Ibercaja Banco, S.A.
and subsidiaries

Consolidated financial statements at 31 December 2017 and
consolidated directors' report for 2017

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

IBERCAJA BANCO, S.A.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED DIRECTORS' REPORT

At its meeting on 1 March 2018 in Zaragoza, pursuant to the prevailing legislation, the Board of Directors of Ibercaja Banco, S.A. resolved to prepare the 2017 consolidated financial statements comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity, the consolidated statement of cash flows, the notes to the consolidated financial statements (Notes 1 to 45 and Appendices I to III) and the 2017 consolidated directors' report, which were set forth on official stamped paper and were numbered correlatively.

To the best of our knowledge, the 2017 consolidated financial statements, prepared in accordance with the applicable accounting principles, present fairly the equity, financial position, results and cash flows of the Company and subsidiaries forming the Ibercaja Banco Group. Likewise, the 2017 consolidated directors' report presents fairly the performance, results and position of the Company and subsidiaries forming the Ibercaja Banco Group, together with a description of the main risks and uncertainties facing them.

SIGNATORIES:

MR JOSÉ LUIS AGUIRRE LOASO
Tax ID No.:
Chairman

MR JESÚS BUENO ARRESE
Tax ID No.:
First Deputy Chairman

MR JOSÉ IGNACIO MIJANGOS LINAZA
Tax ID No.:
Second Deputy Chairman

MR VÍCTOR IGLESIAS RUIZ
Tax ID No.:
CEO

MR JESÚS BARREIRO SANZ
Tax ID No.:
Director Secretary

Ms. GABRIELA GONZÁLEZ-BUENO LILLO
Tax ID No.:
Director

MR JESÚS SOLCHAGA LOITEGUI
Tax ID No.:
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MR JUAN MARÍA PEMÁN GAVÍN
Tax ID No.:
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MR EMILIO JIMÉNEZ LABRADOR
Tax ID No.:
Director

MR VICENTE CÓNDOR LÓPEZ
Tax ID No.:
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MR FÉLIX LONGÁS LAFUENTE
Tax ID No.:
Director

MR JESÚS TEJEL GIMÉNEZ
Tax ID No.:
Director

MR ENRIQUE ARRUFAT GUERRA
Tax ID No.:
Director

Ms. MARÍA PILAR SEGURA BAS
Tax ID No.:
Director

Ibercaja Banco, S.A.
and subsidiaries

Consolidated financial statements at
31 December 2017

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016

(Thousands of euros)

ASSETS	Note	31/12/2017	31/12/2016 (*)
Cash and cash balances at central banks and other demand deposits	**6**	**3,512,477**	**1,005,986**
Financial assets held for trading	**7**	**9,378**	**33,124**
Derivatives		9,054	32,435
Debt securities		324	689
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	-
Financial assets designated at fair value through profit or loss	**8**	**52,247**	**48,997**
Equity instruments		41,632	44,384
Debt securities		10,615	4,613
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	-
Available-for-sale financial assets	**9**	**10,849,926**	**11,476,251**
Equity instruments		325,681	434,891
Debt securities		10,524,245	11,041,360
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		*2,150,225*	*2,580,862*
Loans and receivables	**10**	**35,019,799**	**36,019,328**
Debt securities		2,296,675	2,602,217
Loans and advances		32,723,124	33,417,111
Credit institutions		*414,087*	*470,055*
Customers		*32,309,037*	*32,947,056*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		*5,399,359*	*6,064,814*
Held-to-maturity investments	**11**	**-**	**4,545,574**
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	*2,520,964*
Derivatives - Hedge accounting	**12.1**	**187,456**	**285,111**
Fair value changes of the hedged items in portfolio hedges for interest rate risk		**-**	**-**
Investments in joint ventures and associates	**13**	**105,313**	**135,798**
Jointly controlled entities		27,884	29,684
Associates		77,429	106,114
Assets under insurance or reinsurance contracts	**14**	**395**	**514**
Tangible assets	**15**	**1,029,414**	**1,092,388**
Property, plant and equipment		640,977	656,940
For own use		*615,429*	*633,473*
Assigned under operating lease		*25,548*	*23,467*
Investment property		388,437	435,448
of which: assigned under operating lease		*183,232*	*209,719*
Memorandum items: acquired under finance lease		-	-
Intangible assets	**16**	**199,680**	**198,837**
Goodwill		144,934	144,934
Other intangible assets		54,746	53,903
Tax assets	**25**	**1,338,472**	**1,397,012**
Current tax assets		25,054	24,351
Deferred tax assets		1,313,418	1,372,661
Other assets	**17**	**249,656**	**280,023**
Inventories		225,551	244,650
Remaining other assets		24,105	35,373
Non-current assets and disposal groups classified as held for sale	**18**	**552,756**	**656,931**
TOTAL ASSETS		**53,106,969**	**57,175,874**

(*) Presented for comparison purposes only (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2017.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Thousands of euros)

LIABILITIES	Note	31/12/2017	31/12/2016 (*)
Financial liabilities held for trading	**7**	**7,301**	**31,255**
Derivatives		7,301	31,255
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Memorandum items: subordinated liabilities		-	-
Financial liabilities at amortised cost	**19**	**42,270,895**	**46,352,735**
Deposits		39,666,819	43,499,051
Central banks		*3,353,508*	*3,366,566*
Credit institutions		*1,236,216*	*3,127,312*
Customers		*35,077,095*	*37,005,173*
Debt securities issued		1,827,266	2,147,252
Other financial liabilities		776,810	706,432
Memorandum items: subordinated liabilities		*631,751*	*857,260*
Derivatives - Hedge accounting	**12.1**	**106,702**	**176,172**
Fair value changes of the hedged items in portfolio hedges for interest rate risk	**12.2**	**11,054**	**16,022**
Liabilities under insurance or reinsurance contracts	**20**	**7,019,204**	**6,858,907**
Provisions	**21**	**372,779**	**411,329**
Pensions and other post-employment defined benefit obligations		120,751	139,820
Other long-term employee remuneration		3,863	4,999
Lawsuits and litigation for outstanding taxes		12,814	11,540
Commitments and guarantees given		31,656	35,328
Other provisions		203,695	219,642
Tax liabilities		**191,630**	**231,874**
Current tax liabilities		3,152	1,454
Deferred tax liabilities	**25.4**	188,478	230,420
Other liabilities	**22**	**128,112**	**120,820**
Liabilities included in disposal groups of items classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**50,107,677**	**54,199,114**

(*) Presented for comparison purposes only (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2017.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Thousands of euros)

EQUITY	Note	31/12/2017	31/12/2016 (*)
Shareholders' equity	**23**	**2,854,915**	**2,753,123**
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		418,783	311,648
Revaluation reserves		3,321	3,329
Other reserves		150,168	150,973
Accumulated reserves or losses on investments in joint ventures and associates		(64,260)	(63,455)
Other		214,428	214,428
(Treasury shares)		-	-
Profit attributable to owners of the parent		138,367	142,897
(Interim dividends)		-	-
Accumulated other comprehensive income		**144,077**	**223,330**
Items that will not be reclassified to profit or loss		(11,607)	(21,758)
Actuarial gains/(losses) on defined benefit pension plans	*24.1*	*(11,607)*	*(21,758)*
Non-current assets and disposal groups classified as held for sale		-	-
Share in other income and expense recognised in joint ventures and associates		-	-
Other valuation adjustments		-	-
Items that may be reclassified to profit or loss		155,684	245,088
Hedging of net investments in foreign transactions (effective portion)		-	-
Foreign currency translation		-	-
Hedging derivatives. Cash flow hedges (effective portion)	*24.2*	*(1,169)*	-
Available-for-sale financial assets	*24.3*	*157,203*	*245,648*
Debt instruments		*85,822*	*166,637*
Equity instruments		*71,381*	*79,011*
Non-current assets and disposal groups classified as held for sale		-	-
Share in other income and expense recognised in joint ventures and associates		*(350)*	*(560)*
Non-controlling interests	**23.2**	**300**	**307**
Accumulated other comprehensive income		-	-
Other items		300	307
TOTAL EQUITY		**2,999,292**	**2,976,760**
TOTAL EQUITY AND LIABILITIES		**53,106,969**	**57,175,874**
Memorandum items: off-balance sheet exposures			
Guarantees granted	**27.1**	**742,827**	**640,174**
Contingent commitments granted	**27.3**	**3,088,704**	**3,190,784**

(*) Presented for comparison purposes only (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2017.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

	Note	2017	2016 (*)
Interest income	**28**	**695,983**	**832,867**
(Interest costs)	**29**	**134,827**	**265,664**
(Expenses on share capital repayable on demand)		**-**	**-**
NET INTEREST INCOME		**561,156**	**567,203**
Dividend income	**30**	**12,797**	**10,913**
Share of profit of entities accounted for using the equity method	**31**	**1,303**	**11,701**
Fee and commission income	**32**	**379,967**	**349,768**
(Fee and commission expenses)	**33**	**14,932**	**10,969**
Gains/(losses) on financial transactions (net)	**34**		
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		148,273	152,621
Gains/(losses) on financial assets and liabilities held for trading, net		971	15,148
Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss, net		1,169	573
Gains/(losses) from hedge accounting, net		2,111	1,185
Net exchange differences	**35**	**1,334**	**1,259**
Other operating income	**36**	**155,637**	**118,212**
(Other operating expenses)	**37**	**85,282**	**87,540**
Income from assets covered by insurance and reinsurance contracts	**20.2**	**1,150,124**	**1,330,367**
(Liability expenses covered by insurance or reinsurance contracts)	**20.2**	**1,150,414**	**1,330,667**
GROSS INCOME		**1,164,214**	**1,129,774**
(Administration expenses)		**668,194**	**599,858**
(Personnel expenses)	38	458,588	384,958
(Other administration expenses)	39	209,606	214,900
(Amortisation and depreciation)	**15, 16**	**50,806**	**52,347**
(Provisions or (-) reversal of provisions)	**21**	**(2,628)**	**96,019**
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)		**185,189**	**290,663**
(Financial assets measured at cost)	9	11,770	13,170
(Available-for-sale financial assets)	9	1,552	11,164
(Loans and receivables)	10	171,873	266,323
(Held-to-maturity investments)	11	(6)	6
INCOME FROM OPERATING ACTIVITIES		**262,653**	**90,887**
(Impairment or (-) reversal of impairment on investments in joint ventures or associates)		**129**	**-**
(Impairment or (-) reversal of impairment on non-financial assets)	**40**	**16,075**	**3,141**
(Tangible assets)		(2,375)	(728)
(Intangible assets)		-	189
(Other)		18,450	3,680
Gains/(losses) on derecognition of non-financial assets and shareholdings, net	**41**	**8,068**	**5,332**
of which: investments in subsidiaries, joint ventures and associates		*6,858*	*6,070*
Negative goodwill recognised in profit or loss		**-**	**-**
Gains (losses) on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	**42**	**(71,786)**	**(22,308)**
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**182,731**	**70,770**
(Expense or (-) income from taxes on income from continuing operations)	**25**	**44,373**	**(72,292)**
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**138,358**	**143,062**
Profit/(loss) after tax from discontinued operations		**-**	**-**
PROFIT FOR THE YEAR		**138,358**	**143,062**
Attributable to non-controlling interests		(9)	165
Attributable to owners of the parent		138,367	142,897

(*) Presented for comparison purposes only (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated income statement for 2017.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Thousands of euros)

	Note	2017	2016 (*)
PROFIT FOR THE YEAR		**138,358**	**143,062**
OTHER COMPREHENSIVE INCOME	**24**	**(79,253)**	**57,840**
B.1) Items that will not be reclassified to profit or loss		**10,151**	**(3,256)**
Actuarial gains/(losses) on defined benefit pension plans		**14,501**	**(4,652)**
Non-current assets and disposal groups of items held for sale		**-**	**-**
Other valuation adjustments		**-**	**-**
Income tax relating to items not to be reclassified	**25.4**	**(4,350)**	**1,396**
B.2) Items that may be reclassified to profit or loss		**(89,404)**	**61,096**
Hedges of net investment in foreign operations		**-**	**-**
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		**(1,670)**	**-**
Valuation gains/(losses) taken to equity		(1,670)	-
Transferred to the income statement		-	-
Transferred to initial carrying amount of hedge items			
Other reclassifications		-	-
Available-for-sale financial assets		**(128,861)**	**80,257**
Valuation gains/(losses) taken to equity		(3,644)	226,816
Transferred to the income statement	34	(125,217)	(146,559)
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 in other income and expense recognised in joint ventures and and associates		**210**	**1,043**
Income tax relating to items that may be reclassified in profit or loss	**25.4**	**40,917**	**(20,204)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**59,105**	**200,902**
Attributable to non-controlling interests		(9)	164
Attributable to owners of the parent		59,114	200,738

(*) Presented for comparison purposes only (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of recognised income and expense at 31 December 2017.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Thousands of euros)

												Non-controlling interests		
	Capital	**Share premium**	**Equity instruments issued other than capital**	**Other equity items**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(Treasury shares)**	**Attributable to owners of the parent**	**(Interim dividends)**	**Accumulated other comprehensive income (Note 24)**	**Other accumulated comprehensive income**	**Other items**	**Total (Note 23)**
I. Closing balance at 31/12/2016	**2,144,276**	**-**	**-**	**-**	**311,648**	**3,329**	**150,973**	**-**	**142,897**	**-**	**223,330**	**-**	**307**	**2,976,760**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**311,648**	**3,329**	**150,973**	**-**	**142,897**	**-**	**223,330**	**-**	**307**	**2,976,760**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**138,367**	**-**	**(79,253)**	**-**	**(9)**	**59,105**
Other changes in equity	**-**	**-**	**-**	**-**	**107,135**	**(8)**	**(805)**	**-**	**(142,897)**	**-**	**-**	**-**	**2**	**(36,573)**
Issuance of common 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)	-	-	-	-	(35,725)	-	-	-	-	-	-	-	-	(35,725)
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	142,860	(8)	45	-	(142,897)	-	-	-	-	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	-	-	(850)	-	-	-	-	-	2	(848)
III. Closing balance at 31/12/2017	**2,144,276**	**-**	**-**	**-**	**418,783**	**3,321**	**150,168**	**-**	**138,367**	**-**	**144,077**	**-**	**300**	**2,999,292**

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of total changes in equity at 31 December 2017.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 (*)

(Thousands of euros)

												Non-controlling interests		
	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(Treasury shares)	Attributable to owners of the parent	(Interim dividends)	Accumulated other comprehensive income (Note 24)	Other accumulated comprehensive income	Other items	Total (Note 23)
I. Closing 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 common 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. Closing balance at 31/12/2016	**2,144,276**	**-**	**-**	**-**	**311,648**	**3,329**	**150,973**	**-**	**142,897**	**-**	**223,330**	**-**	**307**	**2,976,760**

(*) Presented for comparison purposes only (Note 1.4).

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

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

	Note	2017	2016 (*)
A)CASH FLOWS FROM OPERATING ACTIVITIES		**(671,410)**	**(1,505,263)**
Profit for the year	**23**	**138,358**	**143,062**
Adjustments to obtain cash flows from operating activities		**366,783**	**468,086**
Amortisation and depreciation	15 and 16	50,806	52,347
Other adjustments		315,977	415,739
Net increase/decrease in operating assets		**2,423,901**	**(428,413)**
Financial assets held for trading		23,746	8,203
Financial assets designated at fair value through profit or loss		(3,250)	3,616
Available-for-sale financial assets		1,651,679	(68,984)
Loans and receivables		648,193	(463,075)
Other operating assets		103,533	91,827
Net increase/(decrease) in operating liabilities		**(3,682,127)**	**(1,649,153)**
Financial liabilities held for trading		(23,954)	(4,715)
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		(3,816,324)	(2,014,715)
Other operating liabilities		158,151	370,277
Income tax credit/(payments)		**81,675**	**(38,845)**
B)CASH FLOWS FROM INVESTING ACTIVITIES		**3,421,599**	**1,867,406**
Payments		**(101,488)**	**(60,062)**
Tangible assets		(36,249)	(40,237)
Intangible assets		(14,097)	(8,241)
Investments in joint ventures and associates		-	(20)
Other business units		-	-
Non-current assets and liabilities classified as held for sale		(25,142)	(11,564)
Held-to-maturity investments		(26,000)	-
Other payments related to investing activities		-	-
Receipts		**3,523,087**	**1,927,468**
Tangible assets		63,830	70,435
Intangible assets		-	-
Investments in joint ventures and associates		23,883	11,151
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		182,196	133,480
Held-to-maturity investments		3,253,178	1,712,402
Other receipts related to investing activities		-	-
C)CASH FLOWS FROM FINANCING ACTIVITIES		**(260,349)**	**(209,370)**
Payments		**(260,349)**	**(209,370)**
Dividends	4	(35,725)	(20,000)
Subordinated liabilities	19.4	(224,624)	(189,370)
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		-	-
Receipts		**-**	**-**
Subordinated liabilities		-	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		-	-
Other receipts related to financing activities		-	-
D)EFFECT OF EXCHANGE RATE FLUCTUATIONS		**-**	**-**
E)NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**2,489,840**	**152,773**
F) CASH AND CASH EQUIVALENTS AT START OF PERIOD		**977,757**	**824,984**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD		**3,467,597**	**977,757**
MEMORANDUM ITEMS			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
of which: in the possession of Group companies but not drawable by the Group		-	-
Cash	6	212,467	207,771
Cash equivalents at central banks	6	3,068,476	551,538
Other financial assets	6 and 19.2	186,654	218,448
Less: bank overdrafts repayable on demand		-	-

(*) Presented for comparison purposes only (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of cash flows at 31 December 2017.

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2017

Contents

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2017

1. Introduction, basis of presentation and other information

1.1 Introduction

Ibercaja Banco, S.A. (hereinafter, Ibercaja Banco, the Bank or the Company), is a credit entity, 87.8% owned by Fundación Bancaria Ibercaja (hereinafter, the Foundation), subject to the rules and regulations issued by the Spanish and European Union economic and monetary authorities.

Fundación Bancaria Ibercaja - parent of the Ibercaja Group - is a private non-profit making organisation arising from the transformation of Caja de Ahorros y Monte de Piedad of Zaragoza, Aragón and Rioja (hereinafter, the Savings Bank), a philanthropic-charity entity founded by Real y Excma. Sociedad Económica Aragonesa de Amigos del País, which was approved by the Royal Order of 28 January 1873 and commenced its activities on 28 May 1876. On 17 June 2014, the Ordinary General Meeting of Caja de Ahorros y Monte de Piedad of Zaragoza, Aragón and Rioja resolved to transform the institution into a banking foundation. In September of that year, executing the agreements adopted by the General Meeting, the Savings Banks was transformed into Fundación Bancaria Ibercaja and the Foundation's first sponsor was appointed. Fundación Bancaria Ibercaja was registered in the Register of Foundations of the Ministry of Education, Culture and Sport on 13 October 2014, with the number 1689.

After analysing the changes in our financial system since 2010 - and especially the legislative amendments and measures adopted to reinforce it, at its extraordinary meeting held on 26 July 2011, the Savings Bank's General Meeting approved the creation of a new bank named Ibercaja Banco, to which all the assets and liabilities earmarked to its financial activity were transferred. Following the spin-off and subsequent previously discussed transformation, Fundación Bancaria Ibercaja maintains its Charity and Cultural Projects and Monte de Piedad maintains its historical-artistic heritage.

Ibercaja Banco's registered office is located at Plaza de Basilio Paraíso 2 and it is filed at the Zaragoza Companies Registry in volume 3865, book 0, sheet 1, page Z-52186, entry 1. It is also registered in the Bank of Spain Special Register under number 2085. Its corporate webpage (electronic headquarters) is www.ibercaja.es, on which its bylaws and other public information can be viewed.

Its corporate purpose extends to all manner of general banking activities, transactions, business, contracts and services permitted under prevailing law and regulations, including the provision of investment and auxiliary services.

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 which, together with it, make up the Ibercaja Banco Group (hereinafter, the "Group" or the Ibercaja Banco Group).

Likewise, the Foundation also prepares consolidated financial statements 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 expense, statements of total changes in equity and statements of cash flows for the years ended 31 December 2017 and 2016, in accordance with the same accounting policies and measurement bases applied in the Group's consolidated financial statements.

1.2 Basis of presentation of the consolidated financial statements.

The consolidated financial statements of the Ibercaja Banco Group for 2017 were authorised for issue by the Company's directors at its Board of Directors' meeting held on 1 March 2018, and have not yet been approved by its Annual General Meeting. However, the Bank's directors believe that they will be approved without any significant modifications. The Group's 2016 consolidated financial statements were approved at the Bank's AGM held on 29 March 2017.

These consolidated financial statements were prepared in accordance with the accounting policies and measurement bases applicable under the International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and Bank of Spain Circular 4/2004 (hereinafter, the "Circular 4/2004"); accordingly, they present fairly the Group's equity and financial position at 31 December 2017, and the consolidated results of its operations and consolidated cash flows during the year then ended.

Circular 4/2004 on "Public and confidential financial reporting standards and model financial statements of credit institutions", aims to adapt the accounting system of these entities to the accounting climate arising from the adoption by the European Union of the International Financial Reporting Standards, in order to make this Circular fully compatible with the conceptual framework on which it is based.

The most significant accounting policies and measurement bases used in the preparation of the consolidated financial statements are summarised in Note 2:

These financial statements, unless stated otherwise, are prepared in thousands of euros from the accounting records kept by the Company and by other entities included in the Group. However, given that the accounting policies and valuation standards used by some of the Group companies may differ from those used in preparing the Group's financial statements for 2017, adjustments and reclassifications have been made as necessary in the consolidation process to make said accounting policies and valuation standards consistent with the EU-IFRS used by the Company.

1.3 Estimates made

The consolidated financial statements corresponding to 2017 contained opinions and estimates have been made on certain occasions to quantify the value of certain assets, liabilities, revenues, expenses and obligations recorded therein. These estimates basically relate to:

- Impairment losses on certain financial assets and the estimate of related guarantees (Notes 9 to 11, 13, 15 or 18).
- The assumptions used in the actuarial calculation of post-employment remuneration liabilities and commitments and other long-term obligations to employees (Notes 2.13 and 38.2), and those used to calculate liabilities arising under insurance contracts (Note 20),
- the measurement of goodwill and other intangible assets (Note 16).
- useful life of tangible assets and intangible assets (Notes 2.15 and 2.16),
- the probability of occurrence of those events deemed to be contingent liabilities and, where appropriate, the provisions required to cover such events (Notes 2.20 and 21),
- the fair value of certain unlisted financial assets (Note 26), and
- the income tax expense and the recoverability of deferred tax assets (Notes 2.14, 25.3 and 25.4).

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analysed, future events may require them to be modified in the coming years, which would occur in accordance with prevailing regulations, prospectively recognising the effects of the change in estimate in the consolidated financial statements for the years in question.

1.4 Comparative information relating to 2016

Under the regulations in force, the information contained in these consolidated financial statements for 2016 is presented exclusively for the purpose of comparison with the information for 2017, in order to favour their understanding.

1.5 Agency agreements

Neither at year-end 2017 nor at any time during the year did the Group have any “agency agreements“ in force within the meaning of article 21 of Royal Decree 84/2015, of 13 February.

1.6 Investments in credit institutions

Pursuant to article 28 of Royal Decree 84/2015, neither at 31 December 2017 nor at any time during the year did the Group own direct or indirect equity interests in the capital of Spanish or foreign credit institutions exceeding 5% of the share capital or voting rights of such entities.

1.7 Capital management and requirements

1.7.1 Regulatory framework

In December 2010, the Basel Committee on Banking Supervision approved a new regulatory framework (Basel III), which increased the capital requirements with the best quality instruments, seeking consistency and a uniform application by entity and country. The new agreement improves the transparency and comparability of capital ratios and includes new prudential tools, in the area of liquidity and leverage.

The European Union transfers these agreements to its legal system (Basel III) through the Directive 2013/36/EU (CRD-IV) of the European Parliament and of the Council of 26 June 2013, relating to access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Regulation (EU) No. 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, applicable since 1 January 2014.

In order to adapt the Spanish legal system to international regulatory requirements, Law 10/2014, of 26 June, was approved on the regulation, supervision and solvency of credit institutions, together with Royal Decree 84/2015, of 13 February, enacting the aforementioned law, continuing the transposition commenced by Royal Decree-Law 14/2013, of 29 November, and Bank of Spain Circulars 2/2014 and 3/2014, stipulating the regulatory options for the applicable requirements during the transition period.

In 2015, new regulations were published that complement the (EU) Regulation No. 575/2013 (CRR) on aspects relating to shareholders' equity, liquidity, the risks of Pillar I and capital requirements.

Also, in February 2016, Bank of Spain Circular 2/2016, of 2 February, was published for credit institutions, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and to Regulation (EU) no. 575/2013.

The minimum requirements for own funds established by the prevailing regulations (Pillar I) are calculated based on the Group's exposure to credit, exchange rate, market and operational risks and risks of financial assets and liabilities held for trading. Also, the Group is subject to compliance with risk concentration limits.

1.7.2 Quantitative information

At 31 December 2017, the Ibercaja Banco Group was complying with the minimum solvency ratios (Basel Pilar I) demanded by current regulations, as detailed in the following table:

	2017	2016
Capital ratios		
Eligible common equity tier 1 (thousands of euros) (a)	2,610,227	2,779,189
Additional eligible equity tier 1 (thousands of euros) (b)	-	-
Eligible equity tier 2 (thousands of euros) (c)	492,087	517,004
Risks (thousands of euros) (d)	22,266,290	23,169,135
Common equity tier 1 ratio (CET 1) (A)=(a)/(d)	11.72%	12.00%
Additional tier 1 capital ratio (AT 1) (B)=(b)/(d)	0.00%	0.00%
Tier 1 capital ratio (Tier 1) (A)+(B)	11.72%	12.00%
Tier 2 capital ratio (Tier 2) (C)=(c)/(d)	2.21%	2.23%
Total capital ratio (A)+(B)+(C)	**13.93%**	**14.23%**

	2017	2016
Market leverage		
Tier 1 capital (thousands of euros) (a)	2,610,227	2,779,189
Exposure (thousands of euros) (b)	48,239,586	51,734,325
Leverage ratio (a)/(b)	**5.41%**	**5.37%**

Pursuant to the requirements established in the CRR, credit institutions must comply at all times with a CET 1 ratio of 4.5%, Tier I of 6% and a total capital ratio of 8%. However, under the new regulatory framework, the regulators may request the entities to maintain additional levels of capital.

Accordingly, the European Central Bank (ECB) has notified its decision with respect to the prudent minimum capital requirements for 2018 applicable to Ibercaja Banco, following the supervisory review and evaluation process (SREP).

