation of the Group's financial information in order to identify error risks that affect those areas.

F.3 Control activities

State whether the following exists and, if so, describe the main characteristics, if there is at least:

F.3.1. Procedures for reviewing and authorising the financial information and the description of the FRICS to be published in securities markets, indicating the persons responsible, as well as the documentation describing the flow of activities and controls (including those relating to the risk of fraud) for the various types of transactions that may materially affect the financial statements, including the accounting closing procedure and the specific review of relevant judgements, estimates, valuations and projections.

As was shown in section F.1.1. above, the Financial Information Disclosure Policy contains a list of the financial information to be published in the markets, its characteristics within the control environment as well as the persons responsible for its preparation, review, approval and distribution to supervisory bodies or to the market.

The generation, preparation and review of financial information is carried out by the Control Department, which obtains the necessary collaboration from the rest of areas at the Entity to obtain the level of detail in that information that is considered to be necessary.

The professional profile of the persons involved with the review and authorization procedure for the financial information is adequate and covers broad knowledge and experience in the areas of accounting, audit and/or risk management. The technical measures and information systems see the reliability and integrity of the financial information through the established control mechanisms.

The Entity has established control and supervisory mechanisms at different levels of information and they are prepared and supported using three lines of defence.

a) A first line of control at the Business, Management and Support Units.

Under the general principle that the primary party responsible for control must be person responsible for each business area, they must have effective risk management processes (identification, measurement or evaluation, vigilance, mitigation and communication of risks).

b) A second centralized and independent control line.

In order to supervise the exercising of the primary controls, and to exercise specialised financial operating and management controls, the Entity has systems that guarantee: effective and efficient operations, adequate risk control, prudent business conduct, the reliability of financial and non-financial information that is reported or disclosed (internally and externally), as well as compliance with laws, regulations, supervisory requirements and the entity's internal policies and procedures. These systems cover the entire organization, including the activities of all business, support and control units.

c) An Internal Audit Unit

This "third line of defence" is responsible for performing an independent review of the first two "lines of defence". This area includes the participation of the governing bodies and senior management.

Ibercaja carries out various control activities intended to mitigate the risk of error, omission or fraud that could affect the reliability of the financial information and which were identified in accordance with the previously explained process.

Specifically, and with respect to processes where material risks have been detected, including error and fraud, Ibercaja has developed uniform documentation, consisting of:

- A description of the activities relating to the process from the start, indicating the particularities that may apply to a certain product or operation.
- The risk and control matrix, which contains the relevant risks with a material impact on the Entity's financial statements and their association with the mitigating controls, as well as all the evidence regarding their application. These controls include those that are considered to be key to the process and which, in any event, ensure the adequate recognition, measurement, presentation and disclosure of transactions in the financial information.

The documents allow a quick and clear visualization of which part of the processes include identified risks and key controls. Each of the risk matrices help to identify the risk that affects each of the objectives of the financial information, the controls mitigating that risk, as well as their characteristics, the persons responsible for the control mechanism, the frequency with which it must be applied and the associated evidence.

The details of the significant processes (making a distinction between areas of the business and transversal business process) associated with the Entity's financial areas and for which the aforementioned documentation is available, are set out below.

Transversal processes

- The procedures for closing the fiscal year and preparing the consolidated annual accounts. The group has specific procedures for closing the fiscal year and this responsibility falls to each of its subsidiaries, although it is the General Accounting Unit that prepares the consolidated information based on the individual reports
- The process of issuing judgments, estimates, measurements and projections that are relevant including, among other things, the measurement of goodwill, the useful life of property, plant and equipment and intangible assets, the measurement of certain financial assets (illiquid assets), impairment losses affecting property, plant and equipment and intangible assets, the measurement of adjudicated assets or the calculation of liabilities and commitments for post-employment compensation.
- The General Computer controls established by the Group at the Technology and Systems level, physical security, computer security, maintenance and development.

Business areas

- Loans: recognition and performance, doubtful debts and provisions.
- Creditors: recognition and costs (on-demand and term accounts, including an accounting of coverage).
- Corporate security issues (including an accounting of coverage)
- Financial instruments: debt securities and equity instruments (listed and unlisted).
- Real estate assets receive in lieu of payment (ANCEV, Real Estate Investments and Inventories).
- Corporate income tax.
- Pension commitments.
- Insurance.

In general terms, the Control Department is responsible for establishing the accounting policies that are applicable to new transactions in accordance with the criteria established in current legislation. As regards the critical judgments relating to the application of accounting policies and relevant estimates, this Unit establishes the criteria to be applied within the legislative framework. The application of these criteria may be carried out directly by the Units (with supervision) or the Bodies in which Senior Management is present (Committees).

F.3.2. Internal control policies and procedures for information systems (safe access, change control, operations, continuity of operation and segregation of functions, among others) that support the Bank's relevant processes in relation to the preparation and publication of financial information.

The Entity has a general computer control procedure with the relevant risk and control matrix that provides details of the risks and controls relating to access security, change controls, operations, operating continuity and the segregation of duties.

The Technology and Systems Department and, specifically, the Unit for the Provision of Technological Services, is responsible for supporting and maintaining the operating system, communications and data administration and its duties include the analysis of systems and standards that allow a proper degree of protection and recovery of data and programs, ensuring compliance with legislation and legally required security measures. The Information Security Management and Control Unit is responsible for proposing the information security measures and the relevant application policy and maintaining proactive contact with the sector in order to have sufficient information on technological progress and compliance with Information System Security and its application in the Ibercaja Group.

Ibercaja has a series of standards and codes of good practices for final users that are set out in the Regulations available on the intranet. In addition, it has taken action addressing the definition of overall policies and procedures that are uniform with respect to the required security for information systems involved with the preparation of financial information, including physical and logical security, data processing security and final user security.

The information servers are located at the central and back-up processing centres and only authorized personnel have access (generally operations) together with subcontractors.

The Group has a Business Continuity Plan for the areas involved with the process of preparing and reporting financial information. It covers the existing information systems at the parent company, which is where the preparation of financial information primarily takes place.

Finally, the Group has mechanisms that ensure the daily preparation of a backup copy of critical environments and in order to make improvements it is implementing formal information recovery test procedures.

Finally, the Audit Department, through the Audit Unit for Computer Processes is responsible for reviewing computer processes and the Group's information systems, systematically analysing and reviewing technological controls that have been implemented, as well as making proposals to expand and/or improve the systems.

F.3.3. Internal control procedures and policies intended to supervise subcontractors, as well as the evaluation, calculation or measurement activities tasked to independent experts that could have a material effect on the financial statements.

The Group has subcontracted third parties to carry out certain duties that are not very significant but which affect the process of the preparation of financial information through certain measurements, calculations and estimates used to generate the individual and consolidated annual accounts that are published in the stock market.

In accordance with the Board Regulations the Board cannot delegate the approval and review of outsourcing policy, which has been reviewed by such Body during 2016.

It currently has supervision and review procedures of both subcontracted activities and the calculations or measurements prepared by independent experts that are relevant to the process of generating financial information and which are included in the formal review process that forms part of the defined ICSFR framework, in order to comply with the specifications of that system and best practices in the market.

The procedures carried out specify the following aspects:

- Formal designation of the persons responsible for carrying out the various actions.
- Analysis prior to contracting, and there is a formal process that is implemented at the time the need to outsource a service or obtain the services of an independent expert arises and this process examines different proposals that define the persons responsible for approving the contractual relationship.
- Supervision and review of the information generated or the service provided:
  - For subcontracted activities: request for regular reports; obligation to be audited by a third party; regular review of the capacity and accreditation of the external expert. In those cases in which the relevance of the outsourced service with respect to financial information is high, requests for reports from independent third parties regarding the control activities carried out by the company rendering the service.
  - For measurements prepared by external experts: review controls regarding the validity of the information provided; regular review of the capacity and accreditation of the expert.