The decision means that Ibercaja Banco must maintain a phased-in common equity tier 1 (CET1) ratio of 8,125% and a total capital ratio of 11,625%. This total capital requirement includes the minimum demanded for Pillar 1 (4.5% CET 1 and 8% of total capital), the Pillar 2 requirement (1.75%) and the capital conservation buffer (1,875%).

At 31 December 2017, Ibercaja Banco's consolidated ratios, CET1 of 11.72% and total capital of 13.93%, stood at 3.60 points and 2.31 points, respectively, above the regulatory requirements established for 2018.

The reconciliation of accounting and regulatory shareholders' equity is as follows:

	Thousands of euros	
	2017	**2016**
Share capital	*2,144,276*	*2,144,276*
Retained earnings	*418,783*	*311,648*
Revaluation reserves	*3,321*	*3,329*
Other reserves	*150,168*	*150,973*
Profit attributed to the parent	*138,367*	*142,897*
Shareholders' equity in public balance sheet	2,854,915	2,753,123
Other accumulated comprehensive income	*144,077*	*223,330*
Non-controlling interests	*300*	*307*
Equity in public balance sheet	**2,999,292**	**2,976,760**
Intangible assets	*(213,586)*	*(213,556)*
Deferred tax assets	*(144,100)*	*(121,062)*
Ineligible valuation adjustments	*(31,309)*	*(77,561)*
Proposed distribution of dividends	*(17,500)*	*(35,725)*
Contingent convertible bonds	-	*223,600*
Differences in public equity for prudential purposes	*17,430*	*26,733*
Total adjustments and deductions	(389,065)	(197,571)
Total common equity tier 1 (CET1)	2,610,227	2,779,189
Preference shares	-	-
Other temporary adjustments for additional tier 1 capital	-	-
Total additional tier 1 capital (AT1)	-	-
Total tier 1 capital (T1)	2,610,227	2,779,189
Subordinated financing	492,087	517,004
Total tier 2 capital (T2)	492,087	517,004
Total eligible shareholders' equity	**3,102,314**	**3,296,193**

Below are the details at 31 December 2017 and 2016 of the consolidable Group's eligible own funds, indicating each of its components and deductions, broken down into common equity tier 1 instruments, additional tier 1 capital instruments and tier 2 capital instruments:

	Thousands of euros	
	2017	**2016**
TOTAL ELIGIBLE SHAREHOLDERS' EQUITY	**3,102,314**	**3,296,193**
Tier 1 capital (T1)	**2,610,227**	**2,779,189**
Common equity tier 1 (CET1)	**2,610,227**	**2,779,189**
Equity instruments disbursed	2,144,276	2,144,276
Retained earnings and other reserves	568,940	463,016
Admissible results	120,867	107,172
Revaluation reserves	3,321	3,329
Common equity tier 1 instruments in previous system	-	223,600
Non-controlling interests	87	143
Valuation adjustments to available-for-sale portfolio	125,234	167,125
Actuarial losses and gains on defined benefit plans	5,188	5,146
Deductions of common equity tier 1 instruments (CET 1)	(357,686)	(334,618)
Intangible assets	*(213,586)*	*(213,556)*
Deferred tax assets dependent on future earnings	*(144,100)*	*(121,062)*
Additional tier 1 capital (AT1)	**-**	**-**
Additional tier 1 capital instruments in previous system	-	-
Deductions of additional tier 1 capital instruments (AT 1)	-	-
Tier 2 capital (T2)	**492,087**	**517,004**
Subordinated financing, subordinated loans and others	492,087	517,004

Both this information and further details on regulatory capital and risk-weighted assets can be found in the Prudential Relevance Report (Pillar III Disclosures) published on the Company's website.

1.7.3 *Capital management*

The objective of Basel's Pilar II is to ensure an adequate relationship between the Group's risk profile and the own funds that it effectively holds. Accordingly, the Group performs a recurring capital self-assessment process in which:

- it applies processes for the identification, measurement and aggregation of risks;
- it determines the capital needed to cover them; in addition to the minimum own funds, it maintains a level in keeping with the risks inherent in its activity, in the economic climate in which it operates, in the management and control of such risks, in its governance and internal audit systems and in its strategic business plan;
- it plans capital at medium term; and
- It establishes the own funds objectives.

The Group sets a capital objective enabling it to permanently maintain sufficient means regarding prudential minimum requirements and capital guidelines, ensuring an adequate relationship between its risk profile and its own funds.

The Group's total capital needs were estimated through the aggregation of capital requirements associated with each risk.

In order to adequately plan the Group's future capital requirements, it forecast capital sources and consumption on the basis of business performance and expected results over a three-year period.

Likewise, the Group estimates projected capital levels in line with stress scenarios.

1.7.4 *Information of Prudential Relevance*

In order to comply with market disclosure requirements, the Board of Directors approved the information of prudential relevance disclosure policy (Basel Pillar III); consequently, the Ibercaja Group will make such information public on its web page prior to the publication and approval of the 2017 consolidated financial statements.

1.7.5 *Credit ratings granted*

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

	Date		**Short-term**		**Long-term**		**Outlook**	
Entity	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Standard&Poors	August 2017	February 2017	B	B	BB+	BB+	Positive	Positive
Moody's	May 2017	June 2016	NP	NP	Ba3	B1	Stable	Stable
Fitch Ratings	Abril 2017	May 2016	B	B	BB+	BB+	Positive	Positive

1.8 National Resolution Fund and Deposit Guarantee Fund

1.8.1 *National Resolution Fund*

Law 11/2015, of 18 June, together with its regulatory enactment through Royal Decree 1012/2015, led to the transposition into Spanish law of Directive 2014/59/EU, establishing the new framework for the resolution of credit institutions and investment services companies, and regulated the creation of the National Resolution Fund.

As part of the enactment of such regulation, on 1 January 2016, the Single Resolution Fund entered into force, which was established as a financing instrument for the Single Resolution Board, which is the European authority that will take resolution decisions to effectively implement the resolution measures adopted. The Single Resolution Fund will be maintained with the contributions made by investment services companies and credit institutions availing themselves of such Fund.

Under Regulation (EU) 2015/63, the calculation of the contribution of each entity will take into account the proportion that it represents with respect to the total aggregate of total liabilities of all banks included, net of own funds and the guaranteed amount of the deposits, adjusted with the Company's risk profile.

In 2017, the expense incurred as a result of the contribution to this body was 11,809 thousand euros (13,768 thousand euros in 2016; Note 37).

1.8.2 Deposit Guarantee Fund

The Company is a member of the Deposit Guarantee Fund.

Royal Decree-Law 2606/1996, of 20 December, amended by Royal Decree 1012/2015, of 6 November, stipulates that the Management Committee of the Deposit Guarantee Fund will calculate the annual contributions of the companies included in the Deposit Guarantee Fund for Credit Institutions.

In 2017, the Management Committee of the Deposit Guarantee Fund for credit institutions set the contribution to be made for all members of the deposit guarantee compartment at 1.8/1000 of the amount of the deposits guaranteed at 30 June 2017. The contribution of each entity will be calculated on the basis of the amount of the deposits guaranteed and of its risk profile, taking into consideration indicators such as capital adequacy and the rating of assets and liabilities, which have been developed by the Bank of Spain Circular 5/2016, of 27 May. Likewise, the contribution to the securities guarantee compartment was set at 2/1000 of 5% of the guaranteed amount of the securities and other financial instruments at 31 December 2017.

The expense for ordinary contributions referred to in the preceding paragraph accrue in full at year end, accordingly, at that time, the balance sheet included the liability for the contribution paid in the first quarter of the subsequent year (42,038 thousand euros and 37,984 thousand euros at 31 December 2017 and 2016, respectively; Note 22).

On 30 July 2012, the Management Committee of the Deposit Guarantee Fund agreed to cover an extraordinary shortfall between Fund members, to be paid by each entity through ten equal annual instalments. The amount of the shortfall corresponding to the Bank is 81,460 thousand euros (ten annual instalments of 8,146 thousand euros each).

In 2017, the expense incurred as a result of all contributions made to this body was 50,224 thousand euros (46,382 thousand euros in 2016). This amount was recognised under “Other operating expenses” (49,071 thousand euros and 45,024 thousand euros in 2017 and 2016, respectively; Note 37) and “Interest costs” (1,153 thousand euros and 1,358 thousand euros in 2017 and 2016, respectively; Note 29).

1.9 Minimum reserve ratio

At 31 December 2017, and throughout 2017, the Company complied with the minimums required by the minimum reserve ratio. In compliance with the legal obligations stipulated by the European Central Bank, the daily average of the minimum reserves to be held at 31 December 2017 amounted to 311,093 thousand euros (300,285 thousand euros at 31 December 2016).

1.10 Integration process with Cajatres

1.10.1 Provisional integration

1.10.1.1 Signature of integration protocol

On 27 November 2012, Ibercaja Banco, S.A.U. and Banco Grupo Cajatres, S.A. signed an integration protocol, through an acquisition process by Ibercaja Banco, S.A.U. which foresaw that the purchase would be performed upon compliance with certain conditions precedents, including the approval by the competent Spanish and EU authorities of an integration plan involving Ibercaja Banco, S.A.U. and Banco Grupo Cajatres, S.A.

1.10.1.2 Restructuring plan

Under chapter III of Law 9/2012, of 14 November, on the restructuring and resolution of credit institutions, the Fund for Orderly Bank Restructuring (FROB) was presented with the “Ibercaja Group + Cajatres Integration Plan”, dated 5 December 2012, which included the restructuring plan of Banco Grupo Cajatres, S.A., approved by the European Commission on 20 December 2012, and which involved a capital subsidy of 407 million euros through the subscription of contingent convertible bonds (CoCos) by the FROB (Note 1.10.1.4) and the performance of hybrid management (assumption of losses by holders of debt and subordinated bonds). Such financial aid was dependent upon the integration of Banco Grupo Cajatres, S.A. into Ibercaja Banco, S.A.U., and upon compliance with certain measures, specified in Banco Grupo Cajatres, S.A.'s restructuring plan.

1.10.1.3 Transfer of assets to SAREB

Law 9/2012 stipulated that the FROB could oblige a credit institution to transfer to an asset management company certain categories of assets included in its balance sheet or to adopt the measures required to transfer assets included in the balance sheet of any entity over which the credit institution exercises control under article 42 of the Code of Commerce.

Moreover, one of the conditions imposed to approve the capital subsidies was the transfer of certain assets linked to the real estate business to SAREB.

Under the “Asset transfer agreement”, dated 25 February 2013, the transfer price of all assets transmitted by Banco Grupo Cajatres, S.A. was 2,212,085 thousand euros, and was determined by applying the criteria and percentages set by the Bank of Spain, under Law 9/2012 and Royal Decree 1559/2012, on the basis of the carrying amount of the assets estimated at the transfer date.

SAREB has a 36-month period (until 25 February 2016) to determine, on one or several occasions, if any circumstances have arisen to warrant an adjustment of the transfer price.

Following the corresponding analysis, on 26 February 2016, the Bank and SAREB signed a document to rectify the “Asset transfer agreement” which rendered ineffective the transfer of any of them or modified their price. As a result of the foregoing, the amount of the SAREB bonds received was adjusted, all without having a significant impact on the Company's results.

Under the “Asset transfer agreement” Banco Grupo Cajatres, S.A.U. was empowered to receive the price on behalf of the transferring entities, which will be paid through fixed-income securities to be issued by SAREB. Accordingly, on 26 February 2013, the Bank signed an underwriting agreement, whereby it received bonds totalling 2,212,000 thousand euros on 28 February. The bonds were issued at 100% of their nominal value, and have the irrevocable guarantee of the Spanish government; their detail at 31 December 2017 and 2016 (Note 10.2) was as follows:

31 December 2017

			Thousands of euros
Subscription	**Interest rate**	**Maturity**	**Nominal amount**
SAREB Senior Bond 2017-2	3M Euribor + 0,007%	28 February 2019	920,700
SAREB Senior Bond 2017-1	3M Euribor - 0.01%	28 February 2018	647,200
SAREB Senior Bond 2016-2	3M Euribor + 0,516%	28 February 2019	369,700
			1,937,600

31 December 2016

			Thousands of euros
Subscription	**Interest rate**	**Maturity**	**Nominal amount**
SAREB Senior Bond 2015-2	3M Euribor + 0,263%	28 February 2017	920,700
SAREB Senior Bond 2016-1	3M Euribor + 0,288%	28 February 2017	647,200
SAREB Senior Bond 2016-2	3M Euribor + 0,516%	28 February 2019	481,600
			2,049,500

1.10.1.4 Issue of contingent convertible bonds (CoCos)

On 15 February 2013, the Shareholders' Meeting of Banco Grupo Cajatres, S.A. approved the issue of contingent convertible bonds (CoCos) into shares of the Bank, amounting to 407 million euros, to be subscribed by the FROB. The bonds qualify as basic own funds, under Regulation (EU) No. 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013, on the prudential requirements for credit institutions and investment firms, applicable from 1 January 2014 (Note 1.7).

This issue was set up to provide public financial support to the Bank under Law 9/2012 and under the Restructuring Plan (Note 1.10.1.2).

The initial nominal interest rate on the bonds was 8.5%, payable quarterly. It rose by 25 basis points at the end of the first year following the subscription and by 50 basis points a year from the second year onwards.

On 12 March 2013, the issue, subscription and payment of the CoCos, amounting to 407 million euros, was executed in a public deed. The subscription and payment was made in full by the FROB, through the delivery to the Bank of fixed-income instruments issued by the European Stability Mechanism (ESM), belonging to the issue of 5 February 2013.

In March 2016, 5% of this issue was redeemed (20 million euros). Also, on 28 December 2016, the European Central Bank authorised the Company to redeem 40% of the issue early, envisaged to take place by March 2017, generating an early redemption amount of 163 million euros.

On 24 March 2017, the European Central Bank authorised Ibercaja Banco to redeem early an amount of 224 million euros of these securities, expected to take place by December 2017. As a result of such early redemption, the Company repaid in full all public subsidies received by Banco Grupo Cajatres.

1.10.2 Definitive integration

On 23 May 2013, the market was notified that Ibercaja Banco, S.A.U., Banco Grupo Cajatres, S.A. and its respective shareholder savings banks had agreed the inclusion of the banks through a share exchange process and subsequent merger by absorption of Banco Grupo Cajatres, S.A. into Ibercaja Banco, S.A.U.

On 25 July 2013, subject to compliance with the conditions precedents and the obtainment of the exemptions and mandatory administrative authorisations, Ibercaja Banco became the full owner of the share capital of Banco Grupo Cajatres, S.A. In this regard, a capital increase was made, amounting to 325.5 million euros, subscribed to by the shareholders of Banco Grupo Cajatres, S.A., contributing all the share capital of this Bank as consideration. The new shareholders thereby obtained a joint holding of 12.20% in the share capital of Ibercaja Banco.

As a result of the difference between the consideration for the business acquired and the total at the acquisition date of the fair value of the assets and liabilities and the amount of the non-controlling interests, goodwill in the amount of 128,065 thousand euros was recognised in the consolidated financial statements. This goodwill takes into consideration, among other factors, the future results, the expected synergies of the combination of the acquirer and the acquiree and other intangible assets that do not qualify for separate recognition.

1.10.3 Full integration

On 1 October 2014, the deed was executed for the merger by absorption of Ibercaja Banco, S.A. (absorbing company) and of Banco Grupo Cajatres, S.A.U. (absorbed company), with the winding up without liquidation of the absorbed company and the en bloc transfer, by way of universal succession, of its assets and liabilities to the absorbing company.

As a result of the merger by absorption, Ibercaja Banco, S.A. assumed all the obligations and was subrogated in the exercise of all the rights and shares of Banco Grupo Cajatres, S.A.U.

The merger did not have any effect on the 2014 consolidated financial statements.

1.11 Events after the reporting period

Between the year-end date and the date of preparation of these financial statements, no events have taken place that could have a significant effect on them.

1.12 Changes in accounting estimates and criteria

1.12.1 Changes to accounting criteria

In 2017, amendments were made to the accounting regulations applicable to the Group with respect to those applied in the previous period. The changes considered to be most important are listed below:

The mandatory standards, amendments and interpretations for the years commencing on 1 January 2017 were as follows:

- **IAS 7 (Amendment), "Disclosure initiative".**

  An entity is bound to disclose information that enables users to understand the changes in liabilities that arise from financing activities. This includes changes arising from:

  - Cash flows, such as drawdowns and refunds of loans; and
  - Non-monetary changes, such as acquisitions, disposals and unrealised exchange differences.

Liabilities arising from financing activities are liabilities for which cash flows were or cash flows will be classified in the statement of cash flows from financing activities. Also, this new disclosure requirement must also include the changes in financial assets (for example, assets that cover liabilities arising from financing activities) if the cash flows from such financial assets were included, or the future cash flows will be included in the cash flows from financing activities.

The amendment suggests that the disclosure requirement would be met by including a reconciliation between the beginning and ending balance for the liabilities arising from financing activities, although it does not establish a specific format. For such purpose, an additional disclosure has been included (Note 19.4).

- **IAS 12 (Amendment), "Recognition of deferred tax assets for unrealised losses".**

  The amendments to IAS 12 clarify the requirements to recognise deferred tax assets for unrealised losses. The changes clarify the accounting treatment of deferred taxes when an asset is measured at fair value and such fair value is below the asset's tax base. It also clarifies other aspects regarding the recognition of deferred tax assets.

The application of these accounting standards has not significantly affected the Group's consolidated financial statements.

At the date of authorisation for issue of these consolidated financial statements, following are the main standards, amendments and interpretations issued by the IASB and by the IFRS Interpretations Committee, but which have not yet entered into force, either because their effective date is subsequent to the date of these consolidated financial statements or because they have not yet been adopted by the European Union. The Group has assessed the impact arising from these standards, amendments and interpretations and has elected not to adopt them early:

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- **IFRS 4 (Amendment), "Application of IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts".**

  The amendments to IFRS 4, which were published by the IASB in September 2016, introduced two optional approaches for insurance companies:

  - A temporary exemption until 2021 for IFRS 9 for companies that comply with specific requirements (applied by the entity presenting the information); and

  - The "overlay approach": will provide all companies that issue insurance contracts with the option to recognise in other comprehensive income, instead of in profit for the year, any volatility that might arise when IFRS 9 “Financial instruments” is applied before the new insurance contract standard is published.

  IFRS 4 (including the amendments published now) will be replaced by the new insurance contract standard. Hence, it is expected that both the temporary exemption and the “overlay approach” will cease to apply when the new insurance standard enters into force.

  As indicated in the IFRS 9 “Financial instruments” section, the Ibercaja Banco Group has opted not to avail itself of the aforementioned temporary exemption, arising from the application of IFRS 9 for insurance companies forming part of the Group.

- **IFRS 9 "Financial instruments".**

In July 2014, the IASB published the complete version of IFRS 9, to be applied for the first time on 1 January 2018. The following three amendments to IFRS 9 were worthy of mention:

- The change in the financial asset impairment model, which ceased to be based on the loss incurred, to be estimated based on the expected loss. Such change endeavours to achieve a more adequate measurement of assets, and a more prompt recognition of impairment.

- The change to the portfolios in which financial assets are classified for measurement purposes. With respect to debt instruments, their contractual characteristics and the business model followed by the entity for their management will be those that will determine the portfolio in which they will be classified and, hence, the applicable measurement method (amortised cost, fair value recognising their variations in other comprehensive income or fair value through profit of loss). Investments in equity instruments must be measured at fair value through profit and loss, unless the irrevocable option is chosen from the start of recognising these changes in value in other comprehensive income. Lastly, the remaining financial assets must be recognised in the balance sheet at their fair value, posting any changes therein in profit and loss.

- Changes in the regulation of accounting hedges. The new IFRS 9 introduces an additional accounting scheme to that existing to date, with the latter continuing during the transition phase. The new rules eliminate the quantitative effectiveness tests, requiring in exchange a monitoring and adjustment of the percentage representing the hedging item over the hedged item (hedge ratio). The entity will voluntarily opt to maintain the accounting hedge criteria that it has been using until now or to change to the new system.

Below is a description of the implementation project performed by the Group to adopt IFRS 9 and the impacts of first-time application on the consolidated financial statements of Ibercaja Banco at 1 January 2018:

Implantation project

At the end of 2014, the Group commenced a project to implement IFRS 9. Such project had a three-year duration (2015, 2016 and 2017), and was characterised by its cross-cutting nature, since it had an impact on the Group's processes and systems, and on financial reporting governance and controls.

The main objective of the project, spearheaded by an Internal Project Committee, is to take the necessary steps to implement IFRS 9 in all areas of the Bank that are affected, so as to ensure compliance at the date of first-time application, and to evaluate the potential quantitative and qualitative impacts sufficiently in advance in order to enhance their management.

The main tasks performed by the Committee include:

- Defining the approach that has enabled the key aspects of IFRS 9 to be identified, and monitoring of an action plan to guarantee the implementation of the standard.

- Guaranteeing the adequate identification and planning of all quantitative and qualitative needs.

- Guaranteeing the performance of a calculation of the impact before the date of first-time application.

The Committee, led by the Corporate Information and Management Analysis Department, in coordination with the Credit Risk Department and other departments of the Company were the link with the Group's Management Committee and Governing Bodies.

The project has been integrated by different teams belonging to the areas of General Accounting, Credit Risk Models, Internal Control and Validation of Models, Management Information, Organisation, Management Control, Capital Markets, Internal Audit and Development of Technological Services, among others. These teams were responsible for the project's daily management.

The work plan performed included, inter alia, the documentation on the criteria adopted to apply the standard and the amendment of accounting policies; the implementation of the necessary changes in the methodologies and systems to be able to comply with the new requirements; the adaptation of information flows between departments and the governing bodies, and on the authorisation and decision-making process and the design of control procedures in relation to the new regulations.

The new regulation on the consolidated financial statements was implemented in full, without considering any exceptions regarding the activities of the subsidiaries, and it covered two main areas of action. On the one hand, the analysis of the changes established by this standard in relation to the classification of financial instruments for presentation and measurement purposes and, on the other, the analysis of the changes in the classification of financial assets, based on their credit risk and on the estimate of losses due to the impairment of financial assets. Following is a brief description of the work performed in these areas:

1. *Classification of financial instruments for presentation and measurement purposes:*

The business models under which the Group manages its financial assets were analysed and defined, examining the characteristics of its contractual cash flows, on the basis of events and circumstances existing at 1 January 2018, in order to establish their classification in each of the business models and, accordingly, of the portfolios, established by this new standard for presentation and measurement purposes.

2. *Classification of financial assets based on non-performing loans and impairment losses on financial assets:*

The inclusion of IFRS 9 did not lead to a substantial change in the Group's tools and methodologies for management and monitoring, although an assessment must have been performed of the manner in which the novel aspects of this standard must be included in the already established processes and systems. In particular, the implementation of the new standard meant:

2.1. The identification, adaptation and implementation of the triggers or indicators used to determine the classification of each financial asset in any of the three phases defined in the standard, and its impairment allowances:

- Phase 1: it will be considered that a financial instrument is in this phase when its risk has not significantly increased since it was initially recognised. Where appropriate, the impairment loss allowance will reflect the expected credit losses arising from possible *default* during the 12 months following the reporting date.

- Phase 2: when the risk has significantly increased from the date on which it was initially recognised, without leading to impairment, the financial instrument will be encompassed within this phase. Where appropriate, the amount of the impairment loss allowance will reflect the expected losses arising from default during the residual life of the financial instrument. To assess the significant increase in credit risk, the quantitative measurement indicators used in the ordinary management of credit risk will be taken into account, such as the increased risk of a breach in any of the key indicators for which a threshold has been previously defined; for example, non-payments of between 30 and 90 days will be considered, together with increases in the reporting Probability of Default (PD) with respect to the PD at the origination date, based on established thresholds. Other qualitative variables are also considered such as signs of whether an unimpaired transaction is considered to be refinanced, or the consideration of operations included in a special debt sustainability agreement.

- Phase 3: a financial instrument will be catalogued in this phase when it shows effective signs of impairment as a result of one or more events that have already occurred which will lead to a loss. Where appropriate, the amount of the impairment loss allowance will reflect the expected losses due to credit risk during the expected residual life of the financial instrument.

  The definition of default is based on a non-payment period exceeding 90 days, although according to the EBA (4.3.1.89 a – 4.3.1.90), unlikeliness to pay events have also been defined, such as the inclusion of an uncured debtor in insolvency proceedings.

For debtors assessed in line with a group approximation, thresholds were defined based on the comparison of a current 12 months PD PIT versus a PD *PIT involving 12 months* of origination for such period. These thresholds were determined in such a way that the NPL rates observed, for a sufficiently long period, are statistically different.

For significant borrowers assessed through individual analyses, a trigger system has been established to identify significant increases in risks or signs of deterioration. The triggers system covers signs of impairment or of weaknesses through the definition of:

- Triggers with different pre-alert thresholds permitting the identification of increased risk and signs of impairment
- Specific triggers that indicate a significant increase in risk;
- Specific triggers that indicate signs of impairment.

A team of expert risk analysts will analyse borrowers with activated triggers to conclude on the existence of a significant increase of risk or objective evidence for deterioration and, in the event that there is evidence of deterioration, whether the event or events causing the loss have any impact on estimated future cash flows from the financial asset or group of financial assets.

2.2. Development of individual and collective analysis tools;

2.3. The development of 12-month PD PIT calibrations to assess the significant increase in credit risk;

2.4. The inclusion of forward looking information to calculate the expected loss, for which scenario projection models have been used;

2.5. The application of different scenarios to include the effect of the non-linearity of losses. In this regard, the necessary provisions are estimated faced with different unlikely but plausible scenarios;

2.6. An estimate was made of the pre-payment rates for different products and segments based on historical data observed. These pre-payment rates are applied to determine the expected loss on the exposures classified in Phase 1 and Phase 2. Also, the repayment table agreed for each transaction is applied.

2.7. The identification of certain operations without an appreciable risk to estimate the credit risk hedge.

Throughout 2017, the Group implemented a process enabling losses to be compared on the impairment of financial assets obtained as a result of the application of the prevailing accounting regulations at the end of this year (IAS 39) with those that would be obtained on applying IFRS 9, in order to ensure the correct implementation of the latter and to analyse the new dynamics of hedges arising from this new standard.

The conclusion of the implementation of IFRS 9 enabled the Group to adequately estimate the impact at the date of its entry into force and to have the processes, tools and controls required for its future application.