In 2016 the activities that were assigned to third parties with respect to appraisals and calculations by independent experts related to:

- The actuarial calculation of commitments assumed with employees.
- The appraisal of foreclosed properties and properties that are used to secure loans granted by the Company.
- Certain tax and legal advisory services.

F.4 Information and communications

State whether the following exists and, if so, describe the main characteristics, if there is at least:

F.4.1. Specific task responsible for defining and updating the accounting policies (accounting policy area or department) and resolving doubts or conflicts deriving from their interpretation, maintaining fluid communications with the persons responsible for operations at the organisation, as well as an up-to-date accounting policy manual that has been communicated to the units through which the entity operates:

Through the General Accounting Unit, the Control Department is responsible for defining, reviewing and updating the accounting procedures that must be implemented at the Entity and at the various Group companies, which requires the collaboration of the Internal Audit Department and the General Secretary's Office (Legislation Compliance Unit) with respect to legal aspects in order to ensure rigorous compliance with the law. This task of analysing accounting legislation, evaluating and proposing action to implement or adapt procedures that are necessary is guaranteed through the resources that are currently attributed to this Unit, bearing in mind the size of the Entity and the Group.

In any event, the accounting policies are updated to reflect any change in legislation and any new decision that modifies those policies in those cases in which there is a certain amount of discretion. Any update that may have taken place is published daily on the intranet.

In addition, the Control Department is responsible for resolving any doubt or conflict regarding interpretation arising from the application of the accounting policies, maintaining fluid communications with the various persons responsible for the areas at the parent company and the rest of the Group's subsidiaries that are involved in the process of preparing financial information.

Ibercaja does not have a single Accounting Policy Manual, but rather the whole of its accounting policies consist of International Financial Reporting Standards (IFRS), Bank of Spain circular letters (Circular number 4/2004 and subsequent amendments), the policies that must be developed in accordance with current legislation and the specific policies that the Entity has prepared. All of the accounting policies approved by the Entity are available on its intranet, which also indicates any update to those policies. Based on the relevance of the content of accounting standards, the appropriate level of approval is established ranging from the Board of Directors to the person responsible for General Accounting.

With respect to the Group's subsidiaries, if they prepare their own accounts on a decentralized manner in accordance with their own procedures, the accounting policies must comply with the rules and guidelines issued from General Accounting, which is also responsible for supervising the preparation of that information.

It should be noted that the subsidiaries prepare their own financial information based on formats that have already been agreed with the parent company in order to obtain the financial statements in the most uniform format possible to facilitate the presentation of the Group's consolidated information. They must comply with the accounting standards or criteria issued by General Accounting.

F.4.2. Mechanisms for capturing and preparing financial information using uniform formats, applicable and to be used by all units at the Entity or the Group, and support the main financial statements and the notes to the accounts, as well as the information provided regarding the ICSFR.

Ibercaja has applications and computer systems that allow individual accounts to be aggregated and unified from the various areas and subsidiaries that make up the Group, including the necessary level of disclosure, and, finally, generate the individual and consolidated annual accounts that are reported together with other financial information published in the market. The Control Department is responsible for aggregating, unifying and reporting the information, using common systems and applications.

Each subsidiary is responsible for preparing its own accounts in systems established for that purpose and, in any event, the accounting information is recorded in GAP format (General Accounting Plan). They therefore prepare their own financial statements, always using the guidelines of the Control Department.

The subsidiaries send the necessary supplementary information to both verify the information that has been sent, and to harmonize and unify accounting policies. They also send the consolidation packages that are necessary to prepare the relevant disclosures in the financial statements and auxiliary statements that are necessary to cover the remaining reporting needs.

The General Accounting Unit is responsible for the preparation and update of internal financial reporting control systems (matrices and controls) for the various areas and processes and establishes controls and obtains evidence in this respect, while implementing any necessary improvements.