Impacts of the first-time application of the standard

Following is a detail of the main impacts at the Group of the first-time application of this standard:

- *Classification of financial instruments for presentation and measurement purposes*

Pursuant to the conclusions reached following the performance of the analysis on business models and the characteristics of the contractual cash flows of its financial assets, a correspondence exists between the financial asset portfolios for the purposes of their presentation and measurement, which the Group used in the preparation of its 2017 consolidated financial statements, in which the criteria of IAS 39 were applied, and those which have begun to be used following the implementation of IFRS 9; therefore, no significant changes were made for the purposes of classifying the transactions in the consolidated balance sheet.

Accordingly, on a general basis:

- The Group's debt instruments recognised in the *“Loans and receivables”* portfolio at 31 December 2017, which represent a significant part of the Group's financial assets, are managed with a business model whose objective is to maintain financial assets to receive its contractual cash flows, which were classified in the *“Financial assets at amortised cost”* portfolio under the new standard. In accordance with the requirements of such standards, the debt instruments assigned to this portfolio will present infrequent or insignificant sales, although the Group considers that the sales of financial assets close to maturity and those motivated by the increased credit risk of financial assets or to manage the risk of concentration will be consistent with the business model with which the financial assets classified in this portfolio are managed.

- The debt instruments recognised in the “Available-for-sale financial assets” portfolio consist mainly of financial instruments acquired to manage the Group's consolidated balance sheet, and they can be managed, either with a mixed business model whose objective combines the obtainment of contractual cash flows and the sale, or with a business model based exclusively on the obtainment of its contractual flows. The financial instruments managed with the mixed model were transferred to the "Financial assets at fair value through other comprehensive income" portfolio under the new standard; thus, sales of financial assets were essential and non-ancillary and no limits were established with respect to their realisation. The remaining financial instruments were classified in the "Financial assets at amortised cost" portfolio, and sales of such instruments are ancillary, establishing limits for their realisation.

- Debt instruments recognised by the Group in the *“Financial assets held for trading”* portfolios, which basically correspond to the trading portfolio, were classified in portfolios with the same name established under the new standard applicable to the Group.

Despite the foregoing, the new standard demands that the debt instruments classified in the *“Financial assets at amortised cost”* or *"Financial assets at fair value through other comprehensive income"* portfolios have contractual conditions that give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI tests) on the outstanding principle. Although, given the nature of the Group's business, virtually all its debt instruments do not contain characteristics that lead to cash flows other than those corresponding to payments of principal and interest, at 31 December 2017, certain financial assets were still classified in the *“Loans and receivables”* and *“Available-for-sale financial assets”* portfolios that did not comply with the aforementioned contractual conditions. As a result, they were classified, following the implementation of IFRS 9, in the *“Financial assets not held for trading mandatorily measured at fair value through profit and loss”*, for an amount of 108 million euros, which led to a reduction of the balance at which such assets were recognised in the Group's consolidated balance sheet at 1 January 2018 of 12 million euros, and to a reduction in consolidated equity of 8 million euros.

Also, following the entry into force of IFRS 9, the Group opted to include in the *"Financial assets at fair value through other comprehensive income”* portfolio the investments that it holds in equity instruments that must not be classified in the *“Financial assets held for trading”*portfolio. These equity instruments were recognised in the *“Available-for-sale financial assets”* portfolio at 31 December 2017.

The changes arising from the modifications to portfolios as a result of the business models defined at the Group led to a reduction in the balance at which they were recognised in the consolidated balance sheet at 1 January 2018, amounting to 3 million euros and to a decrease in consolidated equity of 2 million euros.

Also, in relation to financial liabilities, the portfolios for presentation and measurement purposes established in IFRS 9 are similar to those of IAS 39, so the implementation of this standard did not have a significant impact on the classification or on the recognition of the Group's financial liabilities.

- *Classification of financial assets based on non-performing loans and impairment losses on financial assets*

As a result of the first application of IFRS 9, the reclassification of the non-performing risk portfolio was not significant at 31 December 2017 and had no impact on the Group's NPL ratio.

In terms of losses on the impairment of financial assets, the main impact in relative terms arose from the application of the expected lifetime loss to transactions in which risk increased significantly from the date of recognition and to the introduction of scenarios in the consideration of the non-linearity of losses.

The entry into force of IFRS 9 led to increased allowances for impairment losses on assets, amounting to 153 million euros, including increased provisions for contingent liabilities and commitments totalling 8 million euros. This increase in valuation adjustments has resulted in an increase in the coverage ratio of 6 per cent and a decrease in consolidated equity of 107 million euros.

The main impact in relative terms arose in the category Performing on special watch, due to the application of the expected lifetime losses and to the impact of the non-linearity of losses, which increased the amount of allowances for impairment losses three-fold with respect to those recognised under IAS 39.

For the categories of performing and non-performing risk, the drivers that led to the most significant increase in impairment loss allowances were the consideration of the non-linearity of losses, together with the increases in the Loss Given Default (LGD).

To include the non-linearity of losses, three macroeconomic scenarios were considered, a central scenario, an adverse scenario and a favourable scenario, which were defined at Group level, with their probability of occurrence standing at 60%, 20% and 20% respectively. Timescales of three years are considered to cast these projections and the variables considered are the performance of GDP, the unemployment rate and housing prices, among others.

- *Hedge accounting*

Since the Group has opted to continue applying the requirements of IAS 39, the implementation of IFRS 9 did not have any impact on hedge accounting.

- *Summary of impacts*

The breakdown of the Group's financial assets at 31 December 2017, grouped together both in the portfolios for presentation and measurement purposes used in preparing the 2017 consolidated financial statements and those in force following the implementation of IFRS 9, is indicated below:

Millions of euros				
Portfolios used in the 2017 consolidated financial statements (IAS 39)	**Amount**	**Portfolios used following the entry into force of IFRS 9**	**Amount**	**Difference**
Loans and receivables Held-to-maturity investments	35,019	Financial assets at amortised cost	37,003	1,984
Available-for-sale financial assets	10,850	Financial assets at fair value through other comprehensive income	8,598	(2,252)
Financial assets held for trading	9	Financial assets held for trading	9	-
Financial assets at fair value through profit or loss	52	Financial assets at fair value through profit or loss	52	-
		Financial assets not held for trading mandatorily measured at fair value through profit or loss	108	108
	45,930		**45,770**	**(160)**

Also, theGroup increased the provisions for contingent liabilities and commitments by 8 million euros.

The new requirements for allowances for bad debts following the implementation of IFRS 9, and the rise in deferred tax assets due to such increased allowances, led to a fall in consolidated equity of 117 million euros and to an impact of 53 basis points on the fully-loaded CET1 ratio.

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

  In May 2014, the IASB and the FASB jointly issued a converging standard relative to the recognition of revenue from contracts with customers. Under this standard, revenue is recognised when the customer gains control over the sold good or service, i.e., when he is entitled to direct usage and obtains benefits from the good and service. This IFRS includes new guidelines to determine whether revenue has to be recognised over time or at a given moment. IFRS 15 requires comprehensive information of recognised revenue and revenue to be recognised in the future relative to existing contracts. It also requires quantitative and qualitative information on significant judgements used by management to determine the revenue that is to be recognised, as well as on any changes in such judgements.

  Subsequently, in April 2016, the IASB published modifications to that standard that, while not amending key principles, do clarify some of the most complex aspects.

  IFRS 15 will be effective for years commencing as from 1 January 2018, with early adoption permitted.

  Given the Group's main activities and the fact that the standard is not applicable to the financial instruments and other contractual rights or obligations under the scope of IAS 39 (IFRS 9, when it comes into force). the first application of this standard will have a significant impact on the Group's consolidated financial statements.

- **IFRS 15 (Amendment) Clarifications on IFRS 15 “Revenue from contracts with customers”.**

  The IASB amended IFRS 15 in order to:

  - Clarify the guide to identify performance obligations, the recognition of intellectual property licences and the main assessment versus agent (presentation of net ordinary income versus gross income).
  - Include new illustrative examples and modify them for each of these areas of the guide.
  - Provide practical additional resources related with the transition to the new standard.

  These amendments do not change the fundamental principles of the IFRS 15, but they do clarify some of the most complex aspects of such standard.

  Such amendment will be effective for years commencing as from 1 January 2018.

- **IFRS 16 “Leases”.**

  In January 2016, the IASB published a new standard on leases, resulting from a joint project with the FASB, which replaces IAS 17 "Leases". The IASB and the FASB have reached the same conclusions in many areas related with the recognition of lease contracts, including the definition of leases and, as a general rule, the requirement to record leases on the balance sheet and the measurement of lease liabilities. The IASB and the FASB also agreed not to include substantial recognition changes for the landlord, maintaining similar requirements to those of the previous standard. However, there are some differences between the IASB and the FASB as to the recognition and presentation of expenses relating to leases in the income statement and the statement of cash flows.

  This standard will be applicable for years commencing as from 1 January 2019. Earlier application is permitted when IFRS 15, "Revenue from contracts with customers" is adopted at the same time.

The Ibercaja Group is in the process of analysing the impacts of IFRS 16 arising from those lease contracts in which it acts as lessee. However, the Group considers that the impact of the standard will not have a significant impact on equity.

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- **IFRS 10 and IAS 28 (Amendment) "Sale or allocation of assets between an investor and its associates or joint ventures".**

  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 comply with the definition of "business", the investor recognises the gain or loss in line with the interests of other investors. The amendments will only be applied when the investor sells or contributes assets to its associates or joint ventures.

  Originally, these modifications to IFRS 10 and IAS 28 were applied prospectively and were effective for the annual financial years that began on 1 January 2016. However, at the end of 2015, the IASB took the decision to postpone their date of validity (without setting a new specific date), as it is planning a more extensive review that may result in the simplification of accounting for these transactions and other accounting aspects for associates and joint ventures.

- **IFRS 2 (Amendment) "Classification and measurement of transactions with share-based payments".**

  The amendment of IFRS 2, which will be implemented through the IFRS Interpretations Committee, clarifies how to recognise certain types of transactions involving share-based payments. In this regard, it sets forth requirements to recognise:

  - The effects of the conditions for irrevocability and of the non-determining conditions for the irrevocability of the concession on the measurement of share-based payments settled through cash;
  - Share-based payment transactions with net tax withholding settlements; and
  - The amendment of the terms and conditions of a share-based payment that changes with the classification of the transaction from settled in cash to settled through equity.

  The amendment is effective for years commencing as from 1 January 2018, with early adoption permitted.

- **IAS 40 (Amendment) "Transfers from investment property".**

  This amendment clarifies that to transfer to or from investment property, there must be a change in use. To conclude on whether there has been a change in use, an assessment must be made of whether the property complies with the definition of investment property. This change must be backed by evidence. The IASB confirms that a change in intention, on an isolated basis, is not sufficient to support a transfer.

  The amendment is effective for years commencing as from 1 January 2018, with early adoption permitted.

- **IFRIC 22 “Foreign currency transactions and advance consideration”.**

  This IFRIC addresses how to determine the transaction date when the standard is applied to foreign currency transaction under IAS 21. The interpretation applies when an entity 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 corresponding asset, expense or revenue. The matter arises since IAS 21 requires the “transaction date” exchange rate to be used, which is defined as the date on which the transaction first qualifies for recognition. The issue is therefore whether the transaction date is the date on which the asset, expense or revenue is initially recognised, or rather the initial date on which the early consideration is paid or collected, leading to a pre-payment or a deferred revenue.

  The interpretation provides a guide for when a single payment/collection is made, and for situations in which multiple payments/collections exist. The objective of the guide is to reduce diversity of practice.

  The interpretation will be effective for years commencing as from 1 January 2018, with early adoption permitted.

- **IFRS 17 “Insurance contracts”.**

  In May 2017, the IASB completed its long-term project to implement an accounting standard on insurance policies, publishing IFRS 17, “Insurance contracts”. IFRS 17 replaces IFRS 4 "Insurance contracts", which currently enables a wide variety of accounting practices. IFRS 17 will fundamentally change accounting for all entities that arrange insurance contracts and investment contracts with discretionary participation components.

  This standard will be applicable for years commencing as from 1 January 2021. Earlier application is permitted when IFRS 15, "Revenue from contracts with customers" and IFRS 9, "Financial instruments" is adopted at the same time.

- **IFRIC 23, “Uncertainty over income tax treatments”.**

  The interpretation affords requirements in addition to those of IAS 12 “Income taxes”, specifying how to reflect the effects of the uncertainty in the recognition of income tax. This interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when uncertainty exists regarding its accounting treatment.

  The interpretation will be effective for years commencing as from 1 January 2019, with early adoption permitted.

- **IFRS 9 (Amendment) “Prepayment features with negative compensation”.**

  The terms of instruments with prepayment features with negative compensation, where the lender may be obliged to accept a prepaid amount that is substantially lower than the unpaid amounts of principal and interest, were incompatible with the notion of “reasonable additional compensation” as a result of the early termination of a contract under IFRS 9. Consequently, these instruments would not have contractual cash flows that were only constituted by payments of capital and interest, that led them to be recognised at fair value through profit or loss. The amendment of IFRS 9 clarifies that a party may pay or receive reasonable compensation when a contract is terminated early, enabling these instruments to be measured at amortised cost or at fair value through other comprehensive income. The amendment will be effective for years commencing as from 1 January 2019, with early adoption permitted.

- **IAS 28 (Amendment) “Long-term interests in associates and joint ventures”.**

  This limited amendment of scope clarifies that the long-term interests in an associate or joint venture that substantially form part of the net investment of an associate or joint venture, but which are not accounted for using the equity method, are recognised in line with IFRS 9 “Financial instruments”. Likewise, the IASB has published an example of how the requirements of IAS 28 and IFRS 9 must be applied with respect to these long-term interests. The amendment will be effective for years commencing as from 1 January 2019, with early adoption permitted.

- **IAS 19 (Amendment) “Plan amendment, curtailment or settlement”.**

  This amendment specifies how companies must determine pension expenses when changes arise in a defined benefit plan. This amendment will be effective from 1 January 2019, once it has been adopted by the European Union.

The Group is analysing the impact of these standards and their related amendments on its consolidated financial statements, which will depend both on the content of the standards ultimately approved by the European Union and on the breakdown of the Group and its businesses at the date of their application.

1.12.2 Changes in accounting estimates

No significant changes took place in the criteria used to determine accounting estimates in the preparation of the consolidated financial statements.

1.13 Corporate restructuring of the Group

The following corporate transactions were carried out during 2017 in order to simplify the current corporate structure:

- Merger by absorption of Ibercaja Banco, S.A. (absorbing company) and of Ibercaja Patrimonios, S.G.C., S.A.U. (absorbed company), with the winding up without liquidation of the absorbed company and the en bloc transfer of all its assets and liabilities to Ibercaja Banco.

  This transaction, which does not involve a capital increase at the Bank, or changes to its bylaws, is part of the reorganisation of the Ibercaja Group's personal and private banking business, including the private banking services in the Group's parent that had, to date, been provided by Ibercaja Patrimonios.

- Merger by absorption of Ibercaja, S.A.U. (absorbing company) and Caja Inmaculada Energía e Infraestructuras., S.A., Ibercaja Participaciones Empresariales, S.A., and Cajaragón, S.L. (absorbed companies).

- Merger by absorption of Ibercaja Gestión de Inmuebles, S.A. (absorbing company) and Mantenimiento de Promociones Urbanas, S.A. (absorbed company).

- Liquidation of AnexaCapital, S.A.U. and Cartera de Inversiones Lusitania, S.L.

2. Accounting policies and measurement bases

The accounting policies and measurement bases used in the preparation of the Group's 2017 consolidated financial statements were as follows:

2.1 Business combinations and consolidation

2.1.1 Subsidiaries

“Subsidiaries” are those companies over which the Entity has the ability to exercise control, which is generally, although not exclusively, expressed by the direct or indirect ownership of over 50% of the voting rights of the investees or, if this percentage is less or nil, by the existence of other circumstances or agreements that grant control. In line with the prevailing standards, control is deemed to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Appendices I and II provide significant information on these companies.

The financial statements of the subsidiaries are consolidated using the equity method, as defined by the prevailing standards: Consequently, all balances arising from transactions performed between companies consolidated using this method and which were significant were eliminated on consolidation. Also, the ownership interest of third parties in:

- the Group's equity was recognised under “Non-controlling interests” in the consolidated balance sheet,
- consolidated profit for the year was posted under “Profit/(loss) attributable to non-controlling interests” in the consolidated income statement.

The results of subsidiaries acquired during the year are consolidated only taking into consideration those relating to the period between the date of acquisition and the close of that year. Alongside this, the results of subsidiaries disposed of during the year are consolidated only taking into consideration those relating to the period between the start of that year and the disposal date.

2.1.2 Jointly controlled entities

"Jointly controlled entities" are deemed to be those, although not subsidiaries, with which contractual agreements of joint control exist, whereby decisions on significant activities are taken unanimously by the entities that share control, with entitlement to their net assets.

Theses entities are accounted for using the “equity method” (Note 2.1.3).

Appendices I and II provide significant information on these companies.

2.1.3 Associates

An "associate" is an enterprise over which the Bank has significant influence, but with which it does not form a decision-making unit nor is it subject to joint control therewith. In general, although not exclusively, this capacity is presumed when a direct or indirect ownership interest is held equal to or exceeding 20% of the voting rights of the investee.

In the consolidated financial statements, associates are accounted for using the "equity method", as defined by the prevailing standards:

If, as a consequence of the losses incurred, an associate reported negative equity, it would be recognised in the consolidated balance sheet as zero, since the Group is not obliged to provide it with financial support, and a provision for liability would be recognised under "Provisions" on the liability side of the balance sheet.

Appendices I and II provide significant information on these entities.

2.1.4 Structured entities

A structured entity is an entity designed in a manner that its voting and/or similar rights are not a decisive factor when determining control thereover.

When the Group forms or holds ownership interests in entities to transfer risks or to provide access to investments, it analyses whether it has control thereover and, therefore, whether the entities formed should be consolidated, mainly taking into account the following factors:

- Analysis of the Group's influence over the entity's activities that are important with a view to determining said entity's profit.
- Implicit or explicit commitments to provide financial support to the entity.
- Significant exposure of the Group to the variable returns of the entity's assets.

These entities include the so-called “asset securitisation funds” consolidated by the Group when contractual financial aid agreements exist (commonly used on the securitisations market). In virtually all securitisations performed by the Group, the transferred risks cannot be derecognised from the asset side of the balance sheet and the securitisation fund issues are recognised as liabilities on the Group's balance sheet.

Companies, mutual funds and pension funds managed by the Group do not meet the requirements of the regulatory framework to be considered structured entities, accordingly, they are not consolidated.

Note 27.5 provides details of the Group's structured entities.

2.1.5 Business combinations

A business combination is the union of two or more entities or independent economic units within a single entity or group of entities in which the acquirer obtains control over the other entities.

At the acquisition date, the acquirer will include the assets, liabilities and contingent liabilities of the acquired company in its financial statements, including the intangible assets not recognised by the latter, initially booking all of them at their fair value.

Any excess of the cost of the ownership interests in the entities over their corresponding carrying amounts acquired, adjusted on the date of the first business combination, are allocated as follows:

- Where they can be allocated to specific assets of the companies acquired, they are recognised by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities’ balance sheets and whose accounting treatment is similar to that of the Group’s equivalent assets (liabilities).
- If they are attributable to specific intangible assets, they are explicitly recognised in the consolidated balance sheet provided that their fair value at the date of acquisition can be measured reliably.

- The remaining non-attributable differences are recognised as goodwill, which is allocated to one or more specific cash-generating units.

Negative differences, once their amount has been established, are recognised in the income statement.

Acquisitions of non-controlling interests, subsequent to the takeover of the entity, are recognised as an addition to the business combination.

In those cases in which the cost of the business combination or the fair values assigned to the identifiable assets, liabilities or contingent liabilities of the acquired entity cannot be definitively determined, the initial recognition of the business combination will be deemed to be provisional. In any case, the process must be completed within a maximum of one year from the acquisition date, effective on that date.

2.2 Financial instruments

2.2.1 Initial recognition of financial instruments

Financial instruments are initially recognised in the consolidated balance sheet when the Group becomes a party to the contract originating them, in accordance with the provisions thereof. Specifically, debt instruments, such as credits and monetary deposits, are recognised from the date on which the legal right to receive or a legal obligation to pay cash, respectively, arises. Financial derivatives are generally recognised on their trading date.

Regular way purchases and sales of financial assets are recognised on the date on which the benefits, risks, rights and duties attaching to all owners are for the purchaser which, depending on the type of financial asset bought or sold, may be the trading date or the settlement or delivery date. In particular, transactions carried out in the spot currency market are recognised on the settlement date, transactions carried out with equity instruments traded on Spanish secondary securities markets are recognised on the trade date and transactions carried out with debt instruments traded on secondary Spanish securities markets are recognised on the settlement date.

2.2.2 Derecognition of financial instruments

A financial asset is derecognised from the consolidated balance sheet when any of the following circumstances occur:

- The contractual rights over the cash flows they generate have expired, or
- the financial asset is transferred, together with substantially all its risks and benefits (Note 2.8).

A financial liability is derecognised from the balance sheet when the related obligation is extinguished or when it is re-purchased by the Group.

2.2.3 Fair value and amortised cost of the financial instruments

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence of this information, of valuation techniques commonly used by the international financial community, taking into consideration the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Specifically, the fair value of the financial derivatives traded in organised, transparent and deep markets, included in the trading portfolios, is similar to their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives or derivatives traded in scantly deep or transparent organised markets is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques recognised by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortised cost is understood to be the acquisition cost of a financial asset or liability corrected in line with the repayments of the principal and payments of interest and, as applicable, the portion allocated to the consolidated income statement using the effective interest rate method, of the difference between the initial amount and the repayment amount of those financial instruments. In the case of financial assets, amortised cost also includes any impairment allowances.

The effective interest rate is the discount rate that exactly equates the initial value of a financial instrument with all of its cash flows estimated for all items over its remaining life, without considering the future credit risk losses. For fixed-rate financial instruments, the effective interest rate coincides with the contractual interest rate established at the time of their acquisition, adjusted, where applicable, by any fees and transaction costs which, in accordance with the regulations in force, must be included in the calculation of said effective interest rate. For financial instruments at variable interest rates, the effective interest rate is estimated in a similar way to the transactions at a fixed interest rate, with the contractual interest rate of the transaction being recalculated on each review date, taking into account the changes to future cash flows from the transaction.

2.2.4 Classification and measurement of financial assets and liabilities

Financial instruments are mainly classified in the Group's consolidated balance sheet in accordance with the categories listed below:

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

  - **Financial assets and liabilities held for trading:** financial assets or liabilities acquired to be sold in the short term or that are part of a portfolio of identified financial instruments managed jointly and for which there is evidence of a recent pattern of short-term profit-taking, together with derivative instruments that do not comply with the definition of a financial guarantee contract and have not been designated as hedging instruments, including those segregated derivatives of hybrid financial instruments pursuant to the regulations in force.

    The held-for-trading portfolio also covers short positions arising from sales of assets acquired temporarily under a non-optional reverse repurchase agreement or borrowed securities.

- **Other financial assets and liabilities at fair value through profit or loss:** In order to avoid differences between the measurement criteria for associated assets and liabilities, the Group classifies in this portfolio the assets (mainly stakes in mutual funds) that are managed jointly with insurance contract liabilities ("Unit linked"), measured at their fair value.

The financial instruments recognised at fair value through profit or loss are initially measured at fair value. The changes in fair value due to yields (or charges) accrued on financial instruments will be posted under “Interest income”, "Interest cost" or "Dividend income" in the consolidated income statement, by type. Yields on debt instruments included in this category are calculated using the effective interest rate method. The other changes in this fair value are recognised with a charge to “Gains/losses on financial assets and liabilities held for trading (net)” and “Gains/losses on financial assets and liabilities designated at fair value through profit or loss (net)” in the consolidated income statement.

In relation to derivative instruments, the Company manages both those classified as “Financial assets and liabilities held for trading” and those classified as hedging derivatives on the basis of their net exposure to their credit risk; accordingly, it estimated their fair value by taking into account such net exposure, as indicated in section 48 of IFRS 13.

- **Held-to-maturity investments**: this category includes debt securities traded in an active market, with fixed or determinable payments and fixed maturity dates, from their acquisition date and on any subsequent date, with the positive intention and financial capacity to hold them to maturity. Financial capacity exists when resources are available to finance the investments until maturity.

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

  They are subsequently measured at amortised cost and the interest accruing on these securities, calculated using the effective interest rate method, is registered under the "Interest Income" heading in the consolidated income statement.

- **Loans and receivables**: this category includes debt securities not traded in an active market, the funding granted to third parties originating from the typical credit and loan activities of the Bank and the debts arranged with it by the purchasers of goods and the users of the services it provides. Finance leases in which the Group acts as lessor are also included.

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

  Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment amount and the cash paid is recognised as finance income in accordance with the effective interest rate method during the period remaining until their maturity.

  The interest accruing on these assets, calculated using the effective interest rate method, is registered under the heading "Interest income" in the consolidated income statement.

  In general terms, the consolidated entities intend to hold the loans and credits granted until their final maturity, which is why they are presented in the consolidated balance sheet at amortised cost.

- **Available-for-sale financial assets**: this category includes debt securities not classified as "Held-to-maturity investments", "Loans and receivables" or “Financial assets designated at fair value through profit or loss“, and the equity instruments of entities that are not subsidiaries, associates or jointly controlled entities, provided that such instruments have not been accounted for as “Financial assets designated at fair value through profit or loss“.

  The instruments included in this category are initially measured at their fair value, adjusted by the transaction costs directly attributable to acquisition of the financial asset, which are recognised on the consolidated income statement using the effective interest rate method through maturity. Subsequent to their acquisition, the financial assets included in this category are measured at their fair value.

  Despite the foregoing, the equity instruments whose fair value cannot be obtained with sufficient objectivity are measured in these financial statements at cost, net of any possible impairment losses, calculated according to the criteria detailed in Note 2.3.

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

  The other changes in fair value are recognised, net of the tax effect, with a balancing entry in the Group's equity under “Equity – Accumulated other comprehensive income – Items that may be reclassified to profit and loss – Available-for-sale financial assets” until the date on which the financial asset is derecognised, at which time the balance recognised under this heading is transferred to the consolidated income statement under the “Gains/(losses) on financial assets and liabilities not designated at fair value through profit or loss” (net)” heading or the “Gains/(losses) on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations” heading in the event of equity instruments classified as available for sale that are strategic investments.

  Investment in equity instruments is deemed to be strategic when performed with the intention of establishing or maintaining a long-term operating relationship with the investee, in accordance with the situations envisaged in the prevailing legislation.

- **Financial liabilities at amortised cost**: this category of financial instruments includes those financial liabilities that do not belong to any of the previous categories.

  Financial liabilities included in this category are initially measured at fair value, adjusted by the transaction costs directly attributable to their issue. Subsequently, they are valued at their amortised cost, calculated through the application of the effective interest rate method.