Finally, the Internal Audit Department is responsible for reviewing the circuits and operating procedures that have been implemented at Control Units or subsidiaries, determining the reliability of the information that they generate and compliance with applicable internal requirements.

F.5 Supervision of system operations

State whether the following exists and, if so, describe the main characteristics:

F.5.1. State whether there is an internal audit function whose responsibilities include assisting the Audit Committee with the task of supervising the internal control system, including ICSFR. A description of the scope of the evaluation of the ICSFR carried out during the year and the procedures used to execute that review and communicate the results obtained, and does the Entity have an action plan that details any corrective measures that make reference to such an evaluation, having taken into consideration its impact on the financial information:

The internal audit function is the responsibility of Ibercaja's Internal Audit Department, which reports hierarchically to the Board of Directors through the Audit and Compliance Committee.

This Department is configured into the following Units to fulfil its duties: Audit of the Distribution Network, Credit Risk Audit, Computer Process Audit and Financial Audit

The internal audit function is tasked to perform programmed reviews of the systems implemented to control all risks, internal operating procedures and compliance with applicable internal and external regulations. Among the current duties assigned to the Internal Audit Department are set out in the Entity's internal regulations is the constant evaluation of the adequacy and proper operation of the financial, regulatory management and internal control reporting systems at Ibercaja Group that are inherent to the Entity's or the Group's businesses, and proposing any recommendations for improvement in accordance with a preventative approach.

In order to obtain its objectives and fulfil the assigned duties, the Internal Audit Department prepared a multi-year Strategic Plan in 2015 within the framework of the Entity's Strategic Plans that covers the strategic objectives to be attained during the period, the duties, tools and projects to be carried out and the projected calendar for completion. Among the action plans, the review efforts by the ICSFR is a fundamental pillar, establishing annual reviews of the Entity's critical procedures.

The Annual Operating Plan for Internal Audit includes the specific audits to be performed in each Specialized Unit during the year, at least on a quarterly basis, and the resources that are available for their execution, together with the training activities that must be carried out by the auditors in the various Units. The Internal Audit Department must regularly inform the Board of Directors or the Audit and Compliance Committee and Senior Management of the operation of the internal control reporting systems, the internal audit annual plan and compliance with the objectives set out therein.

Both the Internal Audit Strategic plan and the Annual Operating Plan have been submitted for the approval of the Audit and Compliance Committee.

The efforts made by internal audit and carried out through the execution of the Annual Audit Operating Plan is fundamental to the supervision of the ICSFR.

The Audit Operating Plan for 2016 specifically included several evaluation activities applied to the ICSFR and other issues that affect the process of preparing financial information have been reviewed. Among the actions that have been taken, the audit of the Insurance Procedure is notable. The reviews that are carried out may result in audit recommendations that are prioritized in accordance with their relative importance and they are continuously monitored until fully implemented.

F.5.2. Is there a discussion procedure through which the auditor (in accordance with the provisions of the Technical Audit Standards (TAS)), internal audit and other experts may communicate with senior management and the Audit Committee or Directors at the entity to report significant weaknesses in internal control identified during the review of the annual accounts or any other accounts being reviewed? Report if you have an action plan that is intended to correct or mitigate detected weaknesses.

In accordance with the Board Regulations, the Audit and Compliance Committee is responsible for regularly receiving information from the external auditor regarding the audit plan and the results of its execution and to verify that senior management takes into account the recommendations made, as well as discussing with the auditor any significant internal control weaknesses detected during the performance of the audit.

Currently, the Audit and Compliance Committee meets with the external auditors at least twice during the course of the year at which time any significant weakness that may have been detected can be reported. That meeting is also attended by the Audit Department, the Control Department and the Director of the General Accounting Unit. The action plans or measures necessary to implement them are specified at these meetings and the parties responsible for such implementation are also designated. Subsequently, there are mechanisms that guarantee that they are carried out and the mitigation of the weaknesses is verified.