  The interest accruing on these securities, calculated using such method, is registered under the "Interest cost" heading in the consolidated income statement.

Despite the foregoing, the financial instruments that must be considered to be non-current assets on sale under prevailing regulations are recognised in the consolidated financial statements in accordance with the criteria set forth in Note 2.18.

2.3 Impairment of financial assets

A financial asset is considered to be impaired, and its carrying amount is adjusted to reflect the effect of such impairment, when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), have a negative impact on future cash flows as estimated at the time of entering into the transaction.
- In the case of equity instruments, make it unlikely that their full carrying amount will be recovered.

An allowance for impairment of the carrying amount of the financial instruments is recognised with a charge to the income statement for the period in which the impairment becomes apparent, and the reversal of any previously recognised impairment loss is recognised in the income statement for the period in which the impairment is reduced or reversed. However, the recovery of previously recognised impairment losses on equity instruments classified as available-for-sale financial assets are recognised under “Equity - Accumulated other comprehensive income".

The calculation of the impairment of financial assets is based on the type of instrument and on other circumstances that may affect them, once the guarantees received have been taken into account. The Company recognises both allowance accounts, when provisions for bad debts are recognised to cover estimated losses, and direct write-offs against the asset, when it is considered that the recovery is remote. Generally, the recognition of accrued interest in the income statement, on the basis of the contractual terms, is discontinued for all debt instruments classified as impaired. If such interest is subsequently recovered, the amount collected is recognised in the income statement.

Following are the criteria applied by the Company to determine the possible losses for impairment existing in each of the different financial instrument categories, together with the method followed to calculate the allowances recognised for such impairment.

2.3.1 Debt instruments measured at amortised cost

In the framework of the EU-IFRS, IAS 39, Financial Instruments: Recognition and Measurement” regulating the measurement and impairment methods for the financial assets valued at amortised cost, the link between the Credit Risk monitoring policies and the accounting recognition of provisions under IFRS is deemed to be of importance.

Credit risk management constitutes a priority for the Group, in order to provide sustainable balanced growth and to guarantee the soundness of the Bank’s financial and equity position at all times and to optimise the return/risk ratio. These principles are included in the Credit Risk Management Accounting Policies Manual.

To determine impairment losses, the Group performs an individual monitoring of at least the significant debtors and a collective monitoring of the groups of financial assets with similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it is exclusively analysed individually to determine whether it is impaired and, where appropriate, to estimate the impairment loss.

The Group has policies, methods and procedures in place to estimate the losses that it may incur as a result of its credit risks, relating both to insolvency attributable to counterparties and to country risk. These policies, methods and procedures are applied to the arrangement, study and formalisation of debt instruments and off-balance sheet exposure, and to the identification of their possible impairment and, where appropriate, to the calculation of the amounts required to hedge the estimated losses.

The Group has established criteria that make it possible to identify borrowers showing signs of weakness or objective evidence of impairment and classifies them in line with their credit risk.

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

Classification category definitions

Debt instruments not included in the held-for-trading financial asset portfolio, in addition to off-balance-sheet exposures are classified, based on the insolvency credit risk, as:

- Performing:

  - Transactions that do not meet the requirements for classification in other categories.
  - Performing on special watch: transactions that do not meet the criteria to be classified individually as doubtful or written-off, show weaknesses that may entail greater losses than other similar transactions classified as performing.

- Non-performing:

  - Due to borrower default: transactions with some part of the principal, interest or contractually agreed expenses is past-due, generally speaking, more than 90 days, unless they should be classified as written-off. Guarantees provided shall also be included in this category when the guarantor has defaulted under the guaranteed transaction. Furthermore, the amounts of all transactions of a single holder are included when the transactions with overdue sums, generally speaking, and as mentioned above, are past-due more than 90 days, account for more than 20% of the amounts receivable.
  - For reasons other than borrower default: transactions in which, not classifiable as written-off or non-performing due to default, there are reasonable doubts about their full repayment under the contractual terms; in addition to off-balance-sheet exposures not classified as non-performing due to default, concerning which payment by the Group is likely and recovery is doubtful.

- Write-off:

Transactions for which, after an individual analysis, recovery is considered remote due to a significant impairment or the solvency of the transaction involving the borrower is considered irrecoverable. This category includes risks involving customers subject to bankruptcy proceedings for which there is notice that the liquidation phase has been or is to be declared, in addition to transactions classified as non-performing due to default that are more than four years old, unless they are covered by sufficient guarantees. Likewise, transactions that do not fulfil any of the above criteria but suffer a significant and irrecoverable impairment in terms of solvency are included in this category. In the above circumstances, the Group derecognises any amount recognised along with the provision from the consolidated balance sheet, without prejudice to any actions that may be taken to seek collection until the contractual rights to receive sums are extinguished definitively by expiry of the statute-of-limitations period, remission or any other cause.

Transaction classification criteria

The Group applies a range of criteria to classify borrowers and transactions amongst the different categories, depending on the associated credit risk. These include:

- Automatic criteria;
- Specific refinancing criteria; and
- Indicator-based criteria.

Automatic factors and specific refinancing classification criteria constitute the classification and cure criteria against the entirety of the portfolio.

Furthermore, to facilitate the advance identification of weaknesses and impairment of transactions, the Group has defined a series of indicators, distinguishing between significant and non-significant borrowers, which encompass all default events and signs thereof depending on the composition of the corresponding portfolio. This methodology is based on the Group's experience in Credit Risk, in the composition of its portfolio and loss events identified by the Group; in addition, it proactively seeks to identify potential impairment in advance. Specifically, non-significant borrowers who, having surpassed the automatic classification algorithm, fail to meet any of the conditions to be transferred to either the non-performing or special watch categories, are assessed using indicators; the objective of these indicators is to identify weaknesses that may involve the assumption of greater losses than other similar transactions classified as performing. These indicators are based on the best current estimate of the likelihood of being classified non-performing associated with each transaction.

Once signs of impairment are identified, the Group performs an individual analysis on each borrower classified as being in this situation, to conclude whether the impairment is real or not.

Operations classified as doubtful are reclassified to performing when, as result of the partial or full collection of outstanding amounts in the case of doubtful exposures due to 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 under special watch or doubtful due to debtor default, or maintains them under performing.

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 signs of impairment. 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 that there is evidence of impairment, 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 watch 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 as performing. In this respect the Group has laid down thresholds which, once exceeded, entail an automatic classification as performing exposure under special watch 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 watch.

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 watch.
- 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 watch, 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 renegotiated 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 watch. They must remain under special watch 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 watch.
- 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 policies and 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 horizons 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.

<u>Individualised provision estimates</u>

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. Furthermore, the calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 watch) 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 horizon (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 the 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).

Classification and Provision for credit risk due to country risk

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 servicing debt, 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.

Under no circumstances are guarantees whose efficiency depends substantially on the credit quality of the debtor or corporate group to which the debtor belongs 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, when the regulations so permit, especially for the above assets when exposure and risk is low.

2.3.2 Available-for-sale debt instruments

The impairment loss is equivalent, as applicable, 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 statement of profit or loss.

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 statement of profit or loss. If all or part of the impairment loss is subsequently recovered, the relevant amount is recognised in the consolidated statement of profit or loss for the period in which such recovery takes place.

2.3.3 Available-for-sale equity instruments

The impairment loss is equivalent, as applicable, to the positive difference between acquisition cost and fair value after deducting any impairment loss previously recognised in the consolidated statement of profit or loss.

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 listed 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.

Impairment losses are recognised on the consolidated statement of profit or loss for the period in which they arise, as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

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 adequately 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 only 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 or in the cash flows attributed to the hedged risk over the duration of the hedge are almost entirely offset by the fluctuations in the fair value or the cash flows, as applicable, 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 or the cash flows of the hedged item that are attributable to the hedged risk are almost entirely offset by changes in the fair value or the cash flows, as applicable, of the hedging instruments 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.

Hedging operations performed by the Group are classified into the following categories:

- Fair value hedges: they hedge the exposure to changes in fair value of financial assets and liabilities or unrecognised firm commitments, or an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk, provided that it affects the consolidated statement of profit or loss.

- Cash flow hedges: hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised financial asset or liability or with a highly probable forecast transaction and could affect the consolidated statement of profit or loss.

In fair value hedges, the differences in the fair value of both hedging instruments or hedged items, involving hedged type of risk are recognised directly in the consolidated statement of profit or loss.

In cash flow hedges, changes to the fair value arising in the portion of the effective hedge of the hedging instruments are recognised temporarily in “Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Hedging derivatives. Cash flow hedges (effective portion)” in equity until the hedged transactions occur. At this moment, the amounts previously recognised in equity are taken to the statement of profit and loss in a symmetrical manner to the hedged cash flows. Gains or losses on the hedging instrument corresponding to the ineffective portion of cash flow hedging operations are recognised directly in the statement of profit or loss. Financial instruments hedged in this type of hedging transaction are recognised in the manner explained in Note 2.2, without any changes for their consideration as hedged items.

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.

In fair value macro-hedges, changes to the fair value of hedged items attributable to interest rate risk are recognised directly in the statement of profit and loss, but the balancing entry is recognised in “Assets – Fair value changes of the hedged items in portfolio hedge of interest rate risk” or “Liabilities – Fair value changes of the hedged items in portfolio hedge of interest rate risk” depending on the substance of the hedged item, rather than in the items under which the hedged items are recognised.

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, with the fair value of the inefficient portion immediately recognised in the consolidated statement of profit or loss.

The Group discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer qualifies for hedge accounting or, lastly, when the designation as a hedge is revoked.

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 statement of profit or loss until the maturity date of the hedged items, applying the effective interest rate as recalculated on the interruption date of the hedge.

In turn, in the event of an interruption of a cash flow hedge, the cumulative gain or loss recognised in equity remain in equity until the forecast transaction occurs, at which point it is recognised in the statement of profit and loss. However, if it is expected that the transaction will not be carried out, the cumulative gain or loss is recognised immediately in the consolidated statement of profit or loss.

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			
	2017		2016	
	Assets	Liabilities/ Equity	Assets	Liabilities/ Equity
Breakdown by type of portfolio -				
Financial assets/liabilities at fair value with changes in equity	15,345	(1,136)	24,007	(928)
Loans and receivables/Liabilities at amortised cost	72,181	42,236	66,125	51,900
Other	-	-	-	16,564
	87,526	**41,100**	**90,132**	**67,536**
Breakdown by type of currency -				
US dollar	65,148	37,300	60,208	49,090
Pound sterling	17,794	1,432	5,553	1,794
Swiss franc	1,839	1,726	3,517	772
Japanese yen	1,496	37	18,185	16,596
Canadian dollar	442	12	159	8
Other	807	593	2,510	(724)
	87,526	**41,100**	**90,132**	**67,536**

2.5.2 Conversion criteria for foreign currency balances

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 prevailing on the date of issue of the financial information.

Furthermore:

- 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 rate 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 statement of profit or loss, with the exception of exchange differences on financial instruments recognised at fair value through profit or loss, which are recorded on the consolidated statement of profit or loss 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.

Notwithstanding the foregoing, 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” in the consolidated balance sheet.

At 31 December 2017 and 2016 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 statement of profit or loss.

2.6 Recognition of income and expenses

The paragraphs below summarise the most significant accounting criteria applied by the Group in recognising income and expense:

2.6.1 Interest income, interest expenses, dividends and similar items

As a general rule, interest income, interest expense and similar items are recognised on a time proportion basis using the effective interest method. Dividends received from other companies are recognised as income when the right to receive them is declared by the consolidated entities.

2.6.2 Fees, commissions and similar items

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 statement of profit or loss using accounting policies that vary according to the nature of the item concerned. The most significant fee and commission items are as follows:

- Those linked to acquisitions of financial assets and liabilities carried at fair value through profit or loss, which are reflected in the statement of profit or loss when payment is made.
- Those arising on transactions or services with a lengthy duration, which are recorded in the consolidated statement of profit or loss 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

Non-financial income and expenses are recognised for accounting purposes on an accrual basis.

2.6.4 Deferred receipts and payments

Deferred receipts and payment are recognised for accounting purposes at the amount resulting from discounting the expected cash flows to net present value at market rates.

2.7 Offsetting of financial instruments

Asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, when, and only when, they arise from transactions in which a contractual or legal right of set-off exists and the Company intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

2.8 Transfers of financial assets

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

- If the Group transfers substantially all the risks and rewards of transferred assets to third parties, the transferred financial asset is derecognised and any right or obligation retained or created in the transfer is recognised simultaneously.
- 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.

Notwithstanding the above, 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 year-end.

2.9 Financial guarantees and provisions made thereon

Financial guarantees are agreements 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: collateral, financial guarantee, irrevocable documentary credit issued or guaranteed 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 statement of profit or loss.

Irrespective of the account holder or structure, financial guarantees are periodically reviewed to determine the credit risk to which they are exposed and, where necessary, assess the need to establish provisions for such guarantees, the amount of which is calculated applying similar criteria to those used to quantify the impairment losses suffered by debt securities measured at amortised cost which are described in Note 2.3.1 above.

Provisions set aside for these operations are recognised under "Provisions – Commitments and guarantees given" on the liability side of the consolidated balance sheet. Additions to and reversals from these provisions are recognised in the consolidated statement of profit or loss under ““Provisions or reversal of provisions”.

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

2.10 Accounting of operating leases

2.10.1 Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset 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 under “Loans and receivables” in the consolidated balance sheet, in accordance with the nature of the lessee.

When the consolidated entities act as lessees in a finance lease operation, they present the cost of the leased asset in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, where applicable, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for the Group's property and equipment for own use taken as a whole (Note 2.15).

In both cases, the finance income and finance expense arising from finance lease agreements is credited to “Interest income” or debited to “Interest expense” respectively in the statement of profit or loss, 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

In operating leases, the ownership of the leased asset and substantially all the risks and rewards incidental thereto belong to the lessor.

When the consolidated entities act as lessors in operating leases, the acquisition cost of the leased assets is presented under “Tangible assets” as “Investment property” or as “Other assets leased out under operating lease”, depending on the substance of the leased assets. These 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 statement of profit or loss on a straight-line basis under “Other operating income”.

When the consolidated entities act as lessees, lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to “Other administrative expenses” on the consolidated statement of profit or loss.

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 statement of profit or loss. Note 27.4 provides information on the third-party assets managed at year end.

2.12 Investment funds and pension funds managed by the Group

Mutual funds and pension funds managed by consolidated companies are not recognised in the Group's consolidated balance sheet since the related assets are owned by third parties. Fees and commissions earned on the services rendered to these funds by Group companies (asset management services, portfolio deposits, etc.) are recognised under "Fee income" in the consolidated statement of profit or loss.

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

2.13 Staff 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".

<u>Defined contribution plans</u>

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.

Defined contribution plans are recognised under "Personnel expenses" in the consolidated statement of profit or loss. The contributions made by the defined contribution plan promoters amounted to €17,346 thousand in 2017 and €16,396 thousand in 2016.

<u>Defined benefit plans</u>

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

"Plan assets" are the assets linked to a certain defined benefit obligation that will be directly used to settle these obligations and that meet the following conditions:

- They are not owned by the Bank, but rather by a legally separate, non-related third party.
- They are available to be used only to pay or fund employee benefits and are not available to Bank's own creditors, even in the event of bankruptcy.

- 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 under “Other assets".

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.

Post-employment benefits are recognised as follows:

- In the statement of profit or loss: 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 statement of profit or loss in a subsequent period.

  Actuarial gains and losses arise from differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

<u>Pension supplements for serving or retired personnel</u>

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.

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 retirement, widowhood, orphanhood, permanent disability or major disability.

In addition, the Group has retirement supplements commitments with former retired employees and management personnel which are externalised 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 staff taking early retirement, widowhood commitments 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 statement of profit or loss.

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 payments 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 employee 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 support. If this second limit is applicable, the resulting amount may not be less than €200,000 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 0.90% 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 support. 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 support: to meet fully justified 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 the gross salary.

2.14 Income tax

The income tax expense for the is calculated as the tax payable on the taxable profit for the year, adjusted for the changes arising during the financial year in the assets and liabilities recognised as a result of temporary differences, tax credits and relief and possible 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. The amounts are recognised at the tax rates that are expected to apply when the asset is realised or the liability is settled.

Deferred tax assets are only recognised when it is probable that sufficient future taxable profit will be obtained against which the deferred tax asset can be utilised.

Tax credits and relief, and credits for tax loss carryforwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met, provided that the Group considers it probable that they will be used in future periods. 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 practically all taxable temporary differences. Notwithstanding the foregoing, 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.

Deferred tax assets and liabilities are reviewed at each balance sheet date to verify that they remain in force, and the appropriate adjustments are made on the basis of the results of the review.

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 using the straight-line method on the basis of the acquisition cost of the assets less their residual value. The land on which buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The annual provisions for depreciation are charged to the consolidated statement of profit or loss under "Depreciation - Tangible assets" and are calculated on the basis of the following average years of estimated useful life of the various assets, as follows:

	Years of estimated useful life
Properties for own use	25 to 100
Furniture	6 to 16.6
Fixtures	5 to 16.6
Computer equipment and installations	4 to 8

At each balance sheet date, the consolidated entities assess whether there is any internal or external indication that a tangible asset is impaired (i.e. its carrying amount exceeds its recoverable amount). If any such indication exists, the carrying amount of the asset is written down to its recoverable amount and future depreciation charges are adjusted in proportion to the asset‘s adjusted carrying amount and its new remaining useful life, in the event that a re-estimation of this is necessary. This reduction in the carrying amount is charged, as necessary to “Impairment or reversal of impairment of the value of non-financial assets (net)” in the consolidated statement of profit or loss.

Similarly, if there is an indication of a recovery in the value of a deteriorated tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods, through the corresponding credit to the heading “Impairment or reversal of impairment of the value of non-financial assets (net)” in the consolidated statement of profit or loss, and adjusts the future depreciation charges accordingly.

Foreclosed assets that, depending on their nature and purpose, are classified as real-estate investments by the Group, are initially recognised at the lower of the fair value net of sales cost and the acquisition cost, which is understood as the net carrying value of the debts that give rise to them, with the net value calculated pursuant to the provisions of the applicable regulations as set out in Note 2.18. Subsequently, these foreclosed assets are subject to the corresponding estimated impairment losses that, as applicable, are generated; to this end, an appraisal is carried out on whether the lease operation meets the following requirements:

- the lessee’s payment capacity is sufficient to repay the amounts agreed in the contract, and
- the market value of the asset in the price of the lease exceeds its carrying amount.

In the event that either of these two points are not met, the estimated fair value will be calculated using the internal methodologies set out in Note 2.18.

Additionally, at least once every year, the estimated useful life of the elements of property, plant and equipment is reviewed, in order to detect significant changes in them that, if produced, will be adjusted through the corresponding correction charged to the statement of profit or loss for future years in concept of their depreciation by virtue of the new useful lives.

Repair and maintenance expenses relating to fixed assets for own use are charged to "Other administrative expenses" on the consolidated statement of profit or loss.

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 recognised. It is recognised 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 subject 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 statement of profit or loss.

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 based on the medium-term dividend discount model, 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 estimated future dividends, 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 year in which they are considered standardised. 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, a rate of growth in perpetuity is estimated.

Goodwill impairment losses are not reversed in a subsequent period.

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. Rather, at each accounting close, 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 a finite useful life are amortised over the useful life, applying policies similar to those followed for the depreciation of tangible assets. Annual amortisation of intangible assets with a definite useful life is recognised in "Amortisation- Intangible assets" in the statement of profit or loss 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 6 years to those associated with term deposits.

The Group recognises any impairment loss in the carrying amount of these assets and makes a balancing entry under “Impairment or reversal of impairment of non-financial assets (net) - tangible assets” in the consolidated statement of profit or loss. The policies for recognising impairment losses on these assets and for reversing impairment losses recognised in prior years are similar to those for property, plant and equipment (Note 2.15).

2.17 Inventories

This item in the consolidated balance sheet includes the non-financial assets that the consolidated entities:

- hold for sale in the ordinary course of business,
- are in the process of making, building or developing for such purposes, or
- 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 realisable 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 statement of profit or loss in the financial year they are incurred, under “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 statement of profit or loss under “Other operating expenses" in the year the income from their sale is recognised.

For assets foreclosed or 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 classified as held for sale

Under this heading, assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are recognised, provided that the sale is considered 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 a an increase or release of provisions, as applicable.

  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 selling costs, 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.

  With the exception of the certain properties, which do not account for a significant amount in this portfolio, classified under Other properties, to which the discount on the reference value provided by the Bank of Spain is applied as an alternative solution given its experience and the information it has on the Spanish banking sector, the Group has developed internal methodologies for estimating discounts on reference values and selling costs, 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 statement of profit or loss 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, the Company reviews the procedure for determining fair value. 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 also 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 "Profit or (-) loss on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" on the consolidated statement of profit or loss. The remaining income and expenses associated with these assets and liabilities are disclosed by nature.

2.19 Insurance transactions

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 made known. These accounting practices require insurance companies to apportion the amounts credited to the statement of profit or loss and not accrued at that date at year-end.

The most significant accruals and deferrals made by the consolidated entities in relation to direct insurance purchased 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: credit balances covering present obligations at the date of the balance sheet arising from past events which could give rise to pecuniary losses for the entities that are considered likely to occur, are certain as to their nature but uncertain as to their amount and/or timing.
- Contingent liabilities: possible obligations that arise from past events and whose existence is conditional on the occurrence or non-occurrence of one or more future events not within the control of the consolidated entities.

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

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 statement of profit or loss.

At 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 such lawsuits and proceedings will not have a material effect on the consolidated financial statements in the years in which they are settled.

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 statement of profit or loss") 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 comprehensive income").

The "Consolidated statement of comprehensive income" shows the income and expense generated by the Group as a result of its activity during the year, distinguishing between items of income and expense that are recognised in profit and loss for the year and items of income and expense that, as required under current regulations, are recognised directly in consolidated equity.

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

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

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

a) Valuation gains (losses): represents the total income, net of expenses for the year, directly recognised 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 statement of profit or loss.

b) Amounts transferred to profit and loss: consisting of valuation gains and losses previously recognised in equity, even in the same year, which are taken to profit and loss.

c) Other reclassifications: consisting of transfers made during the year between valuation adjustments in accordance with criteria established by prevailing accounting standards.

2.22 Total statement of changes in equity

The "Total statement of changes in equity" presents all changes in equity, including those arising from changes in accounting criteria and the correction of errors. 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 due to changes in accounting principles and correction of errors: Includes changes in consolidated equity due to the retroactive adjustment to financial statement balances because of changes in accounting principles or to correct errors.

b) Comprehensive income for the year: comprises an aggregate of all the aforementioned items recognised in the statement of comprehensive income.

c) Other changes in equity: includes the remaining items recognised in equity, such as capital increases or decreases, distribution of earnings, treasury share transactions, equity-based payments, transfers between equity items, and any other increase or decrease in consolidated equity.

2.23 Consolidated statement of cash flows

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

- 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: the acquisition, sale or other disposal 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 liabilities do not form part of operating activities.

For the purposes of preparing the consolidated cash flow statement, "cash and cash equivalents" are considered to be short-term, highly liquid investments with an insignificant risk of changes 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 and 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 and cash balances at central banks and other demand deposits" (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 and cash balances at central banks and other demand deposits" (Note 6). Creditor balances are recognised under liabilities on the consolidated balance sheet under the heading "Financial liabilities at amortised cost – Deposits – Credit institutions" (Note 19.2).

3. Risk management

The Group's risk management is organized through the "Risk Appetite Framework" (RAF). Ibercaja Banco Group's RAF has 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 Banco 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 Banco Group is characterised 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 a comprehensive view of the Consolidated Group and takes into consideration all risks, whether financial or otherwise, that affect the performance of the Group's business and attaining its business objectives. Risks considered are as follows: business and profitability risk, credit risk, concentration risk, operational risk, interest rate risk, market risk, liquidity risk, reputational risk and compliance risk.

Ibercaja Banco Group's Risk Appetite Framework is based on strategic principles, corporate governance and risk management that, together, constitute the Group's Risk Appetite Statement.

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 Company self-assesses capital and liquidity on a recurring basis through the identification, measurement and aggregation of 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 and supervisory guidelines.

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 how the SSM performs continuous evaluations of entities.

The internal processes for evaluating the adequacy of capital and liquidity under Pillar II (known as ICAAP & ILAAP) in addition to the stress exercises organised by the European Banking Authority (EBA) and the ECB are key factor in the SREP.

Furthermore, the Ibercaja Banco Group has a Recovery Plan, drawn up in line with the Directive for Bank Recovery and Resolution (Directive 2014/59, BRRD) and the guidelines and recommendations of the EBA that establishes the foundations for the process or restoring the Group's financial strength and viability, in the event of severe stress.

These management frameworks (RAF, ICAAP & ILAAP and the Recovery Plan) are consistent with one another, form part of the risk management processes in place and are revised and approved by the Bank's Board of Directors on an annual basis.

Furthermore, the Board of Directors has revised the other risk management manuals and frameworks and has approved new manuals in line with the entry into force of IFRS 9.

- Loan and discount risk management policy and procedure manual,
- Manual for lines of risk,
- Capital market management policies manual,
- Interest rate risk management policy and procedure manual,
- Liquidity risk management policy and procedure manual,
- Operational risk management framework,
- Internal control and model validation framework,
- Model governance framework,
- Methodological manual for the accounting classification of exposures
- Methodological manual for the individual classification and estimation of impairment
- Methodological manual for IFRS 9 - collective model of provisions
- Manual for calculating the Internal foreclosure model.

3.1 Exposure to credit risk

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 Strategies and policies for the credit risk management

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 approves the strategies, policies and limits for the management of this risk, prior report from the Large Risk and Solvency Committee, documented in the "Loan and discount risk management policy and procedure 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 of 4 March, on the Sustainable Economy, Order EHA/2899/2011 of 28 October, on transparency and customer protection in banking services and Bank of Spain Circular 5/2012 of 27 June, on transparency in banking services and responsibility in the granting of loans and credit facilities.

These policies are included in the "Loan and discount risk management policy and procedure 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).

In terms of banking services customer protection and transparency standards, the Group performs the following actions:

- 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 website (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, as part of 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. Comprises sovereign risk, transfer risk and other risks inherent to 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.

In relation to sovereign risk, the Company has maximum limits 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:

	Thousands of euros	
	2017	**2016**
No appreciable risk	11,944,397	17,847,753
Low risk	20,016,567	21,173,114
Medium-low risk	650,618	3,014,850
Medium risk	7,288,275	6,340,232
Medium-high risk	1,613,521	1,270,281
High risk	171,853	168,371
	41,685,231	**49,814,601**

The credit quality of loans and receivables (Note 10) at 31 December 2017 is as follows:

	Thousands of euros			
	2017			
	Performing exposures	***Of which: Performing on special watch***	**Non-performing exposures**	**Total**
Gross amount	**33,545,340**	**985,461**	**2,564,825**	**36,110,165**
Allowances for impairment of assets	**83,157**	**35,134**	**1,007,209**	**1,090,366**
Of which: calculated collectively	83,157	35,134	486,821	569,978
Of which: calculated separately	-	-	520,388	520,388
Net amount	**33,462,183**	**950,327**	**1,557,616**	**35,019,799**

In turn, the credit quality of loans and receivables (Note 10) at 31 December 2016 is as follows:

	Thousands of euros			
	2016			
	Performing exposures	*Of which: Performing on special watch*	Non-performing exposures	Total
Gross amount	**34,308,378**	**1,352,302**	**3,061,298**	**37,369,676**
Allowances for impairment of assets	**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 separately	-	-	517,851	517,851
Net amount	**34,151,306**	**1,241,376**	**1,868,022**	**36,019,328**

Impairment adjustments to collectively calculated assets amount to €640 thousand at 31 December 2017 (€1,364 thousand at 31 December 2016) due to country risk.

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:

	Thousands of euros	
	2017	2016
Public sector	396,804	566,619
Credit institutions	650,522	734,670
Real estate construction and development	1,673,354	2,023,374
Other production activities	10,555,474	8,383,504
Housing acquisition and refurbishment	20,429,959	21,684,753
Consumer and other household lending	672,328	1,209,474
Other sectors not classified	1,731,724	2,767,282
	36,110,165	**37,369,676**

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:

	Thousands of euros	
	2017	2016
Mortgage guarantees	25,308,850	26,514,534
Pledges - financial assets	25,010	24,239
Off-balance sheet guarantees – public sector and credit institutions	139,422	54,794
Guarantees - public sector debt	981,535	985,071
	26,454,817	**27,578,638**

Guarantees received and financial guarantees granted break down as follows at 31 December 2017 and 2016:

	Thousands of euros	
	2017	2016
Value of collateral	24,350,886	25,517,900
Of which: guarantees risks on special watch	*722,531*	*989,654*
Of which: guarantees non-performing risks	*1,793,335*	*2,375,172*
Value of other collateral	7,627,724	7,810,810
Of which: guarantees risks on special watch	*300,926*	*383,070*
Of which: guarantees non-performing risks	*635,809*	*693,905*
Total value of the collateral received	**31,978,610**	**33,328,710**

	Thousands of euros	
	2017	**2016**
Loan commitments given (Note 27.3)	**2,951,517**	**2,950,250**
Of which: classified as non-performing	*28,024*	*50,716*
Amount recognised under liabilities on the balance sheet (Note 21)	6,739	10,313
Financial guarantees granted (Note 27.1)	**92,717**	**82,613**
Of which: classified as non-performing	*9,151*	*6,013*
Amount recognised under liabilities on the balance sheet (Note 21)	6,843	6,838
Other commitments given	**787,297**	**798,095**
Of which: classified as non-performing	*35,203*	*41,401*
Amount recognised under liabilities on the balance sheet (Note 21)	18,074	18,177

At December 2017 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 56.78% (54.82% at December 2016).

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:

	Thousands of euros	
	2017	**2016**
Customer default	1,940,818	2,075,640
Other factors	624,007	985,658
	2,564,825	**3,061,298**

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 consolidated report 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

Below is a breakdown of the carrying value of the distribution of customer loans by activity at 31 December 2017 and 2016:

	Thousands of euros							
	31/12/2017							
	Total	Of which: mortgage collateral	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (loan to value)				
				Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
Public administrations	**335,074**	**78,587**	**-**	**4,835**	**15,107**	**27,680**	**26,615**	**4,350**
Other financial companies and individual entrepreneurs (financial business activity)	**1,108,901**	**3,045**	**981,018**	**1,310**	**1,119**	**616**	**981,018**	**-**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**8,205,375**	**3,417,647**	**19,790**	**1,000,206**	**836,352**	**972,968**	**190,828**	**437,083**
Real estate construction and development (including land)	1,255,420	1,202,292	724	106,920	173,306	591,781	61,753	269,256
Civil engineering	23,651	321	-	321	-	-	-	-
Other purposes	6,926,304	2,215,034	19,066	892,965	663,046	381,187	129,075	167,827
Large corporations	*1,099,616*	*49,610*	-	*34,398*	*7,446*	*5,092*	*1,239*	*1,435*
SMEs and individual entrepreneurs	*5,826,688*	*2,165,424*	*19,066*	*858,567*	*655,600*	*376,095*	*127,836*	*166,392*
Other households and non-profit institutions serving households	**22,302,444**	**21,087,017**	**11,480**	**5,291,033**	**7,993,151**	**6,634,733**	**908,334**	**271,246**
Homes	20,249,383	20,018,763	4,287	4,796,551	7,655,816	6,454,645	869,291	246,747
Consumption	648,145	163,675	5,057	104,003	42,067	14,997	4,764	2,901
Other purposes	1,404,916	904,579	2,136	390,479	295,268	165,091	34,279	21,598
Total	**31,951,794**	**24,586,296**	**1,012,288**	**6,297,384**	**8,845,729**	**7,635,997**	**2,106,795**	**712,679**
Memorandum items: refinancing, refinanced and restructured operations	**1,831,642**	**1,617,822**	**4,047**	**234,924**	**342,341**	**437,014**	**208,771**	**398,819**

	Thousands of euros							
	31/12/2016							
	Total	Of which: mortgage collateral	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (loan to value)				
				Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater 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 purpose)	**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	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 corporations	*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 households 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**
Homes	21,388,402	21,114,380	5,136	4,954,218	7,725,550	7,269,821	1,019,887	150,040
Consumption	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 items: refinancing, refinanced and restructured operations	**2,142,403**	**1,860,537**	**6,893**	**304,940**	**424,139**	**653,107**	**293,221**	**192,023**

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:

	Thousands of euros				
	31/12/2017				
	Spain	**Rest of the EU**	**America**	**Rest of the world**	**Total**
Central banks and credit institutions	**4,826,129**	**110,823**	**150**	**6,377**	**4,943,479**
Public administrations	**8,018,912**	**912,166**	**-**	**-**	**8,931,078**
Central government	7,026,476	910,121	-	-	7,936,597
Other public administrations	992,436	2,045	-	-	994,481
Other financial companies and individual entrepreneurs (financial business activity)	**3,409,166**	**143,952**	**-**	**-**	**3,553,118**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**9,661,745**	**660,537**	**38,980**	**7,275**	**10,368,537**
Real estate construction and development (including land)	1,537,448	-	-	-	1,537,448
Civil engineering	21,348	-	1,493	2,303	25,144
Other purposes	8,102,949	660,537	37,487	4,972	8,805,945
Large corporations	*1,303,199*	*58,157*	*17,679*	*3,948*	*1,382,983*
SMEs and individual entrepreneurs	*6,799,750*	*602,380*	*19,808*	*1,024*	*7,422,962*
Other households and non-profit institutions serving households	**22,361,226**	**64,462**	**11,762**	**33,294**	**22,470,744**
Homes	20,142,233	63,481	11,096	32,573	20,249,383
Consumption	646,915	409	318	504	648,146
Other purposes	1,572,078	572	348	217	1,573,215
Total	**48,277,178**	**1,891,940**	**50,892**	**46,946**	**50,266,956**

	Thousands of euros				
	31/12/2016				
	Spain	**Rest of the 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 purpose)	**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	23,255	392	-	2,379	26,026
Other purposes	8,042,404	208,383	41,884	3,454	8,296,125
Large corporations	*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 households and non-profit institutions serving households	**23,294,295**	**62,568**	**10,544**	**31,398**	**23,398,805**
Homes	21,289,903	58,596	9,964	29,939	21,388,402
Consumption	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**

- Activity in Spain:

	Thousands of euros								
	31/12/2017								
	Aragon	Madrid	Catalonia	Comm. of Valencia	Andalusia	Castilla León	Castilla La Mancha	Other	Total
Central banks and credit institutions	**1,484,398**	**3,223,236**	**-**	**23,764**	**28,725**	**1**	**-**	**66,005**	**4,826,129**
Public administrations	**104,269**	**141,665**	**13,983**	**116,322**	**136,372**	**69,370**	**33,631**	**376,824**	**8,018,912**
Central government (*)	-	-	-	-	-	-	-	-	7,026,476
Other public administrations	104,269	141,665	13,983	116,322	136,372	69,370	33,631	376,824	992,436
Other financial companies and individual entrepreneurs (financial business activity)	**22,519**	**3,355,574**	**26,565**	**560**	**783**	**1,430**	**395**	**1,340**	**3,409,166**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**3,099,688**	**2,128,782**	**1,071,435**	**589,590**	**557,736**	**629,514**	**330,815**	**1,254,185**	**9,661,745**
Real estate construction and development (including land)	352,830	584,348	106,304	66,804	136,522	79,995	85,275	125,370	1,537,448
Civil engineering	2,021	19,231	-	-	-	-	-	96	21,348
Other purposes	2,744,837	1,525,203	965,131	522,786	421,214	549,519	245,540	1,128,719	8,102,949
Large corporations	*224,762*	*441,197*	*224,769*	*84,544*	*66,356*	*59,828*	*27,686*	*174,057*	*1,303,199*
SMEs and individual entrepreneurs	*2,520,075*	*1,084,006*	*740,362*	*438,242*	*354,858*	*489,691*	*217,854*	*954,662*	*6,799,750*
Other households and non-profit institutions serving households	**6,152,214**	**5,499,747**	**2,037,123**	**1,927,786**	**1,428,538**	**1,069,384**	**1,432,397**	**2,814,037**	**22,361,226**
Homes	5,142,926	5,153,728	1,867,391	1,804,215	1,345,136	968,221	1,326,768	2,533,848	20,142,233
Consumption	249,887	103,308	45,451	35,174	23,212	42,662	35,171	112,050	646,915
Other purposes	759,401	242,711	124,281	88,397	60,190	58,501	70,458	168,139	1,572,078
Total	**10,863,088**	**14,349,004**	**3,149,106**	**2,658,022**	**2,152,154**	**1,769,699**	**1,797,238**	**4,512,391**	**48,277,178**

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

	Thousands of euros								
	31/12/2016								
	Aragon	Madrid	Catalonia	Comm. of Valencia	Andalusia	Castilla León	Castilla La Mancha	Other	Total
Central banks and credit institutions	**1,467,531**	**763,335**	**2,530**	**-**	**40,191**	**1**	**-**	**89,285**	**2,362,873**
Public administrations	**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 purpose)	**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	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 corporations	*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 households 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**
Homes	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
Consumption	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.

3.1.5.2 Information concerning refinancing and restructuring

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 Company'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. To this end, 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 non-performing.

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.

A breakdown of refinancing and restructuring balances at 31 December 2017 and 2016 can be seen below:

	Thousands of euros			
	2017		2016	
	Total	Of which: default/not-performing	Total	Of which: default/not-performing
Gross amount	**2,500,207**	**1,719,964**	**2,933,170**	**1,994,523**
Allowances for impairment of assets	**668,565**	**640,466**	**790,767**	**747,790**
Of which: collective	224,920	196,821	353,188	310,211
Of which: individual	443,645	443,645	437,579	437,579
Net amount	**1,831,642**	**1,079,498**	**2,142,403**	**1,246,733**
Value of the collateral received	**2,467,915**	**1,672,912**	**2,986,746**	**2,081,129**
Value of collateral	1,817,991	1,257,875	2,271,817	1,624,184
Value of other collateral	649,924	415,037	714,929	456,945

The reconciliation of the carrying amounts of refinanced and restructured operations at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Opening balance	**2,933,170**	**4,083,321**
(+) Refinancing and restructuring in the period	420,520	422,292
Memorandum items: impact recognised in the statement of profit and loss for the period	*68,189*	*67,647*
(-) Debt repayments	732,573	420,195
(-) Foreclosures	19,846	36,415
(-) Derecognitions (reclassification to written-off assets)	22,267	226,258
(+)/(-) Other changes (*)	(78,797)	(889,575)
Closing balance	**2,500,207**	**2,933,170**

(*) 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).

On 31 December 2017, the details of the refinanced and restructured transactions are as follows:

	Thousands of euros							
	Total							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
Credit institutions	-	-	-	-	-	-	-	-
Public administrations	**8**	**19,349**	**6**	**3,490**	**2,560**	**-**	**1,428**	**21,411**
Other financial companies and individual entrepreneurs (financial business activity)	**8**	**241**	**3**	**135**	**134**	**-**	**171**	**205**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**2,288**	**301,859**	**3,218**	**1,192,141**	**747,559**	**-**	**557,817**	**936,183**
of which: financing for real estate construction and development (including land)	*214*	*54,741*	*621*	*708,310*	*382,017*	*-*	*359,886*	*403,165*
Other households	**6,714**	**58,469**	**10,036**	**924,523**	**793,186**	**24**	**109,149**	**873,843**
Total	**9,018**	**379,918**	**13,263**	**2,120,289**	**1,543,439**	**24**	**668,565**	**1,831,642**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-	-

	Thousands of euros							
	of which: default/non-performing							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
Credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Public administrations	**3**	**5,634**	**4**	**2,175**	**1,244**	**-**	**1,428**	**6,381**
Other financial companies and individual entrepreneurs (financial business activity)	**5**	**198**	**1**	**9**	**9**	**-**	**170**	**37**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**1,105**	**157,076**	**2,099**	**964,068**	**547,727**	**-**	**536,697**	**584,447**
of which: financing for real estate construction and development (including land)	*150*	*44,837*	*523*	*629,932*	*314,236*	*-*	*351,128*	*323,641*
Other households	**2,510**	**29,671**	**5,626**	**561,133**	**462,302**	**-**	**102,171**	**488,633**
Total	**3,623**	**192,579**	**7,730**	**1,527,385**	**1,011,282**	**-**	**640,466**	**1,079,498**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

On 31 December 2016, the details of the refinanced and restructured transactions are as follows:

	Thousands of euros							
	Total							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
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 for real estate construction and development (including land)	*268*	*94,653*	*585*	*894,722*	*827,714*	*2,510*	*462,599*	*526,776*
Other households	**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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	Thousands of euros							
	Of which: default/non-performing							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
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 for real estate construction and development (including land)	*260*	*84,307*	*481*	*777,246*	*722,678*	*2,510*	*445,078*	*416,475*
Other households	**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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The detail of the refinanced or restructured transactions is attached that, after the restructuring or refinancing, have been classified as non-performing during fiscal years 2017 and 2016:

	Thousands of euros	
	2017	2016
Public administrations	**-**	**-**
Other legal persons and individual entrepreneurs	**137,668**	**277,878**
Of which: financing for real estate construction and development	98,113	173,535
Other individuals	**93,347**	**207,974**
Total	**231,015**	**485,852**

On 31 December 2017, the Group assessed the renegotiated transactions, and according to their better judgement identified and provided those that having not mediated renegotiation could have been past-due or impaired, for a global risk amount of 780,243 million euros (938,647 million euros on 31 December 2016).

3.1.6 Policies for the management of problematic assets

Ibercaja Banco, S.A., establishes specific policies relating to the management of assets of the real estate sector, affected very specifically by the recent crisis.

These policies are focused on favouring the compliance of the obligations of the borrowers and mitigate the risks to which the Group is exposed. In this sense, alternatives are searched for that allow for the completion and sale of the projects, analysing the renegotiation of the risks if it improves the credit position of the Group and with the basic purpose that the borrower can maintain his/her commercial activity. To do so, they keep in mind the previous experience with the borrower, the apparent willingness of payment and the improvement of the Group in terms of expected loss, seeking to increase the guarantees of the credits and not increase the customer's risk.

Additionally the Group supports the promoters once the promotions are finished, working together in the management and speeding up of sales.

In the case that the support measurements are not possible or sufficient, other alternatives are searched for such as the granting in payment or the purchase of assets, with legal claim and subsequent acquisition of real estate being the last option.

All those assets that form part of the Group's balance sheet are managed seeking their divestment or lease.

To do so, the Group has agreements with third parties or has instrumental companies, specialised in the management of urban projects, sale of real estate and lease of real estate assets. On the other hand, the Group has specific Units to develop these strategies and coordinate the assets of the instrumental subsidiaries, of the network of offices and the rest of agents involved. Additionally, the Group has the website www.ibercaja.es/inmuebles as one of the main tools with which they disclose to the public interested in these assets.

3.1.6.1 Credit investment linked to development and real estate activities and to retail mortgages

On 31 December 2017 and 2016, the details of the financing for the real estate construction and development and the hedging thereof is the following:

	Thousands of euros							
	Gross carrying amount		Excess of the gross exposure on the maximum recoverable amount of the effective collateral (*)		Accumulated impairment		Net value	
	2017	2016	2017	2016	2017	2016	2017	2016
Financing for real estate construction and development (including land) (businesses in Spain)	**1,695,006**	**2,023,374**	**485,606**	**513,593**	**418,776**	**568,232**	**1,276,230**	**1,455,142**
Of which: default/non-performing	775,480	1,065,467	366,982	373,937	405,365	510,130	370,115	555,337
Memorandum items: written-off assets	**150,031**	**375,189**	**-**	**-**	**-**	**-**	**-**	**-**

(*) Excess of the gross exposure on the maximum recoverable amount of the effective collateral calculated according to Circular 04/2004. That is the amount of the positive difference between the gross carrying amount of the financial assets and the maximum recoverable amount of the effective collateral.

	Thousands of euros	
	Carrying amount	
Memorandum items: Data from the public consolidated balance sheet	**2017**	**2016**
Loans to customers, excluding Public Administrations (businesses in Spain)	31,616,720	32,020,236
Total consolidated asset (total businesses)	53,106,969	57,175,874
Impairment loss and provisions for exposures classified as normal (total businesses)	82,989	162,627

The breakdown of the heading of the financing for the real estate construction and development (including land), on 31 December 2017 and 2016 is the following:

	Thousands of euros	
	Gross carrying amount	
	2017	2016
Without real estate collateral	**91,692**	**117,042**
With real estate collateral (breakdown as per the type of asset received in collateral)	**1,603,314**	**1,906,332**
Buildings and other completed constructions	469,394	510,777
Housing	*418,728*	*353,461*
Other	*50,666*	*157,316*
Buildings and other constructions under construction	558,270	570,910
Housing	*556,923*	*500,071*
Other	*1,347*	*70,839*
Land	575,650	824,645
Consolidated urban land	*550,886*	*796,921*
Other land	*24,764*	*27,724*
Total	**1,695,006**	**2,023,374**

Below a detail of the collateral received and financial guarantees granted in relation with the financing for real estate construction and development is shown (including land) on 31 December 2017 and 2016.

Collateral received:

	Thousands of euros	
	2017	2016
Value of collateral	1,502,417	2,131,473
Of which: guarantees default/non-performing risks	*499,061*	*1,044,685*
Value of other collateral	743,561	403,983
Of which: guarantees default/non-performing risks	*96,773*	158,492
Total value of the collateral received	**2,245,978**	**2,535,456**

Financial guarantees granted:

	Thousands of euros	
	2017	2016
Financial guarantees granted related to real estate construction and development	**18,371**	**18,591**
Amount recognised under liabilities on the balance sheet	4,156	3,884

On 31 December 2017 and 2016, the breakdown of loans to households for housing acquisition, is the following:

	Thousands of euros			
	Gross amount		Of which: default/non-performing	
	2017	2016	2017	2016
Housing acquisition loans	**20,429,959**	**21,315,284**	**857,096**	**884,450**
Without mortgage loan	260,209	132,813	29,422	29,485
With mortgage loan	20,169,750	21,182,471	827,674	854,965

The breakdown of the loans with mortgage loan to households for housing acquisition according to the percentage that implies the gross carrying amount over the latest appraisal amount (loan to value) on 31 December 2017 and 2016 is the following:

	Thousands of euros					
	2017					
	Gross carrying amount based on latest appraisal amount (loan to value)					
	Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%	Total
Gross carrying amount	4,793,165	7,664,247	6,501,391	903,213	307,734	**20,169,750**
Of which: default/non-performing	50,973	156,602	293,739	144,996	181,364	**827,674**

	Thousands of euros					
	2016					
	Gross carrying amount based on latest appraisal amount (loan to value)					
	Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%	Total
Gross amount	4,944,205	7,698,916	7,313,980	1,060,254	165,116	**21,182,471**
Of which: default/non-performing	60,154	176,213	396,944	179,525	42,129	**854,965**

On 31 December 2017 94% of the housing acquisition loan with real estate collateral has an LTV lower than 80% (94% on 31 December 2016).

3.1.6.2 Foreclosed or received assets in payment for debts.

Below the following information is detailed regarding the foreclosed or received assets in payment of debt on 31 December 2017 and 2016:

	Thousands of euros			
	31/12/2017			
	Gross carrying amount (*)	Total allowances for impairment losses	Of which: Allowances for impairment losses from the time of the foreclosure	Carrying amount
Real estate assets acquired from loans for real estate construction and development	**1,146,289**	**(686,178)**	**(423,728)**	**460,111**
Buildings and other completed constructions	263,412	(122,509)	(61,129)	140,903
Housing	*126,787*	*(61,532)*	*(28,488)*	*65,255*
Other	*136,625*	*(60,977)*	*(32,641)*	*75,648*
Buildings and other constructions under construction	61,559	(33,574)	(16,070)	27,985
Housing	*57,349*	*(31,751)*	*(15,492)*	*25,598*
Other	*4,210*	*(1,823)*	*(578)*	*2,387*
Land	821,318	(530,095)	(346,529)	291,223
Consolidated urban land	*361,309*	*(228,223)*	*(131,397)*	*133,086*
Other land	*460,009*	*(301,872)*	*(215,132)*	*158,137*
Real estate assets acquired in mortgage loans to households for housing acquisition	**358,918**	**(167,700)**	**(66,048)**	**191,218**
Other foreclosed or received real estate assets in payment of debt	**61,148**	**(33,122)**	**(9,582)**	**28,026**
Foreclosed or received equity instruments in payment of debt	**-**	**-**	**-**	**-**
Foreclosed equity instruments of real estate asset holding companies or received in payment of debt	**-**	**-**	**-**	**-**
Foreclosed finance to real estate asset holding companies or received in payment of debt	**-**	**-**	**-**	**-**
	1,566,355	**(887,000)**	**(499,358)**	**679,355**

(*) Amount before deducting the allowances for impairment loss

	Thousands of euros			
	31/12/2016			
	Gross carrying amount (*)	Total allowances for impairment losses	Of which: Allowances for impairment losses from the time of the foreclosure	Carrying amount
Real estate assets acquired from loans for real estate construction and development	**1,256,540**	**(701,881)**	**(413,941)**	**554,659**
Buildings and other completed constructions	311,847	(140,279)	(65,104)	171,568
Housing	*186,450*	*(87,452)*	*(39,248)*	*98,998*
Other	*125,397*	*(52,827)*	*(25,856)*	*72,570*
Buildings and other constructions under construction	60,722	(31,240)	(11,291)	29,482
Housing	*58,177*	*(29,868)*	*(10,588)*	*28,309*
Other	*2,545*	*(1,372)*	*(703)*	*1,173*
Land	883,971	(530,362)	(337,546)	353,609
Consolidated urban land	*400,805*	*(235,849)*	*(135,806)*	*164,956*
Other land	*483,166*	*(294,513)*	*(201,740)*	*188,653*
Real estate assets acquired in mortgage loans to households for housing acquisition	**393,855**	**(160,168)**	**(45,473)**	**233,687**
Other foreclosed or received real estate assets in payment of debt	**75,041**	**(38,719)**	**(8,329)**	**36,322**
Foreclosed or received equity instruments in payment of debt	**-**	**-**	**-**	**-**
Foreclosed equity instruments of real estate asset holding companies or received in payment of debt	**-**	**-**	**-**	**-**
Foreclosed finance to real estate asset holding companies or received in payment of debt	**-**	**-**	**-**	**-**
	1,725,436	**(900,768)**	**(467,743)**	**824,668**

(*) Amount before deducting the allowances for impairment loss

3.2 Exposure to operational risk

It is defined as the risk of loss resulting from inadequacy or a failure of the processes, personnel and internal systems, or it may derive from external events.

3.2.1 Strategies and policies for the operational risk management

The Board of Directors approves the strategies, policies and limits for the management of this risk, following a report from the Large Risk and Solvency Committee, documented in the "Framework of operational risk management".

The Group currently has a management an assessment model for this risk, which basically contemplates the following points:

- General aspects: definition of operational risk, categorisation and assessment of risks.
- Methodologies applied for the identification, assessment and measuring of operational risks.
- Scope of application of the methodologies and personnel that participate in the management of this risk.
- Indicators, limits and tolerance ranges.
- Generation of stress scenarios.
- Models of support to the management (management, control and mitigation of the operational risk): information derived from the previous methodologies and implementation of measures directed at the mitigation of this risk.

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

Its application and effective use in each of the units and subsidiary companies are developed in a decentralised manner. On their behalf, the Unit of Internal Control and Validation carries out the measurement, monitoring, analysis and communication of the risk.

3.2.2 Procedures for measurement, management and control

The Group, in applying the adopted model for the operational risk management, use the following methodologies combined, which are supported by specific IT tools:

- Qualitative methodology, based on the identification and expert assessment of operational risks and the existing controls in the processes and activities, together with the breakdown and analysis of risk indicators.
- During fiscal year 2017 they reviewed and self-assessed 615 operational risks, concluding in this process, a medium-low risk profile.
- Quantitative methodology, supported in the identification and analysis of the real losses fluctuations in the Group, which are recorded in the database established for that purpose (BDP).

The quantification of the real losses recorded in the data base of losses in 2017 shows the total annual net amount of losses (considering direct recuperations and insurance) for operational risk events is 39,841 million euros corresponding to 3,700 events, of which 1,147 events for 34,879 million euros derive the write-downs linked to floor clauses (return of interest for 31,609 million euros and legal costs for 3,271 million euros).

Without considering the mentioned extraordinary impact due to floor clauses, the real losses are reduced in relation to the capital requirements, consistently with the overall result of the qualitative assessment mentioned above.

The advances in the process of operational risk management and control resulting from the established policies, allow the Company to calculate from December 2010 the capital consumption for Operational Risk by standard method, in accordance with that established in Regulation (EU) No. 575/2013.

3.3 Exposure to the interest rate risk

It is defined as the possibility that the financial margin or economic value of the Company are affected by adverse variations in interest rates that impact the cash flows of the financial instruments.

The sources of the interest rate risk are the repricing, curve, base or optionality risks. In particular, the repricing risk arises from the temporary differences that exist in the maturity or revision of rates of the transactions sensitive to the interest rate risk.