The Audit and Compliance Committee has the responsibility to supervise the main conclusions relating to the internal audit work performed and to do so the person responsible for the Audit Department attends the meetings and provides a summary of the main were carried out over the last accounting period.

In order to define the action plans that will allow any weakness in the internal control system to be mitigated, the Internal Audit Department makes the reports resulting from its review work available to the responsible members of management. These reports are sent to the Executive Internal Audit Committee at which the detected weaknesses are discussed and, any that are significant or critical for the Entity are covered by action plans involving the various areas concerned, defining the persons responsible and the projected resolution deadline.

The resolutions adopted by the Executive Audit Committee with respect to the action plans are included in the minutes that are presented to the Managing Director. These items are monitored by senior management and, specifically, by the Departments involved by holding meetings with the aforementioned Committee. Finally, the most relevant items are reported to the Audit and Compliance Committee at bi-yearly meetings.

F.6 Other relevant information

Nothing to be noted.

F.7 Report from the external auditor

Report from:

F.7.1. If the information regarding the FRICS that is sent to markets been subjected to review by the external auditor, in which case the relevant report should be included as an Appendix. If not, the reason for not doing this should be explained.

The information on the “Financial Reporting Internal Control Systems” set out in section F of the 2016 CGR was examined by the external auditors. The scope of the auditor’s review was in keeping with the terms of Circular E 14/2013 of the Spanish Institute of Certified Public Accountants dated 25 January 2012.

The resulting report will be included as an appendix to this Annual Corporate Governance Report.

G OTHER INFORMATION OF INTEREST

If there is some relevant corporate governance item at the Company or at the group companies that has not been included in the rest of the sections of this report, but must be included to more completely reflect the governance structure and practices at the Company or its Group, briefly describe.

This section may also include any other information, clarification or nuance relating to previous sections of the report, provided that they are relevant and non-reiterative.

Specifically, state whether the company is subject to any laws other than the laws of Spain on corporate governance and, if this is the case, include whatever information the Company may be required to provide when different from the information included in this report.

The Entity may also indicate if it has voluntarily applied other codes of ethical principles or good practices, whether international, industry-related or of any other scope. If appropriate, the Entity will identify the code in question and the date on which it was applied.

C.1.2. Mr Jesús Tejel Giménez and Mr. Félix Santiago Longás Lafuente were appointed independent directors, pursuant to the proposal of the Nominations Committee, by the Extraordinary General Shareholders' Meeting held on 30 August 2016. During that meeting, Mr Amado Franco Lahoz, Mr José Luis Aguirre and Mr Jesús Máximo Bueno Arrese were re-elected as members of the Board of Directors as proprietary directors pursuant to the proposal of Fundación Bancaria Ibercaja.

Mr Emilio Jiménez Labrador was appointed a proprietary director on 28 October 2016,at the request of Fundación Ordinaria Caja Badajoz, replacing Mr Francisco Manuel García Peña.

C.1.5 "Fixed compensation" includes the amounts received by Directors, including life insurance premiums. "Other items" indicates the compensation received by Directors for their membership on internal Board committees, other than the per diems received for attending meetings.

The section Group indicates the compensation accruing to the Members of the Board of Directors for being members of the Board and/or senior management at Group companies, excluding the parent company.

Incomplete years: Even if a Director has not carried out activities during the complete period being reported, the compensation that has received is included in section C.1.5 of the report.

C.1.6 Senior management is understood to be the General Managers and similar positions that carry out management duties directly under the governing bodies, executive committees or CEO. As a result, the members of the Management Committee are considered to be "senior management" for the purposes of this report.

To calculate the "senior management compensation" the same compensation items indicated in section C.1.5 that are applicable are used. Contributions to pension funds are included.