3.3.1 Strategies and policies for the interest rate risk management

The aim of risk management is to contribute to the maintenance of the current and future profitability in the adequate levels, preserving the economic value of the Company.

The Board of Directors establishes the strategies, policies and limits for the management of this risk, following a report from the Large Risk and Solvency Committee, documented in the "Manual of policies and procedures for the management of interest rate risk".

3.3.2 Procedures for measurement and control

The Group manages the exposure to the risk that derives from the transactions of their portfolio, both at the time of its agreement and in its subsequent monitoring, and incorporate to its analysis horizon the assessment established for the business and the expectations respect to the interest rates, as well as the proposals of management and hedging, simulating different behaviour scenarios.

The tools that the company has allow them to measure the effects of the variations of the interest rates on the intermediation margin and the economic value, simulate scenarios depending on the assumptions used for the interest rates and of the commercial activity as well as estimate the potential impact on capital and on results derived from abnormal fluctuations of the market so that the results are considered in the establishment and review of the policies and of the risk limits as well as in the planning process.

In relation to the optionality risk, the essential assumptions on the sensitivity and the duration of the demand savings transactions are established, upon not being established contractually its maturity date, as well as an assumption on anticipated amortisations on loans, depending on the historical experience in different scenarios.

In the same way, the effect that the variations in interest rates have on the financial margin and economic value is controlled by the establishment of limits to the exposure. The limits allow for maintaining the exposure to the interest rate risk within the levels compatible with the approved policies.

Below, the sensitivity profile is shown of the balance of the Group to the interest rate risk on 31 December 2017 and on 31 December 2016, indicating the carrying amount of those financial assets and liabilities affected by this risk, which appear classified depending on the estimated term until the review date of the interest rate or maturity.

On 31 December 2017:

	Millions of euros						
	Terms until the review of the effective interest rate or maturity						
	Up to 1 month	**1 to 3 months**	**Between 3 months and 1 year**	**Sensitive Balance**	**Insensitive Balance**	**1 to 5 years**	**Over 5 years**
Assets	**9,764**	**9,233**	**16,286**	**35,283**	**11,896**	**3,202**	**8,694**
Financial assets with fixed interest rates and other assets without determined maturity	4,572	660	2,097	7,329	9,023	1,570	7,453
Financial assets at fixed rate hedged with derivatives	42	257	219	518	2,249	1,500	749
Financial assets at variable interest rate	5,150	8,316	13,970	27,436	624	132	492
Liabilities	**8,214**	**2,770**	**13,264**	**24,248**	**22,931**	**17,007**	**5,924**
Financial liabilities with fixed interest rates and other liabilities without determined maturity	7,728	1,663	8,941	18,332	21,084	15,713	5,371
Financial liabilities at fixed rate hedged with derivatives	124	488	4,322	4,934	1,886	1,294	592
Financial liabilities at variable interest rate	362	619	1	982	(39)	-	(39)
Difference or Gap in the period	**1,550**	**6,463**	**3,022**	**11,035**	**(11,035)**	**(13,805)**	**2,770**
Difference or accumulated Gap	**1,550**	**8,013**	**11,035**	**11,035**	**(11,035)**	**(2,770)**	**-**
Average gap	1,550	6,393	2,911	7,691			
% of total assets	3.28	13.56	6.17	16.30			

On 31 December 2016:

	€ million						
	Terms until the review of the effective interest rate or maturity						
	Up to 1 month	**1 to 3 months**	**Between 3 months and 1 year**	**Sensitive Balance**	**Insensitive Balance**	**1 to 5 years**	**Over 5 years**
Assets	**7,976**	**9,511**	**17,910**	**35,397**	**15,686**	**2,849**	**12,837**
Financial assets with fixed interest rates and other assets without determined maturity	1,192	(67)	1,652	2,777	14,718	2,136	12,582
Financial assets at fixed rate hedged with derivatives	142	262	1,525	1,929	860	627	233
Financial assets at variable interest rate	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 rates and other liabilities without determined maturity	6,635	11,545	6,889	25,069	18,241	12,855	5,386
Financial liabilities at fixed rate hedged with derivatives	324	718	5,340	6,382	(21)	85	(106)
Financial liabilities at variable interest rate	408	890	140	1,438	(26)	-	(26)
Difference or Gap in the period	**609**	**(3,642)**	**5,541**	**2,508**	**(2,508)**	**(10,091)**	**7,583**
Difference or accumulated 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	-			

Sensitive balances will be considered those whose maturity or repricing occurs in the next twelve months. This period is established as a reference to quantify the effect of the variation of the interest rates on the annual intermediation margin of the Group.

The Gap that appears in the box represents the difference between the sensitive assets and liabilities in each period, i.e., the net balance exposed to changes in prices. The average gap of the period is 7,6911 billion euros, 16.30% of the asset (-2 million euros, -0,004% of the asset on 31 December 2016).

With data on 31 December 2017, the impact on the interest margin of the company before a raise of 200 basis points in the interest rates is 136.07 million euros, 27.35% on the interest margin of the next 12 months and before a decrease of 200 basis points is -3.96 million euros, 0.80% on the interest margin of the next 12 months (in December of 2016, -15.45 million euros and -2.53% before increases and -4.46 million euros and -0.73% before decreases) under the assumption of maintenance of size and structure of the balance and that the activity of the interest rates occurs instantly and are equal on all points of the curve, with a floor of 0%.

On their behalf, the impact on the economic value of the Company before an increase of 200 basis points in the interest rates is 539.42 million euros, 7.22% on the equity economic value and before a decrease of 200 basis points is 131.77 million euros, 1.76% on the equity economic value (in December of 2016, -24.98 million euros and -0.45% before increases and 310.3 million euros and 6.62% before decreases) under the assumption that the activity of the interest rates occur instantly and are equal on all the points of the curve, with a floor of 0%.

3.4 Exposure to liquidity risk

It is defined as the possibility of incurring losses due to not having access to sufficient liquid funds to meet payment obligations.

3.4.1 Strategies and policies for the liquidity risk management

The management and control of the liquidity risk are governed by the principles of financial autonomy and balance equilibrium, guaranteeing the continuity of the business and the availability of sufficient liquid resources to fulfil the payment commitments associated with the cancellation of the liabilities on their respective maturity dates without compromising the capacity of answering before strategic opportunities of market.

The Board of Directors establishes the strategies, policies and limits for the management of this risk, following a report from the Large Risk and Solvency Committee, documented in the "Manual of policies and procedures for the management of liquidity risk".

The strategies for attracting resources in the retail segments and the use of alternative sources of short-, medium- and long-term liquidity, allow the Group to have the necessary resources to attend the solvent credit demand derived from the commercial activity and maintain the positions of treasury within the parameters of management established in the Framework of risk appetite and in the Liquidity manual.

3.4.2 Procedures for measurement and control

The measurement of the liquidity risk considers the estimated treasury flows of the assets and liabilities, as well as the guarantees or additional instruments that it has to ensure alternative sources of liquidity that could be required.

Likewise, the evolution established for the business and the expectations respect to the interest rates are incorporated, as well as the proposals of management and hedging, simulating different behaviour scenarios. These procedures and analysis techniques are reviewed with the necessary frequency to ensure their correct operation.

Progress is made in the short-, medium- and long-term to know the needs of financing and the compliance of the limits, that have in mind the most recent macroeconomic tendencies, for its incidence in the evolution of the different assets and liabilities of the balance sheet, as well as in the contingent liabilities and derived products. In the same way, the liquidity risk is controlled via the establishment of tolerance ranges compatible with the approved policies.

In addition, the Company is prepared to affront possible crisis, both internal and of the markets in which they operate, with action plans that guarantee sufficient liquidity at the lowest cost possible.

On 31 December 2017, the available liquidity of the Company was 10,328 billion euros, and the issuing capacity 6,688 billion euros. Thus, the total availability is 17,016 billion euros, with a decrease of 323 million euros respect to the close of the previous year. During 2017, wholesale maturities were outstanding for a nominal amount of 850 million euros: mortgage-covered bonds (543 million euros), bonds owned by third parties (83 million euros), subordinated bonds (224 million euros, which nearly all of them were contingent convertible bonds). In addition, they have carried out repurchases of issuances for 11 million euros, instrumented in Securitisation bonds.

In September of 2017, they issued two mortgage-covered bonds for 750 million euros each, with maturity in 2022 and 2024 respectively, signing simultaneously as self-portfolio and passing to form part of the guarantee policy before BCE.

In this policy, pledged assets appear for a discountable value of 8,437 billion euros on 31 December 2017, of those that they had available 3,372 billion euros, therefore, it maintains an availability of 5,065 billion euros, to which it can access to meet their liquidity needs.

In addition to the policy mentioned, the Company has very different sources of financing. Thus, it is worth noting the wide base of retail deposits for 28,782 billion euros, of which 80% correspond to stable balances. Also, it has financing with collateral of securities for 5,404 billion euros, of which 986 million euros are contracted in central counterparties. In addition, retail issuances for 4,511 billion euros characterised by the diversification of their maturities and deposits of financial institutions of the Group for 1,091 billion euros as well as deposits of the rest of the customers for 1,797 billion euros, among others.

The Company's balance sheet does not have major exposures of liquidity risk in their assets or in their financing sources.

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

- Financing received from investment funds and pension plans with clauses that cause the reimbursement depending on reversals in the credit qualification of Ibercaja Banco. At the end of 2017, there was no amount affected by the reversal of a qualification scale.
- Liability derivatives for 60 million euros, that have required the contribution of additional guarantees for 66 million as well as asset derivatives for 100 million euros, for those that have received additional guarantees for 106 million euros.
- Financing with collateral of securities for 1,161 billion euros, that has required the contribution of additional guarantees for 99 million euros in cash.
- Financing of the BEI of 350 million, which requires a contribution of guarantees of 348 million euros in fixed income.
- Loan of securities of Public Debt of 148 million euros that requires a block for the same amount as collateral of the transaction.

Ibercaja Banco has signed framework agreements of compensation or "netting", and their appendices of guarantee exchange, with all the entities that operate in OTC (over the counter, for its letters in English) derivatives and in simultaneous transactions. Their signature is a prerequisite for those entities with which this type of transaction will be started. Ibercaja Banco participates as a direct member in the central chambers of compensation of simultaneous transactions LCH Clearnet and MEFFClear, and in Eurex for the operation with some classes of derivatives of interest rates, being a normal market practice extended among the participants after regulation EMIR goes into effect.

Below a breakdown is offered of the available liquidity:

	Thousands of euros	
	2017	**2016**
Cash and central banks	3,280,943	759,309
Available in policy	5,065,044	4,217,614
Eligible assets not included in the policy	1,647,285	4,146,242
Other marketable assets not eligible by the Central Bank	335,112	369,675
Accumulated available balance	**10,328,384**	**9,492,840**

On 31 December 2017, the capacity to issue mortgage-covered bonds was 6,688186 billion euros (7,846917 billion euros on 31 December 2016).

The LCR (Liquidity Coverage Ratio) of the Ibercaja Group on 31 December 2017 was 281% (256% on 31 December 2016), while the NSFR (Net Stable Funding Ratio) on 31 December 2017 was at 124% (121% on 31 December 2016).

Below the breakdown by terms of the contractual maturities of assets and liabilities is presented (liquidity gap) on 31 December 2017 and 31 December 2016:

	Thousands of euros						
	Demand	**Up to 1 month**	**Between one and three months**	**Between three months and one year**	**Between one and five years**	**After 5 years**	**Total**
ASSETS							
Deposits in credit institutions	26,315	19,090	45,803	29	154	153,253	244,644
Loans to other financial institutions	-	31	25,996	4,771	7,403	20,020	58,221
Temporary acquisitions of securities and securities lending	-	981,535	-	174,518	-	-	1,156,053
Loans (including matured, non-performing, written-off and foreclosed)	-	702,539	1,101,700	2,784,148	7,193,912	22,224,989	34,007,288
Securities portfolio settlement	-	(15,670)	23,612	106,550	2,513,146	3,377,968	6,005,606
Hedging derivatives	-	(229)	10,740	64,407	105,990	(5,440)	175,468
Trading derivatives	-	189	78	713	213	-	1,193
Net interest income	-	32,644	69,470	254,816	-	-	356,930
Total on 31 December 2017	**26,315**	**1,720,129**	**1,277,399**	**3,389,952**	**9,820,818**	**25,770,790**	**42,005,403**
Total on 31 December 2016	**36,712**	**2,126,648**	**1,135,424**	**4,129,420**	**10,871,214**	**29,422,216**	**47,721,634**
LIABILITIES							
Wholesale issues	-	9,911	59,741	426,980	2,066,998	1,947,816	4,511,446
Deposits from credit entities	43,327	7,438	600	350	2,000	-	53,715
Deposits from other financial institutions and bodies	982,026	8,878	59,336	12,210	82,305	39,635	1,184,390
Deposits from large non-financial companies	-	-	-	-	-	-	-
Financing from the rest of the customers	23,888,272	850,443	1,408,269	3,931,848	499,552	383	30,578,767
Funds for brokered loans	-	4,822	7,996	53,963	471,926	30,381	569,088
Financing with secured securities	-	1,847,428	9,301	174,518	3,372,460	-	5,403,707
Other net outflows	-	34,009	(50,264)	279,477	30,543	32,508	326,273
Hedging derivatives	-	83	11,216	(6,779)	57,998	5,805	68,323
Formalised loans pending settlement	-	359,661	-	-	-	-	359,661
Commitments available for third parties	2,951,525	-	-	-	-	-	2,951,525
Financial guarantees issued	-	4,657	6	183	4,255	22,554	31,655
Total on 31 December 2017	**27,865,150**	**3,127,330**	**1,506,201**	**4,872,750**	**6,588,037**	**2,079,082**	**46,038,550**
Total on 31 December 2016	**24,280,589**	**4,837,364**	**3,275,161**	**7,977,042**	**7,296,368**	**2,228,203**	**49,894,727**
2017 gap period	**(27,838,835)**	**(1,407,201)**	**(228,802)**	**(1,482,798)**	**3,232,781**	**23,691,708**	
2016 gap period	**(24,243,877)**	**(2,710,716)**	**(2,139,737)**	**(3,847,622)**	**3,574,846**	**27,194,013**	
Accumulated gap (without demand savings) 2017	**-**	**(1,407,201)**	**(1,636,003)**	**(3,118,801)**	**113,980**	**23,805,688**	
Accumulated gap (without demand savings) 2016	**-**	**(2,710,716)**	**(4,850,453)**	**(8,698,075)**	**(5,123,229)**	**22,070,784**	

Includes maturities of principal and interests and does not take assumptions of a new business.

The maturity of the demand deposits is not determined contractually. It has been entered in the first time slot (demand) even though for the most part, these deposits are stable.

The financing of the rest of the customers include the implicit derivative in the structured deposits.

The loan commitments were 2,951,517 billion euros (2,950,250 billion euros on 31 December 2016). While these commitments are available immediately for the customers, and therefore would have "demand" nature in accordance with IFRS 7, in the practice of cash flow outputs they are distributed in all the time slots.

In relation with the financial guarantee contracts issued, the nominal amount of the guarantee does not necessarily have to represent an actual obligation of settlement or of liquidity needs, which will depend on if they meet the conditions so that the amount of the committed guarantee should be settled.

The Group only hopes to produce a cash outflow in relation to financial guarantee contracts that have qualified as non-performing and special watch. The amount that is expected to be settled of these contracts is recorded under "Provisions for contingent risks and commitments", in the heading Provisions (Note 21), for an amount of 31,656 million euros (35,328 million euros on 31 December 2016).

Long-term wholesale financing maturities are shown in the following boxes.

On 31 December 2017:

	Thousands of euros						
	Demand	**Up to 1 month**	**1 to 3 months**	**Between 3 months and 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Senior debt	-	-	-	-	-	-	-
Government-backed debt	-	-	-	-	-	-	-
Subordinated and preferential	-	5,000	-	15,362	554,819	-	575,181
Bonds and mortgage- and sector-covered bonds	-	-	50,000	371,613	1,290,746	1,581,026	3,293,385
Securitisations	-	4,911	9,741	40,005	221,433	366,790	642,880
Promissory notes and certificates of deposit	-	-	-	-	-	-	-
Wholesale issues	**-**	**9,911**	**59,741**	**426,980**	**2,066,998**	**1,947,816**	**4,511,446**
Financing with long-term secured securities	**-**	**-**	**-**	**-**	**3,372,460**	**-**	**3,372,460**
Maturities in the period	**-**	**9,911**	**59,741**	**426,980**	**5,439,458**	**1,947,816**	**7,883,906**
Accumulated maturities	**-**	**9,911**	**69,652**	**496,632**	**5,936,090**	**7,883,906**	

The wholesale issues appear as net treasury shares. However, multi-seller covered bonds appear for their gross amount issued while the treasury shares are recognised as available liquidity in accordance with the preparation criteria of the LQ statements of the Bank of Spain.

On 31 December 2016:

	Thousands of euros						
	Demand	**Up to 1 month**	**1 to 3 months**	**Between 3 months and 1 year**	**1 to 2 years**	**Over 5 years**	**Total**
Senior debt	-	-	-	-	-	-	**-**
Government-backed debt	-	-	-	-	-	-	**-**
Subordinated and preferential	-	5,000	-	223,600	570,949	-	**799,549**
Bonds and mortgage- and sector-covered bonds	-	-	-	670,000	1,692,914	1,600,470	**3,963,384**
Securitisations	-	5,122	9,591	43,598	234,133	443,895	**736,339**
Promissory notes and certificates of deposit	-	-	-	-	-	-	**-**
Wholesale issues	**-**	**10,122**	**9,591**	**937,198**	**2,497,996**	**2,044,365**	**5,499,272**
Financing with long-term secured securities	**-**	**-**	**-**	**-**	**3,372,460**	**-**	**3,372,460**
Maturities in the period	**-**	**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**	

The wholesale issues appear as net treasury shares. However, multi-seller covered bonds appear for their gross amount issued while the treasury shares are recognised as available liquidity in accordance with the preparation criteria of the LQ statements of the Bank of Spain.

The diversification policy at the time of the maturities of the wholesale issues, will permit the Company to cover the maturities of the next financial years, maintaining ample liquidity. Thus, keeping in mind the liquidity on the balance sheet (10,328 billion euros), the Company could cover the total of the maturities of the long-term wholesale financing (4,511 billion euros). Additionally, it is able to issue 6,688 billion euros (total availability of 17,017 billion euros).

3.5 Exposure to other risks

3.5.1 Exposure to market and counterparty risk

3.5.1.1 Strategies and policies for the market and counterparty risk management

a) Market risk

It 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.

The Company manages the market risk, trying to obtain an adequate financial profitability in relation to the assumed risk level, keeping in mind certain levels of overall exposure, exposure due to segmentation rates (portfolios, instruments, sectors, parties, ratings), structure of the portfolio and portfolio/risk objectives. In their management and control they apply analysis of sensitivity and simulation of stress scenarios for the estimation of their impact in the profits and equity.

The Board of Directors approves the strategies, policies and limits for the management of this risk, prior report from the Large Risk and Solvency Committee, documented in the "Capital Market Management Policies Manual".

For the market risk management, they have policies on identification, measuring, monitoring, control and mitigation as well as policies on transactions in that relative to their trading, revaluation of positions, classification and valuation of portfolios, cancellation of transactions, approving of new products, relationships with intermediaries and delegation of duties.

b) Counterparty risk

It is defined as the possibility that the non-payments are produced on behalf of the counterparties in financial transactions (fixed income, interbank, derivatives, etc.).

The Board of Directors approves the strategies, policies and limits for the management of this risk, following a report from the Large Risk and Solvency Committee, documented in the "Manual for Lines of Risk" of Ibercaja Banco.

For the management of the counterparty risk, the Company has policies for identification, measuring, monitoring, control and mitigation. Additionally the "Manual of Lines of Risk of Ibercaja Banco" establishes the criteria, methods and procedures for the granting of lines of risks, the proposal of limits, the process for formalisation and documentation of transactions, as well as the procedures for monitoring and controlling the risks for financial entities, public administrations with rating and listed and/or qualified companies with rating, with the exception of promoting entities.

The lines of risk are established essentially depending on the ratings assigned by the credit qualification agencies, of the reports that these agencies issue and of the expert analysis of their financial statements.

For the granting of transactions related with the counterparty risk to the entities previously mentioned, it will be the Capital and Balance Sheet Management Unit and the Governing Bodies in charge of managing the assumption of risk, attending to the fixed limits for the lines of credit.

The Company uses specialised tools for the management, control and measuring of the counterparty risk, with the aim of considering the risk consumption of each product and gather the risk consumption at the Group level under one application.

3.5.1.2 *Procedures for measurement and control*

a) Market Risk

The portfolios exposed to Market Risk are characterised for their high liquidity and for the absence of materiality in the trading activity, which implies that the Market Risk assumed by the trading activity is insignificant as a whole.

The Company monitors the progression of the expected loss of the management portfolio given a trust level of 99% and a time horizon (1 day or 10 days) as a result of the variations of the risk factors that determine the price of the financial assets via the VaR indicator (Value at risk).

The VaR calculation is carried out with different methodologies:

- The parametric VaR assumes normalcy of the relative variations of the risk factors for the calculation of the expected loss of the portfolio given a trust level of 99% and a time horizon (1 day or 10 days).
- The diversified parametric VaR keeps in mind the diversification offered by the correlations of the risk factors (interest rates, exchange rates, shares listing, etc.). It is the standard measure.
- The non-diversified parametric VaR assumes the lack of diversification among those factors (correlations equal to 1 or -1 according to the case), and is useful in stress or change periods of the risk factors correlations.
- The Historic Simulation VaR uses the relative variations made in the last year of the risk factors to generate the scenarios in which the loss potential of the portfolio is evaluated given a trust level of 99% and a time horizon.
- The Shortfall VaR measures, given a calculated VaR at 99% and with a time horizon of 1 day, the expected loss in 1% of the worst results beyond the VaR. It provides an average of the losses in case of breakage of the VaR.
- In any case, the impact in absolute terms of the VaR is relativised regarding capital.

Thus, on 31 December 2017, the measurement of VaR presents the following values:

Thousands of euros **Confidence level: 99%**	**Parametric diversified VaR**	**Parametric VaR vs *PR.***	**Parametric non-diversified VaR**	**Parametric non-diversified VaR vs *PR.***	**Historical Simulation VaR**	**Historical Simulation VaR vs PR.**	**Shortfall VaR**	**Shortfall VaR vs PR.**
Time horizon: 1 day	(9,278)	0.30%	(19,510)	0.63%	(14,637)	0.47%	(21,299)	0.69%
Time horizon: 10 days	(29,338)	0.95%	(61,697)	1.99%				

The calculation on 31 December 2016 of the VaR, presented the following values:

Thousands of euros **Confidence level: 99%**	**Parametric diversified VaR**	**Parametric VaR vs *PR.***	**Parametric non-diversified VaR**	**Parametric non-diversified VaR vs *PR.***	**Historical Simulation VaR**	**Historical Simulation VaR vs PR.**	**Shortfall VaR**	**Shortfall VaR vs PR.**
Time horizon: 1 day	(33,882)	1.03%	(55,009)	1.67%	(44,550)	1.35%	(93,341)	2.83%
Time horizon: 10 days	(107,144)	3.25%	(173,954)	5.28%				

Likewise, and supplementing the VaR analysis, stress tests have been performed that analyse the impact of different scenarios of the risk factors on the value of the portfolio being measured.

b) Counterparty risk

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

Additionally, the legal limits are respected for the concentration and grand exposures in application of Regulation (EU) No. 575 / 2013.

The monitoring systems ensure that the consumed risks are kept within the established limits at all times. They incorporate controls regarding the variations produced in the ratings, and in general of the borrower's solvency.

Among the techniques for counterparty risk mitigation appear the compensation or netting master agreements, the guarantee agreements, the reduction of portfolios in the case of adverse credit events, the reduction of the lines of risk in the case of decreases in the rating or negative news of some company and the timely monitoring of the companies' financial information.

With those entities with whom they have agreed on a compensation of risks and an agreement on guarantee contribution, in accordance with the requirements demanded by the Bank of Spain, the risk may be computed by the net resulting position.

3.5.2 Exchange rate risk management

It is defined as the possibility of incurring in losses derived from the negative fluctuations in the exchange rates of the currencies in which the assets, liabilities and transactions are denominated off the Company's balance sheet.

The Company does not maintain significant positions in foreign currency in a speculative nature. They do not hold open positions in foreign money that is not speculative of a significant amount either.

The Company's policy is to limit this type of risk, mitigating it generally speaking, at the time it presents itself via the agreement on symmetrical active or passive transactions or via financial derivatives that allow their coverage.

3.5.3 Exposure to sovereign debt

Below, the following information is detailed regarding the exposure to sovereign debt, which includes all the positions with public entities, on 31 December 2017 and 2016:

- Breakdown of the carrying amount of the exposure per country:

	Thousands of euros	
	2017	**2016**
Spain	8,006,169	13,191,090
Italy	768,008	649,449
Portugal	109,765	25,788
France	24,077	7,529
Other	9,705	135,900
	8,917,724	**14,009,756**
of which: from the insurance company	4,460,485	4,610,767

- Breakdown of the carrying amount of the exposure per portfolio in which the assets are recorded:

	Thousands of euros	
	2017	**2016**
Financial assets held for trading	304	443
Financial assets at fair value through profit or loss	6,414	-
Available-for-sale financial assets	8,514,202	8,904,458
Loans and receivables	396,804	566,619
Held-to-maturity investments	-	4,538,236
	8,917,724	**14,009,756**
of which: from the insurance company	4,460,485	4,610,767

The carrying amount shown in the above table corresponds to the maximum credit risk exposure in relation to each financial instrument.

- Breakdown of the term to residual maturity of the exposure per portfolio in which the assets are recorded:

	Thousands of euros					
	2017					
	Up to 3 months	**From 3 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Financial assets held for trading	18	170	37	39	40	**304**
Other financial assets designated at fair value through profit or loss	-	-	-	-	6,414	**6,414**
Available-for-sale financial assets	176,946	2,217,496	2,040,996	752,384	3,326,380	**8,514,202**
Loans and receivables	29,150	33,306	48,021	81,888	204,439	**396,804**
Held-to-maturity investments	-	-	-	-	-	**-**
Total	**206,114**	**2,250,972**	**2,089,054**	**834,311**	**3,537,273**	**8,917,724**
of which: from the insurance company	170,617	1,192,420	888,376	631,158	1,577,914	4,460,485

	Thousands of euros					
	2016					
	Up to 3 months	**From 3 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Financial assets held for trading	-	53	105	9	276	**443**
Other financial assets designated at fair value through profit or loss	-	-	-	-	-	**-**
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: from the insurance company	46,739	749,118	1,327,981	248,329	2,238,600	4,610,767

- Other information

  - Fair value. The fair value of the instruments included in the trading portfolio and in the portfolio of financial assets available for sale coincides with the carrying amount indicated previously. The fair value of the investments maintained until maturity is detailed in Note 26.

    In Note 26, it indicates the valuation methodology of the credit investment portfolio, in which it is observed that the fair value detailed does not differ significantly from the carrying amount. Except for the credit investment, the rest of the fair value associated to the sovereign risk is obtained via valuation techniques from level 1 (the description of them is detailed in Note 26).

  - The effect of a variation of 100 basis points in the interest rate would have an effect on the fair value of 5.36% (4.43% in fiscal year 2016).

3.5.4 Reputational risk management

Reputational risk is defined as the unfavourable impact that an event may cause in the corporate reputation of the entities that form part of the Group. It is associated to a negative perception on behalf of the interest groups (customers, employees, company in general, regulators, shareholders, suppliers, counterparties, investors, market analysts, etc.) that affects the capacity of the Group to maintain the existing business relationships or establish new ones.

The management of this risk aims at protecting one of the main intangible assets that is the corporate reputation, avoiding the appearance of events that may have a negative effect on it.

Reputational risk has a wide relationship with the rest of the risks due to the amplifying effect that it can have on them. In the majority of the occasions, reputational risk appears due to the materialisation of other risks that could affect any of the entities of the Group, especially with the regulatory risk or regulatory incompliance (imposing sanctions, especially in the case that they were presented to the public). To do so, the policies and procedures directed at ensuring the compliance of the applicable regulations, whether internal or external, are added.

Additionally, and as a key function of control, to mitigate the risk of suffering possible negative impacts derived from regulatory incompliance, the Company and different financial entities of the Group have a verification function for regulatory compliance, with supervisory powers in areas especially relevant such as the prevention of money laundering and terrorism financing, the protection of the investor in the sale of financial instruments and lending of investment services (MIFID), the behaviour regulations in the area of Stock Market, the regulations on communication of transactions suspected of abusing the market, etc.

The Group grants, therefore, the maximum relevancy to the management of the corporate reputation as a method to prevent, avoid and/or manage possible reputational risks, and for its positive impact on the creation of value. Reputation metrics are developed, with recurrent periodic measurements, for the monitoring of the general public, customer and employee's perception of the entity, as well as the progression of the Group on Social Networks. The results are the basis for identifying strong points, improvement areas, possible focuses for reputational risk and to elaborate the action plans to improve the reputation.

During 2017, they continued measuring the reputational risk of the Company, identifying strong points and improvement areas. Additionally, they started up the action plans for reputation improvement designed in 2016 and carried out the second improvement action plan, with the implication of a transversal team formed by persons from central services and office networks.

3.6 Risk Governance Framework

The Company has a robust organisational 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 Company'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.

Additionally, the following Executive Committees are set up:

- The Comprehensive 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 Company 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). Likewise, this structure guarantees the standardisation of policies and risk control at Ibercaja and all the companies forming part of the Group.

4. Appropriation of profit

The proposed appropriation of the profit of Ibercaja Banco, S.A. from fiscal year 2017, which the Board of Directors will propose for its approval to the General Shareholders' Meeting, and that which was approved from fiscal year 2016 are the following:

	Thousands of euros	
	2017	**2016**
Distribution		
To dividends:	17,500	35,725
To retained earnings:		
Legal reserve	*9,969*	*18,981*
Voluntary reserve	*72,219*	*135,103*
Profit/(loss) for the year	**99,688**	**189,809**

The Ibercaja Banco General Shareholders' Meeting held on 29 March 2017 approved the distribution of a dividend paid from profits from fiscal year 2016 for an amount of 35,725 million euros. Additionally, the Board of Directors will propose to the General Shareholders' Meeting that they agree on the distribution of a dividend paid from profits from 2017 for an amount of 17.5 million euros.

5. Information on the Board of Directors and Senior Management

Under the provisions of the Bank of Spain Circular 4/2004, the "key management personnel and executives" at Ibercaja Banco, are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any member of the Board of Directors and Senior Management. By virtue of their positions, this group of persons is considered a "related party" and, as such, subject to the disclosure requirements described in this Note.

Persons who have certain kinship or personal relationships with "key management personnel and executives" are also considered related parties, along with controlling companies, with significant influence or significant voting rights from key personnel or any of the persons in their family environment. The transactions carried out by the Ibercaja Banco Group with related parties are disclosed in Note 43.

5.1 Remuneration to the Board of Directors

The remunerations and other benefits received in 2017 by the members of the Board of Directors of the Company, in their status as Directors, is detailed below by item individually:

Members of the Board of Directors	Position	Thousands of euros						
		Remuneration		Attendance fees	Life insurance premiums	Remuneration for membership on board committees	Other items	Total
		Fixed	Variable					
José Luis Aguirre Loaso	Chairman	292.0	27.3	26.6	10.2	7.6	6.5	370.2
Jesús Bueno Arrese	First Deputy Chairman	-	-	38.5	22.2	-	4.1	64.8
José Ignacio Mijangos Linaza	Second Deputy Chairman	-	-	10.5	-	-	7.6	18.1
Víctor Iglesias Ruiz	Chief Executive Officer	381.0	81.0	25.9	1.3	-	5.3	494.5
Jesús Barreiro Sanz	Director Secretary	-	-	42.7	4.3	-	6.5	53.5
Gabriela González-Bueno Lillo	Director	-	-	35.7	4.6	45.6	1.8	87.7
Jesús Solchaga Loitegui	Director	-	-	14.0	-	30.4	5.3	49.7
Juan María Pemán Gavín	Director	-	-	32.2	3.0	-	7.6	42.8
Emilio Jiménez Labrador	Director	-	-	13.3	-	-	0.6	13.9
Vicente Cóndor López	Director	-	-	37.1	3.8	45.6	2.9	89.4
Félix Longas Lafuente	Director	-	-	15.4	3.0	-	6.5	24.9
Jesús Tejel Giménez	Director	-	-	20.3	2.7	-	5.3	28.3
Enrique Arrufat Guerra (1)	Director	-	-	5.6	3.6	-	6.5	15.7
María Pilar Segura Bas (1)	Director	-	-	6.3	1.9	-	5.2	13.4
Amado Franco Lahoz (2)	Chairman	64.0	-	3.5	1.2	-	3.6	72.3

(1) Company Directors appointed 30 August 2017.
(2) Company Chairman who resigned from his/her position on 24 February 2017.

The information regarding the variable remuneration of Mr. José Luis Aguirre Loaso corresponds to that accrued in previous years in his position as executive director, which was subject to deferral and paid in 2017.

The remunerations and other benefits received in 2016 by the members of the Board of Directors of the Company, in their status as Directors, is detailed below by item individually:

Members of the Board of Directors	Position	Thousands of euros						
		Remuneration		Attendance fees	Life insurance premiums	Remuneration for membership on board committees	Other items	Total
		Fixed	Variable					
Amado Franco Lahoz	Chairman	379.6	-	26.6	1.9	-	7.5	415.6
José Luis Aguirre Loaso	First Deputy Chairman	-	38.8	37.1	2.3	45.6	6.4	130.2
José Ignacio Mijangos Linaza	Second 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	Director Secretary	-	-	50.4	4.0	-	6.4	60.8
Jesús Bueno Arrese	Director	-	-	41.3	5.0	-	4.1	50.4
Gabriela González-Bueno Lillo	Director	-	-	42.0	1.0	45.6	1.8	90.4
Jesús Solchaga Loitegui	Director	-	-	14.7	3.0	30.4	5.2	53.3
Juan María Pemán Gavín	Director	-	-	24.5	0.8	-	7.6	32.9
Emilio Jiménez Labrador (1)	Director	-	-	3.5	0.4	-	0.3	4.2
Vicente Cóndor López	Director	-	-	34.3	0.9	45.6	2.9	83.7
Félix Longas Lafuente (2)	Director	-	-	6.3	1.0	-	1.8	9.1
Jesús Tejel Giménez (2)	Director	-	-	9.1	0.9	-	1.5	11.5
Francisco Manuel García Peña (3)	Director	95.6	-	23.1	0.7	-	5.9	125.3

(1) Company Director appointed 28 October 2016.
(2) Company Directors appointed 30 August 2016.
(3) Company Director who resigned from his/her position on 28 October 2016

The information regarding the variable remuneration of Mr. José Luis Aguirre Loaso corresponds to that accrued in previous years in his position as executive director, which was subject to deferral and paid in 2016.

With respect to the attendance allowances to be received by the proprietary directors appointed by the shareholder foundations Fundación Ordinaria Caja Badajoz, Fundación Caja de Ahorros de la Inmaculada de Aragón and Cajacirculo Fundación Bancaria, it is hereby certified that:

- Generally, the attendance allowances are allocated, for the purposes of the above information, to the proprietary directors appointed at the request of the mentioned shareholder foundations, although in the application of the sectoral legislation applicable to them, and inasmuch as the directors are part of their governance and management bodies, they have been directly paid to the shareholder foundations.

  However, since 28 September 2016, and given that Mr. Juan María Pemán Gavín no longer holds the status or position of General Manager of Fundación Caja de Ahorros de la Inmaculada de Aragón, the allowances have been paid to Mr. Pemán in his capacity as director.

In the section "Remuneration for membership on board committees", the gross amounts accrued by the Chairmen of the internal committees of the Board of Directors are calculated.

In the section "Other concepts" the insurance premiums other than life insurance (health and accident) are included.

The Company does not have any pension obligations with former or current members of the Board of Directors in their capacity as such.

5.2 Remuneration of Senior Management

For the purposes of preparing the financial statements, those who have held the position of Chief Executive Officer were considered to be Senior Management staff, as well as employees of the Ibercaja Banco S.A. management team (Management Committee) who are included in the "Economic and activity report", and those who held the positions of Deputy General Managers, General Managers and Managers".

As of 31 December 2017, the Management Committee (including the Chief Executive Officer) is made up of 12 people, jointly identified as Senior Management (12 people in 2016). In this respect, two people were no longer considered to be senior management during the year.

The remunerations accrued by Senior Management are shown in the following table, as was previously defined, for 2017 and 2016:

	Short-term remuneration		Post-employment benefits		Total	
Thousands of euros	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Senior Management	2,448	2,311	121	105	**2,569**	**2,416**

The amounts paid are not calculated as a consequence of the termination of the working relationship of the managerial personnel who were received in the redundancy programme (RP), which amounted to a total of 185 thousand euros. Remunerations for pensions or life insurance premiums were not registered in the year for former members of Senior Management.

5.3 Duties of loyalty of the Directors

As of 31 December 2017, with respect to the requirements of articles 229 and 230 of the Corporate Enterprises Act, the members of the Ibercaja Banco Board of Directors, as well as the persons related thereto referenced in article 231 of the aforementioned Law, have confirmed that they do not carry out, on their own account or the account of others, activities which actually or potentially constitute effective competition with those carried out by the Company or which, in any other way, permanently conflict with the Company's interests.

5.4 Transactions with significant shareholders

During 2017 and 2016, transactions other than those in the course of business or under normal conditions with the (significant) shareholders were not performed, except for those described below:

- Service level agreement (legal, fiscal, technological, marketing, communication, etc. council) formalised with Fundación Bancaria Ibercaja for the amount of 236,821 euros (229,741 euros as of 31 December 2016).
- Rental of Ibercaja Banco property used by Fundación Bancaria Ibercaja to carry out its activities for the amount of 131,747 euros (same amount as of 31 December 2016).
- Service level agreement (use and management of installations, artistic assets, etc.) by Fundación Bancaria Ibercaja to Ibercaja Banco for the amount of 863,726 euros (874,328 euros as of 31 December 2016).

All the operations to be formalised with the shareholder foundations are previously reported by the Audit and Compliance Committee and subject to the approval of the Board of Directors.

6. Cash on hand, cash balances at central banks and other demand deposits

The balances in this consolidated balance sheet heading as of 31 December 2017 and 2016 were as follows:

	Thousands of euros	
	2017	**2016**
Cash	212,467	207,771
Cash balances at central banks	3,068,476	551,538
Other demand deposits	231,534	246,677
	3,512,477	**1,005,986**

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 0.01% (0.03% during 2016).

7. Financial assets and liabilities held for trading

7.1 Breakdown of the balance and maximum credit risk - debit balances

The financial assets included in this category as of 31 December 2017 and 2016 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2017	**2016**
By geographical areas		
Spain	8,272	13,177
Rest of the countries in the European Union	88	1,415
Rest of the world	1,018	18,532
	9,378	**33,124**
By counterparty classes		
Credit institutions	7,749	30,618
Resident public administrations	304	443
Other resident sectors	1,325	2,063
	9,378	**33,124**
By type of instruments		
Debt securities	324	689
Derivatives not traded in organised markets	9,054	32,435
	9,378	**33,124**

The carrying amount shown in the above table corresponds to the maximum credit risk exposure in relation to each financial instrument.

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 3.06% (2.91% during 2016).

7.2 Breakdown of the balance - credit balances

The financial liabilities included in this category as of 31 December 2017 and 2016 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2017	2016
By geographical areas		
Spain	5,269	13,299
Rest of the countries in the European Union	839	1,326
Rest of the world	1,193	16,630
	7,301	**31,255**
By counterparty classes		
Credit institutions	6,142	25,928
Other resident sectors	1,154	5,303
Other non-resident sectors	5	24
	7,301	**31,255**
By type of instruments		
Derivatives not traded in organised markets	7,301	31,255
Of which: segregated embedded derivatives of hybrid financial instruments	*1,159*	*5,327*
	7,301	**31,255**

7.3 Financial derivatives held for trading

The details, by product type, of the fair and notional value of the financial derivatives held for trading as of 31 December 2017 and 2016 are shown below:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2017	2016	2017	2016
Not matured foreign currency purchases and sales	**1,452**	**-**	**-**	**502**
Security/index options	**709**	**4,224**	**677**	**4,255**
Interest rate options	**565**	**1,223**	**1,781**	**2,655**
Other interest rate transactions	**6,328**	**26,988**	**4,843**	**23,843**
Interest rate swaps (IRSs)	6,328	26,988	4,843	23,843
	9,054	**32,435**	**7,301**	**31,255**

	Thousands of euros	
	Notional	
	2017	2016
Not matured foreign currency purchases and sales	**63,530**	**36,410**
Security/index options	**412,000**	**1,040,490**
Interest rate options	**92,500**	**112,500**
Security/index embedded derivatives	**393,040**	**1,099,292**
Other interest rate transactions	**483,961**	**566,778**
Interest rate swap embedded derivatives	92,467	112,464
Retail market derivatives	253,353	307,043
Distribution of derivatives	138,141	147,271
	1,445,031	**2,855,470**

In addition to the balances detailed in the previous table, the notional value of the securities options (credit balances) derived from the return guarantee granted by the Group to Investment Funds commercialised by it amounts to 957,919 million euros as of 31 December 2017 (794,927 million euros as of 31 December 2016).

8. Financial assets designated at fair value through profit or loss

The financial assets included in this category as of 31 December 2017 and 2016 are detailed below, classified by geographical areas, counterparty classes and type of instruments:

	Thousands of euros	
	2017	**2016**
By geographical areas		
Spain	48,047	44,384
Rest of the countries in the European Union	1,468	1,831
Rest of the world	2,732	2,782
	52,247	**48,997**
By counterparty classes		
Credit institutions	1,879	2,218
Resident public administrations	6,414	-
Other resident sectors	41,632	45,871
Other non-resident sectors	2,322	908
	52,247	**48,997**
By type of instruments		
Debt securities	10,615	4,613
Ownership interests in Investment Funds	41,632	44,384
	52,247	**48,997**

The Group classifies the assets (mainly stakes in investment funds) in this portfolio that are managed as a group with insurance contract liabilities ("Unit linked") appraised at their fair value.

The carrying amount shown in the above table corresponds to the maximum credit risk exposure in relation to each financial instrument.

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 3.46% (2.24% during 2016).

9. Financial assets available for sale

9.1 Breakdown of the balance and maximum credit risk

The financial assets included in this category as of 31 December 2017 and 2016 are detailed below, classified by geographical areas, counterparty classes and types of instruments:

	Thousands of euros	
	2017	**2016**
By geographical areas		
Spain	8,423,306	9,123,291
Rest of the countries in the European Union	1,303,827	1,279,497
Rest of Europe	15,487	35,353
Rest of the world	1,110,377	1,040,643
Total gross amount	**10,852,997**	**11,478,784**
(Impairment losses)	(3,071)	(2,533)
Total net amount	**10,849,926**	**11,476,251**
By counterparty classes		
Credit institutions	855,827	926,032
Resident public administrations	7,602,035	8,087,898
Non-resident public administrations	912,167	816,560
Other resident sectors	741,873	903,818
Other non-resident sectors	741,095	744,476
Total gross amount	**10,852,997**	**11,478,784**
By type of instruments		
Debt securities:	10,527,316	11,043,893
Public sector debt	*7,602,035*	*8,087,797*
Foreign government debt securities	*912,167*	*816,560*
Issued by financial entities	*842,885*	*891,353*
Other fixed-income securities	*1,170,229*	*1,248,183*
Other equity instruments:	325,681	434,891
Shares in listed Spanish companies	*47,115*	*81,856*
Shares in non-listed Spanish companies	*219,465*	*237,421*
Shares in listed foreign companies	*44,945*	*85,169*
Shares in non-listed foreign companies	*51*	*45*
Ownership interests in Investment Funds	*1,501*	*11,707*
Ownership interests in Venture Capital Funds	*12,604*	*18,693*
Total gross amount	**10,852,997**	**11,478,784**

The carrying amount shown in the above table corresponds to the maximum credit risk exposure in relation to each financial instrument.

As a consequence of the selling of certain assets classified in the held-to-maturity portfolio during 2017 (Note 11), the entity proceeded to reclassify a nominal amount of 1,013 billion euros of that cited in the portfolio to the financial assets available for sale portfolio.

As of 31 December 2017, the impairment of the equity investment in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB) amounted to 15.75 million euros, valued at 32,879 million euros (39,779 million euros as of 31 December 2016).

The entirety of losses from impairment related to the hedge against credit risk of debt securities, which are reversible, are detailed in the table above.

On the other hand, the amount of losses from impairment related to equity instruments amounts to 41,915 million euros as of 31 December 2017 (55,559 million euros as of 31 December 2016). These losses are reducing the gross amount previously broken down and are irreversible.

The equity instruments of the available-for-sale financial asset portfolio, whose fair value cannot be obtained objectively enough, appear valued by their cost, net of the possible security impairments, calculated according to the criteria detailed in Note 2.3.4. The carrying amounts of these equity instruments amounts to 76,125 million euros as of 31 December 2017 (99,935 million euros as of 31 December 2016). This amount is made up of a high number of insignificant individual investment amounts. In relation to these instruments, the following should be mentioned:

- The instruments included in this portfolio may be sold in accordance with the market opportunities.
- During 2017, instruments with these characteristics that had a carrying amount of 2,797 million euros (2,927 million euros as of 31 December 2016), have suffered losses in the amount of 190 thousand euros (income of 2,868 million euros as of 31 December 2016).

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 1.80% (1.89% during 2016), which includes the effect of the revenue reversals from risk hedging for interest rate risk.

9.2 Impaired debt securities

As of 31 December 2017 and 2016 there were no impaired debt securities.

9.3 Credit risk hedges and others

The movement of the registered impairment losses for the credit risk hedge of the debit securities during 2017 and 2016 is presented below:

	Thousands of euros	
	2017	2016
Opening balance	**2,533**	**1,187**
Transfer charged to profit for the year	1,836	6,056
Reversal of provisions credited to profits	(1,267)	(1,249)
Amounts used	-	(3,461)
Exchange differences and other movements	(31)	-
Closing balance	**3,071**	**2,533**
Of which:		
- Individually determined	-	-
- Collectively determined	3,071	2,533
- Certain country risk	-	-

The Group tested all the equity instruments classified as available-for-sale financial assets for impairment to recognise any corrections to their carrying amounts, as applicable. In this respect, equity instruments are considered impaired in the event of a continued decline in price over a period of 18 months or more than 40%.

These tests uncovered the need to recognise a charge against profit for 2017 for a total amount of 983 thousand euros (6,357 million euros in 2016).

Likewise, during 2017, losses from impairment related to other equity instruments were recognised, assessed at the cost for an amount of 11.77 million euros (13.17 million euros as of 31 December 2016).

The impairment losses indicated in this Note are registered on the consolidated income statement under the heading “Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss”.

10. Loans and receivables

The items making up this balance sheet heading as of 31 December 2017 and 2016 are as follows:

	Thousands of euros	
	2017	**2016**
Debt securities (Note 10.2)	2,296,675	2,602,217
Loans and advances	32,723,124	33,417,111
Credit institutions (Note 10.3)	414,087	470,055
Customers (Note 10.4)	32,309,037	32,947,056
	35,019,799	**36,019,328**

10.1 Breakdown of the balance and maximum credit risk

The financial assets included in this category as of 31 December 2017 and 2016 are detailed below, classified by geographical areas, counterparty classes and type of instruments:

	Thousands of euros	
	2017	**2016**
By geographical areas		
Spain	35,785,217	36,905,736
Rest of the world	324,948	463,940
Total gross amount	**36,110,165**	**37,369,676**
(Impairment losses)	(1,090,366)	(1,350,348)
Total net amount	**35,019,799**	**36,019,328**
By counterparty classes		
Credit institutions	650,522	734,670
Resident public administrations	396,804	566,619
Other resident sectors	34,897,037	35,898,149
Other non-resident sectors	165,802	170,238
Total gross amount	**36,110,165**	**37,369,676**
By type of instruments		
Debt securities	2,296,816	2,602,217
Credits and loans	32,061,001	32,889,401
Reverse repurchase agreements	1,155,536	985,018
Term deposits to credit institutions	177,680	415,443
Other	419,132	477,597
Total gross amount	**36,110,165**	**37,369,676**

The carrying amount shown in the above table corresponds to the maximum credit risk exposure in relation to each financial instrument, except for:

- The asset corresponding to the current value of the fees pending payment on financial guarantees, registered under heading "Other" (in the breakdown by type of instruments), amounts to 1,896 million euros as of 31 December 2017 (1,432 million euros as of 31 December 2016). In Note 27.1, the nominal value of the financial guarantees is broken down, which implies the maximum level of exposure to the credit risk.

- The assets transferred to securitisation funds that were not derecognised from the balance, in accordance with that stipulated in Note 2.8, shall be registered under heading "Credits and loans" (in the breakdown by type of instruments) and as of 31 December 2017 they amounted to 3,429095 billion euros (3,780021 billion euros as of 31 December 2016), with their breakdown detailed in Note 27.5. The maximum level of exposure to credit risk is collected by the value of all the positions of the Group in the mentioned securitisation funds, which amounts to 2,964949 million euros as of 31 December 2017 (3,236394 million euros as of 31 December 2016). The amount of the bonds issued by the securitisation funds that were subscribed by third parties outside to the Group amounts to 606,083 million euros as of 31 December 2017 (694,657 million euros as of 31 December 2016), with their breakdown detailed in Note 19.4.

10.2 Debt securities

The breakdown by financial assets included in the debt securities category as of 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Debt securities	**2,296,816**	**2,602,217**
Impaired assets	-	-
Total gross amount	**2,296,816**	**2,602,217**
(Impairment losses)	(141)	-
Total net amount	**2,296,675**	**2,602,217**

This heading includes, among others, SAREB bonds backed by an irrevocable guarantee of the Spanish government, with a nominal value as of 31 December 2017 amounting to 1,9376 billion euros (Note 1.10.1.3). Additionally, it includes the position of the Company in SAREB subordinated debt for the amount of 20,371 million euros as of 31 December 2017.

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 0.31% (0.37% during 2016).

10.3 Credit institutions

The breakdown by financial assets included in the Loans and advances to credit institutions category as of 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Time or at notice:	**358,733**	**417,189**
Fixed-term deposits	177,680	415,443
Reverse repurchase agreements	174,518	-
Other accounts	6,535	1,746
Other financial assets:	**55,185**	**51,921**
Cheques payable by credit institutions	817	914
Cash guarantees	1,791	1,857
Clearing houses	51,668	46,770
Other items	909	2,380
Impaired assets	**-**	**-**
Valuation adjustments	**169**	**945**
Total gross amount	**414,087**	**470,055**
(Impairment losses)	-	-
Total net amount	**414,087**	**470,055**

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 0.63% (0.24% during 2016).

10.4 Customers

The breakdown by financial assets included in the Loans and advances to customers category as of 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Credits and loans	**32,061,001**	**32,889,401**
Commercial loans	514,592	438,825
Secured loans	22,630,739	23,309,436
Other term loans	5,318,737	5,085,186
Finance leases (Note 27.7)	417,415	334,289
Receivables on demand and others	555,059	574,605
Impaired assets	2,564,825	3,061,298
Valuation adjustments	59,634	85,762
Reverse repurchase agreements	**981,018**	**985,018**
Other financial assets	**357,243**	**422,985**
Financial transactions pending settlement	9,401	13,869
Cash guarantees	3,728	8,419
Financial guarantee fees	1,896	1,432
Other items	342,218	399,265
Total gross amount	**33,399,262**	**34,297,404**
(Impairment losses)	(1,090,225)	(1,350,348)
Total net amount	**32,309,037**	**32,947,056**

On 7 July 2017, a portfolio of 505 Ibercaja Banco, S.A. loans and credit sales contracts were sold to real estate development companies as part of the Fleta Issuer Holdings Designated Activity Company transaction. Most of these items are classified as non-performing and the nominal value of all of them combined came to 490 million euros. The negative impact of the operation, 58 million euros, is registered under heading "Net gains or losses derecognised in financial asset and liability accounts not measured at fair value through profit or loss" of the profit and loss account (Note 34).

The section "Valuation adjustments" as of 31 December 2017, includes an amount of 81.6 million euros (107.8 million euros as of 31 December 2016) corresponding to the adjustment to the amortised cost of the paid assets pending accrual after the interruption of the macro-hedges described in Note 12.2.

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 1.34% (1.47% during 2016).