C.1.8 The annual accounts, both individual and consolidated, are considered to be “certified” when they are presented to the governing body with a statement signed by the persons certifying the accounts declaring that they reflect, in all material respects, the true and fair view of the financial situation at the year-end, as well as the results of the entity's operations and any changes in its financial situation during the year, and that they contain the necessary and sufficient information for an adequate understanding, in accordance with applicable legislation.

C.2.1 and C.2.2. This section includes all the committees created by the Board of Directors.

The CEO's duties cover the effective management of the Company's business, always in accordance with the decisions and criteria established by shareholders at a General Meeting, the Board of Directors and the Executive Committee in the areas of their respective competencies.

During the meeting held on 30 August 2016 the Board of Directors resolved to appoint Mr Vicente Cóndor López a member of the Executive Committee, Mr Jesús Tejel Giménez a member of the Audit and Compliance Committee and Large Risk and Solvency Committee and Mr Félix Santiago Longás Lafuente a member of the Strategy Committee and a member of the Compensation Committee and Nominations Committee, in both cases, replacing Mr Vicente Cóndor López;

During the meeting held on 28 October 2016, the Board of Directors resolved to appoint Mr Emilio Jiménez Labrador a member of the Strategy Committee.

Ms. Gabriela González Bueno-Lillo was appointed Chairman of the Audit and Compliance Committee on 6 February 2014. Ms. Gabriela González Bueno Lillo, Mr. Vicente Cóndor López, Mr. Jesús Bueno Arrese and Mr, Jesús Tejel Giménez were appointed taking into account their knowledge and experience with accounting, audit or both.

Heading D. In accordance with the instructions received from the CNMV to complete the report, with respect to definitions, criteria and type of aggregation, the provisions of Order EHA/3050/2004 (15 September) are used with respect to the reporting of associated transactions that must be provided by companies issuing securities that may be listed for trading on official secondary markets. As a result, transactions between group companies that have been eliminated from the consolidated annual accounts and which form part of the ordinary course of the business of those companies with respect to their purpose and conditions are not reported, nor are those that relate to the company's ordinary course of business, those that are carried out under normal market conditions and are of little importance, which are understood to be those whose reporting is not necessary to express the true and fair view of the equity, financial situation and the results obtained by the Entity.

All the information that must be included in the report and is outside of the control of the Entity, is provided based on the knowledge held by the Company, the reports that have been made in compliance with current legislation and information stated in public registries.

APPENDIX.- Report from the external auditor

pwc

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR´S REPORT ON "INFORMATION REGARDING THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING (ICSFR)" OF IBERCAJA BANCO, S.A. FOR THE 2016 FINANCIAL YEAR

To the Board of Directors of Ibercaja Banco, S.A.

In accordance with the request of the Board of Directors of Ibercaja Banco, S.A. (the Entity) and our engagement letter dated 28 November, 2016, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in section "*F. Internal Control and Risk Management systems relating to the process of issuing financial information*" of Annual Corporate Governance Report of Ibercaja Banco, S.A. for the 2016 financial year, which includes a summary of the Entity's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Entity in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Entity's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Entity's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Entity's annual financial information for the 2016 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

In addition, as this special engagement is not an audit of financial statements and is not subject to the revised Auditing Act approved by Royal Decree Law 1/2011, of July 1, we do not express an audit opinion under the terms of the aforementioned legislation.

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Mercantile Registry Madrid, page 87.250-1, sheet 75, volume 9.267, book 8.054, section 3ª.
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The procedures applied were as follows:

1. Reading and understanding the information prepared by the Entity in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº 7/2015 of the National Securities Market Commission dated December 22, 2015.

2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Entity.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Entity's ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.

5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Entity, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº 7/2015 of the National Securities Market Commission, dated December 22, 2015, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Raúl Ara Navarro

24 February 2017

This annual corporate governance report was approved by the entity's Board or governing body during its meeting of 24 February 2017.

Please indicate the directors or members of the Board or Governing Body who abstained or voted against of this Report.