10.5 Overdue, impaired and unimpaired assets

The financial assets classified as loans and receivables considered as impaired from their credit risk as of 31 December 2017 and 2016 are shown below in detail, classified according to the time elapsed since the maturity of the outstanding amount on these oldest dates of each operation:

	Thousands of euros					
	Not yet due	Up to 6 months	6 to 9 months	9 to 12 months	Over 12 months	Total
Balances as of 31 December 2017	623,566	173,408	101,936	104,006	1,561,909	**2,564,825**
Balances as of 31 December 2016	985,696	269,239	108,837	91,481	1,606,045	**3,061,298**

The detail of the impaired assets by counterparty classes is as follows:

	Thousands of euros	
	2017	**2016**
Resident public administrations	8,044	6,204
Other resident sectors	2,548,826	3,035,407
Other non-resident sectors	7,955	19,687
	2,564,825	**3,061,298**

In general, the matured assets are not considered impaired until the length of service of the non-payment surpasses 90 days. The detail of the unimpaired matured assets by counterparty classes and length of service as of 31 December 2017 and 2016 is as follows:

	Thousands of euros			
	2017			
	Less than one Month	**1 to 2 months**	**Between 2 months and 90 days**	**Total**
Credit institutions	-	-	-	-
Resident public administrations	999	-	-	999
Other resident sectors	35,248	13,179	6,363	54,790
Other non-resident sectors	625	31	15	671
	36,872	**13,210**	**6,378**	**56,460**

	Thousands of euros			
	2016			
	Less than one Month	**1 to 2 months**	**Between 2 months and 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**

10.6 Credit risk hedges

The movement of the impairment value corrections and their accumulated value at the start and end of 2017 and 2016 are presented below, including the debt instruments classified as loans and receivables (thousands of euros):

	Thousands of euros	
	2017	**2016**
Opening balance	**1,350,348**	**1,658,121**
Transfer charged to profit for the year	565,534	844,200
Recovered amount credited to the profit for the year	(382,211)	(572,056)
Amounts used	(423,206)	(522,777)
Other movements	(20,099)	(57,140)
Closing balance	**1,090,366**	**1,350,348**
Of which:		
Individually determined	520,388	517,851
Collectively determined	569,978	832,497
Country risk	640	1,364

The balance of amounts used in 2017 mainly includes the derecognised assets of the non-performing loans sold to Fleta Issuer Holdings Designated Activity Company (Note 10.4) for the amount of 224,806 million euros and those corresponding to the consolidated derecognised transactions for the amount of 160,571 million euros (490,547 million euros in 2016).

The concept of "Other movements" includes the transfer of the non-performing loan allowance that the credit transaction had which were paid through the awarding or granting in payment for the overall or partial satisfaction of the debt, in accordance with the criteria described in Note 2.18.

The detail of the impaired losses by counterparty classes is as follows:

	Thousands of euros	
	2017	2016
Resident public administrations	1,455	528
Other resident sectors	1,084,860	1,337,466
Other non-resident sectors	4,051	12,354
	1,090,366	**1,350,348**

The different concepts registered in 2017 and 2016 under the heading "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss - Loans and receivables" of the consolidated income statements of these years are as follows:

	Thousands of euros	
	2017	2016
Impairment losses credited to allowances for assets	183,323	272,144
Recovery of written-off assets	(11,450)	(5,821)
	171,873	**266,323**

The movement of the consolidated Loans and receivables derecognised in 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Balances at the start of the year	**1,026,462**	**625,477**
Use of the Accumulated impairment balance	160,571	490,547
Contractually required interests	22,766	39,123
Direct write-down to the profit and loss account	-	-
Main cash payment to the counterparties	(11,450)	(5,821)
Interest cash payment to the counterparties	(636)	(396)
Forgiveness	(15,554)	(41,291)
Debt refinancing or restructuring	(5,470)	-
Sale	(328,887)	(44,830)
Other items	(254,880)	(36,347)
Balance at the close of the year	**592,922**	**1,026,462**

Under the section "Sales", it includes the sale of a written-off credit portfolio, for a total of 326 million euros, in favour of Cabot Securitisation (Europe) Limited. The gross capital gains obtained in this transaction, 13.8 million euros, was registered under heading "Net gains or losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss" of the profit and loss account (Note 34).

The accrued interest pending payment, registered in memorandum accounts, associated with impaired financial assets, amounts to 100,458 million euros as of 31 December 2017 (101,502 million euros as of 31 December 2016).

11. Investments held until maturity

11.1 Breakdown of the balance and maximum credit risk

The financial assets included in this category as of 31 December 2017 and 2016 are detailed below, classified by geographical areas, counterparty classes and types of instruments:

	Thousands of euros	
	2017	**2016**
By geographical areas		
Spain	-	4,544,538
Rest of the countries in the European Union	-	1,042
Total gross amount	**-**	**4,545,580**
(Impairment losses)	-	(6)
Total net amount	**-**	**4,545,574**
By counterparty classes		
Spanish credit institutions	-	3,215
Resident public administrations	-	4,538,236
Other resident sectors	-	3,087
Other non-resident sectors	-	1,042
Total gross amount	**-**	**4,545,580**
By type of instruments		
Public Debt	-	4,538,236
Other fixed-income securities	-	7,344
Total gross amount	**-**	**4,545,580**

The carrying amount shown in the above table corresponds to the maximum credit risk exposure in relation to each financial instrument.

The nominal value of the investment portfolio held until maturity on 31 October 2017 amounted to 3,170 million euros. In November 2017, certain assets were sold, generating a capital gain 62 million euros registered under heading "Net gains or losses derecognised in financial asset and liability accounts not measured at fair value through profit or loss" of the consolidated profit and loss account (Note 34). The unsold assets, for a nominal amount of 1,013 million euros, was reclassified to the available-for-sale financial assets portfolio (Note 9).

The average effective interest rate on debt instruments classified in this portfolio during 2017 was 1.16% (2.62% during 2016).

11.2 Overdue and impaired assets

There are no overdue or impaired assets in this portfolio as of 31 December 2017 and 2016.

12. Derivatives - hedge accounting (assets and liabilities) and fair value changes of the hedged items in a portfolio with interest rate risk hedging

12.1 Derivatives – hedge accounting

The breakdown, by product type, of the fair value of the financial derivatives designated as hedging instruments in fair value hedge and cash flow transactions as of 31 December 2017 and 2016 is as follows:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2017	2016	2017	2016
Interest rate swaps (IRSs)	187,456	285,111	106,702	176,172
	187,456	**285,111**	**106,702**	**176,172**

The carrying amount shown in the previous table represents the maximum level of exposure to credit risk with respect to the financial instruments included therein, except for the derivative assets contracted in which there are netting or compensation agreements, and that also have a collateral agreement consisting of the formalisation of deposits for an amount equivalent to the net fair value of the derivative transactions, so that in the event of non-payment of the derivative operations by one of the parties, the other party is not required to satisfy the obligations associated with the deposit.

The Company 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 not fulfilled. The breakdown of the carrying amount of the financial instruments associated with these agreements and asset and liability deposits that are generated with the counterparties (for both the hedging and trading derivatives that are detailed in Note 7.3), is as follows:

	Thousands of euros	
	Instruments subject to offset arrangements.	
	2017	2016
Derivative assets	138,394	253,274
Derivative liabilities	98,156	169,947

	Thousands of euros	
	Deposits subject to derivative offset arrangements	
	2017	2016
Deposits recognised under assets	66,220	95,850
Deposits recognised under liabilities	99,940	173,741

All of the fair value hedges made by the Company are subject to cover the variation risk in the fair value of debt instruments, assets and liabilities, issued at a fixed rate, in the event of changes to the reference interest rate. This risk is established in the increase of the fair value of the financial liabilities against reference interest rate decreases and decreases in the fair value of the financial assets in the event of their increases. To mitigate this risk, the Group mainly hires financial swaps whose value varies similarly and symmetrically to the value changes of the hedged items.

The purpose of the cash flow hedges is to stabilise the impact on net interest income of interest associated with inflation-indexed public debt, eliminating the underlying risk of the benchmark index. To hedge this risk, interest rate swaps have been arranged on the market that change the inflation-indexed rate of the issue from floating to fixed.

A breakdown of the hedging operation notional values is shown below, in accordance with the hedged item and hedging:

	Thousands of euros	
	2017	**2016**
Hedged item		
Interest rate swaps (IRSs)	7,004,866	8,918,925
	7,004,866	**8,918,925**
Hedged items		
Transactions with clients	496,892	1,358,551
Loans	2,954,793	3,354,793
Fixed income	1,903,181	2,555,581
Deposits taken (Money Market)	1,650,000	1,650,000
	7,004,866	**8,918,925**

12.2 Fair value changes of the hedged items in a portfolio with interest rate risk hedging

As explained in Note 2.4, these gains or losses arising from changes in the fair value of the interest rate risk of the financial instruments effectively hedged in fair value macro-hedging transactions are charged or credited under these headings of the consolidated balance.

The details of the changes to the financial assets and liabilities for micro-hedging as of 31 December 2017 and 2016 are shown below:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2017	**2016**	**2017**	**2016**
Mortgage loans	-	-	-	-
Financial liabilities	-	-	11,054	16,022
	-	**-**	**11,054**	**16,022**

With respect to the assets affecting the micro-hedges, Banco Grupo Cajatres, S.A.U. signed an option contract on interest rates in 2012, for which it would pay the positive difference between the floor rate and Euribor rate at 12 months (or zero if this difference is negative) on the current notional in each period in 2013-2026. The starting and maximum notional value of the option amounted to 2,672 billion euros, covering the cost of the floor value included in the mortgage loans in the portfolio on interest rate variations. In 2015 the Group decided to interrupt the micro-hedge. The change to the amortised cost of the hedged assets on the hedge interruption date, for an amount of 140.9 million euros, is accrued over the initially designated hedging period. As of 31 December 2017, the adjustment pending accrual amounted to 81.6 million euros (107.8 million euros as of 31 December 2016) and has been registered since the hedging interruption under the heading "Loans and receivables" of the balance asset (Note 10.4). The cancellation of the derivative with the counterparty was made on the same day.

The nominal of the financial liabilities corresponding to its own issuances, mortgage-covered bonds, hedges on interest rate swaps (IRSs) amounts to 500,897 million euros as of 31 December 2017 (500,897 million euros as of 31 December 2016).

13. Investments in joint ventures and associates

13.1 Investments in associates

This heading of investments in associates in the consolidated balance sheets as of 31 December 2017 and 2016 is broken down as follows:

	Thousands of euros	
	2017	2016
Equity instruments	77,558	106,595
(Impairment losses)	(129)	(481)
Total net amount	**77,429**	**106,114**

The balance of the heading "Investments in subsidiaries, joint ventures and associates – Associated companies" of the consolidated balances as of 31 December 2017 and 2016 includes goodwill associated with these investments. The breakdown of this goodwill, based on the entity in which they originated, is shown below:

	Thousands of euros	
Entity	**2017**	**2016**
Heraldo de Aragón, S.A.	11,149	11,149
CAI Seguros Generales, Seguros y Reaseguros, S.A. (*)	-	6,699
Total net amount	**11,149**	**17,848**

(*) As of 31 December 2017, the investment was recognised under the heading "Non-current assets and disposal groups of items classified as held for sale" on the consolidated balance sheet (Note 18).

The movement of the impairment losses of the associated entities in 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Opening balance	**481**	**511**
Net allowances	**129**	**-**
Transfer charged to profit for the year	129	-
Recovered amount credited to profit for the year	-	-
Recovered amount credited to profit for the previous years	**-**	**-**
Amounts used	**(481)**	**-**
Other movements	**-**	**(30)**
Closing balance	**129**	**481**

13.2 Investments in jointly controlled entities

The breakdown of the investments considered to be joint investments by the Group as of 31 December 2017 and 2016 are shown in Annexes I and II, along with different information relevant to them.

There are no impairment losses or goodwill associated with these investments.

13.3 Disclosure on the acquisition of investments

With respect to that indicated by article 155 of the Corporate Enterprise Act, it reports that acquisitions were made during the year that exceeded 10% of the investment in the company Avalia Aragón, S.G.R. As of 31 December 2017, the aforementioned investment is registered under the heading "Financial assets available for sale" on the balance sheet (Note 9).

14. Assets under insurance or reinsurance contracts

As of 31 December 2017 and 2016, the entirety of the budget under this heading of consolidated balances corresponds to the profit-sharing of the reinsured policies.

The reconciliation between the opening and closing balances under this heading in 2016 and 2017 is as follows:

	Thousands of euros
Balances as of 31 December 2015	**960**
Net allowances	(446)
Balances as of 31 December 2016	**514**
Net allowances	(119)
Balances as of 31 December 2017	**395**

15. Tangible assets

Movements under this heading of the consolidated balance sheet in 2017 and 2016 are as follows:

	Thousands of euros			
	For own use	Investment property	Assigned under operating lease	Total
Cost				
Balances as of 1 January 2016	**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 as of 31 December 2016	**1,351,284**	**693,171**	**30,030**	**2,074,485**
Additions	17,783	2,066	16,400	36,249
Disposals due to sales or through other means	(44,434)	(64,134)	(13,032)	(121,600)
Other transfers and other movements	(3,044)	(21,569)	-	(24,613)
Balances as of 31 December 2017	**1,321,589**	**609,534**	**33,398**	**1,964,521**
Accumulated depreciation				
Balances as of 1 January 2016	**(724,476)**	**(128,532)**	**(7,750)**	**(860,758)**
Disposals due to sales or through other means	33,713	2,479	4,699	40,891
Allowances recognised in profit or loss	(26,075)	(10,036)	(3,512)	(39,623)
Other transfers and other movements	528	1,344	-	1,872
Balances as of 31 December 2016	**(716,310)**	**(134,745)**	**(6,563)**	**(857,618)**
Disposals due to sales or through other means	32,473	10,373	2,688	45,534
Allowances recognised in profit or loss	(23,443)	(10,134)	(3,975)	(37,552)
Other transfers and other movements	2,076	(150)	-	1,926
Balances as of 31 December 2017	**(705,204)**	**(134,656)**	**(7,850)**	**(847,710)**
Impairment losses				
Balances as of 1 January 2016	**(1,467)**	**(118,214)**	**-**	**(119,681)**
Transfer charged to profit for the year	(1,511)	-	-	(1,511)
Recovered amount credited to profits	271	1,968	-	2,239
Applications and other movements	1,206	(6,732)	-	(5,526)
Balances as of 31 December 2016	**(1,501)**	**(122,978)**	**-**	**(124,479)**
Transfer charged to profit for the year	(1,649)	(2,053)	-	(3,702)
Recovered amount credited to profits	-	6,077	-	6,077
Applications and other movements	2,194	32,513	-	34,707
Balances as of 31 December 2017	**(956)**	**(86,441)**	**-**	**(87,397)**
Net tangible assets				
Balances as of 31 December 2016	**633,473**	**435,448**	**23,467**	**1,092,388**
Balances as of 31 December 2017	**615,429**	**388,437**	**25,548**	**1,029,414**

As of 31 December 2017, fully-amortised assets still in use amounted to 407.14 million euros (391,691 as of 31 December 2016).

Ibercaja Banco, S.A. and Banco Grupo Cajatres, S.A.U. (which, as indicated in Note 1.10.3, merged in 2014) included the possibility in 2013 provided by article 9 of Law 16/2012 on updating the tax value of the tangible asset, subject to update of certain properties for own use and property investment.

The amount of the tax update in Ibercaja Banco, S.A. amounted to 17,888 million euros, generating a share of 5% to be paid for this update, for an amount of 894 thousand euros. Given the revaluation of assets as a consequence of a tax law not permitted in the IFRS-EU, the carrying amount of the assets did not incur any variation in consolidated terms.

At Banco Grupo Cajatres, S.A.U., the amount of the tax update amounted to 36,094 million euros, generating a share of 5% to be paid for this update, for an amount of 1,805 million euros. However, given that the fiscally revaluated assets had already been revaluated for accounting purposes in 2010 when the Institutional Protection Scheme founded the Company, there was no increase in their carrying amount since the new tax value did not surpass the carrying amount before the update in any case.

In the Ibercaja Banco, S.A. individual financial statements of 2016, the information required by section 12 of article 9 of Law 16/2012 is set forth on the updated elements that were found in the Company equity.

15.1 Property, plant and equipment for own use

The breakdown, according to its nature, of the parties that include the balance under this heading of the consolidated balance as of 31 December 2017 and 2016 is the following:

	Thousands of euros			
	Cost	Accumulated depreciation	Impairment losses	Net balance
Computer equipment and installations	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
Construction in progress	5,344	-	-	5,344
Balances as of 31 December 2016	**1,351,284**	**(716,310)**	**(1,501)**	**633,473**
Computer equipment and installations	216,125	(197,493)	-	18,632
Furniture, vehicles and other installations	410,927	(355,804)	-	55,123
Buildings	691,727	(151,907)	(956)	538,864
Construction in progress	2,810	-	-	2,810
Balances as of 31 December 2017	**1,321,589**	**(705,204)**	**(956)**	**615,429**

No third party termination benefits were received in 2017 for asset impairment, and there were no pending termination benefits to be received as of 31 December 2016.

There are no significant material asset acquisition commitments for its own use or restrictions on its ownership as of 31 December 2017 and 2016.

15.2 Investment property

The rental income coming from the Group's investment properties amounted to 11,298 million euros in 2017 (11,628 euros in 2016) (Note 36), other expenses related to this amounted to 2,503 million euros (2,985 million euros in 2016) (Note 37) and incurred operating expenses due to amortisation for an amount of 10,134 million euros (10,036 million euros in 2016) (Note 15).

84.24% of the net carrying amount of the investment properties (77.34% in 2016) is based on appraisals made by experts with recognised professional capacity and recent experience in the location and category of the investment properties subject to assessment. The appraisals of these properties were performed out by appraisers approved by the Group: TINSA, Sociedad de Tasación, Tasvalor, UVE Valoraciones, General de Valoraciones, S.A., Gesvalt, Tecnitasa, Eurovaloraciones and ARCO Valoraciones.

Note 18 sets out the criteria applied to determine the fair value of these assets.

The following table displays a classification by type of asset of the investment properties. Likewise, the carrying amount of these assets is indicated (without considering the impairment losses) that was assessed by an independent appraiser.

	Thousands of euros			
	carrying amount (without impairment losses)		**Of which: appraised by an independent appraiser**	
	2017	**2016**	**2017**	**2016**
Investment property	**474,878**	**558,426**	**400,122**	**431,911**
Residential	204,145	187,713	186,976	169,807
Commercial and industrial	266,327	366,293	208,745	259,862
Agricultural	4,406	4,420	4,401	2,242

The fair value calculated by independent appraisals for the assets amounts to 357,178 million euros as of 31 December 2017 (395.07 million as of 31 December 2016).

The appraisals are on Level 2 in the fair value hierarchy.

There are no significant commitments for the acquisition or maintenance of investment properties, nor restrictions on their ownership as of 31 December 2017.

15.3 Property, plant and equipment assigned under operating lease

The Group includes the assets associated with renting contracts under this heading, which amount to 25,548 million euros as of 31 December 2017 (23,467 million euros as of 31 December 2016). In 2017, the rental income coming from these assets amounted to 7,162 million euros (6,235 million euros in 2016) and the exploitation expenses due to amortisation and other expenses related to them amounted to 3,975 and 1.24 million euros, respectively (3,512 million and 901 thousand euros in 2016).

15.4 Impairment losses

In 2017, 1,649 million euros of impairment losses of tangible assets from its own use and 4,024 million euros from investment property impairment reversal were registered in 2017 (impairment losses of 1.24 and impairment reversal of 1,968 million euros in 2016, respectively) (Note 40).

16. Intangible assets

16.1 Goodwill

The breakdown of the parties that include the balance of this heading of the consolidated balance as of 31 December 2017 and 2016 is the following:

	Thousands of euros	
Entity	**2017**	**2016**
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 the company Caja Badajoz Vida y Pensiones, S.A de Seguros was established as a consequence of the acquisition of 50% of this entity on 3 September 2014 that was not owned by the Group at the close of 2013.

This acquisition took place within the reorganisation framework of the Group's insurance business as a consequence of Banco Grupo Cajatres, S.A.U. taking control, which occurred in 2013 (Note 1.10.2). In 2015, there was a merger by absorption of Caja Badajoz Vida y Pensiones, S.A. de Seguros (Absorbed Company) by Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U. (Absorbing Company).

For the purposes of distributing the goodwill of that referred to in Note 2.16.1, the Group considered that there was only one cash-generating unit coinciding with the entirety of its balance, since the goodwill is controlled at the highest level for the purposes of internal management and there are no differentiated operational segments, in accordance with that indicated in Note 27.9.

The Group calculated the value in use by the cash-generating unit which constitutes Ibercaja Banco at the close of the year, concluding that there is no need to register any impairment on it.

The value in use was obtained by discounting the estimated dividends over the medium term according to the business projections based on two components:

- Explicit projection up to 2022.
- Normalised projection to determine the estimated standing for 2034, a residual value being calculated for the remaining period, taking into account a distributable cash flow of 559 million and a growth rate in that cash flow of 2%.

Considering these two components, the expected flows were projected by discounting the generated dividends, assuming the capital ratio as a restriction according to the regulatory requirements and security margins consistent with comparable market observations. These flows have been discounted using market rates and adjusted at the average cost of capital, 10.8%.

A sensitivity analyses of the valuation was made against the possible reasonable changes in the key variables of the valuation (distributable cash flow used to calculate the terminal value, rate of growth in perpetuity of this cash flow and discount rate), observing that with a variation of +0.5% in the discount rate, the calculated value in use would be lower than the carrying amount of the cash-generating unit at 61 million euros, which would imply an impairment of goodwill of the cited amount.

The discount rate should vary around 33 bp so that, after incorporating the effects at the recoverable amount that are a consequence of this change to other variables, the value in use of the unit is equal to its value carrying amount.

The main criteria used to calculated the value in use is as follows:

- Cash flows estimated from the Company's business plan

  - Recovery of the net interest income and commissions in the coming years, as a consequence of the increase and subsequent stabilisation of the rate curve.

  - Reduction of the personnel and general expenses, as a consequence of the different rationalisation plans set in place by the Bank.

  - Normalisation of the allowance for asset impairments, considering the macroeconomic expectations.

- Discount rate

  This magnitude is based on the average profitability observed in the 2007-2017 period for the Spanish 10Y bond yield of 3.65%, an adjusted beta as the average of the one-year beta in the listed Spanish bank of 1.3 and a market risk premium of 5.5%.

- Rate of growth in perpetuity of the cash flow starting in 2034

  The rate was fixed at a level similar to a long-term inflation rate.

16.2 Other intangible assets

The detail of this heading is as follows:

	Thousands of euros			
	Cost	Accumulated depreciation	Impairment losses	Net balance
Computer software	109,988	(85,214)	(189)	24,585
Trade mark	7,500	(5,250)	-	2,250
Customer relationships (Core deposits) of Banco Grupo Cajatres, S.A.U.	45,031	(18,985)	-	26,046
Other	1,616	(594)	-	1,022
Balances as of 31 December 2016	**164,135**	**(110,043)**	**(189)**	**53,903**
Computer software	119,267	(86,783)	-	32,484
Trade mark	7,500	(6,750)	-	750
Customer relationships (Core deposits) of Banco Grupo Cajatres, S.A.U.	45,031	(24,409)	-	20,622
Other	1,616	(726)	-	890
Balances as of 31 December 2017	**173,414**	**(118,668)**	**-**	**54,746**

The "trade mark" includes the estimated value of the trade marks of the old savings accounts that gave rise to Banco Grupo Cajatres, S.A. (CAI, Caja Círculo and Caja Badajoz).

The cost of the asset "Customer relationships with Banco Grupo Cajatres, S.A.U." includes the net present value that, at the time of the acquisition of this entity, implies the saving of costs that the demand deposits and term of the this entity represent with respect to other alternative financing sources.

Movements in this consolidated balance sheet heading throughout 2017 and 2016 are as follows:

	Thousands of euros				
	Computer software	Trade mark	Customer relationships of Banco Grupo Cajatres	Other	Total
Cost					
Balances at 1 January 2016	**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 as of 31 December 2016	**109,988**	**7,500**	**45,031**	**1,616**	**164,135**
Additions	14,602	-	-	-	14,602
Disposals due to sales or through other means	(5,323)	-	-	-	(5,323)
Other transfers and other movements	-	-	-	-	-
Balances as of 31 December 2017	**119,267**	**7,500**	**45,031**	**1,616**	**173,414**
Accumulated depreciation					
Balances at 1 January 2016	**(79,623)**	**(3,750)**	**(13,561)**	**(462)**	**(97,396)**
Disposals due to sales or through other means	77	-	-	-	77
Allowances recognised in profit or loss	(5,668)	(1,500)	(5,424)	(132)	(12,724)
Other transfers and other movements	-	-	-	-	-
Balances as of 31 December 2016	**(85,214)**	**(5,250)**	**(18,985)**	**(594)**	**(110,043)**
Disposals due to sales or through other means	4,629	-	-	-	4,629
Allowances recognised in profit or loss	(6,198)	(1,500)	(5,424)	(132)	(13,254)
Other transfers and other movements	-	-	-	-	-
Balances as of 31 December 2017	**(86,783)**	**(6,750)**	**(24,409)**	**(726)**	**(118,668)**
Impairment losses					
Balances at 1 January 2016	**-**	**-**	**-**	**-**	**-**
Transfer charged to profit for the year	(189)	-	-	-	(189)
Recovered amount credited to profit for the year	-	-	-	-	-
Applications and other movements	-	-	-	-	-
Balances as of 31 December 2016	**(189)**	**-**	**-**	**-**	**(189)**
Transfer charged to profit for the year	-	-	-	-	-
Recovered amount credited to profit for the year	-	-	-	-	-
Applications and other movements	189	-	-	-	189
Balances as of 31 December 2017	**-**	**-**	**-**	**-**	**-**
Net intangible assets					
Balances at 31 December 2016	**24,585**	**2,250**	**26,046**	**1,022**	**53,903**
Balances at 31 December 2017	**32,484**	**750**	**20,622**	**890**	**54,746**

At 31 December 2017, fully-amortised intangible assets still in use amounted to €71,214 thousand (€67,657 thousand at 31 December 2016).

17. Other assets

This heading in the consolidated balance sheets at 31 December 2017 and 2016 breaks down as follows:

	Thousands of euros	
	2017	2016
Accruals and deferred income	18,681	15,598
Inventories	430,157	431,385
Transactions in transit	386	2,414
Other	5,038	17,361
Total gross amount	**454,262**	**466,758**
(Impairment losses)	(204,606)	(186,735)
Total net amount	**249,656**	**280,023**

Impairment analysed in the above table relates entirely to Inventories.

Movements in Inventories during 2017 and 2016 are as follows:

	Thousands of euros		
	Foreclosed assets	Other assets	Total
Cost			
Balances at 1 January 2016	**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 as of 31 December 2016	**333,862**	**97,523**	**431,385**
Additions	17,514	264	17,778
Disposals due to sales or through other means	(11,778)	-	(11,778)
Other transfers and other movements	(7,228)	-	(7,228)
Balances as of 31 December 2017	**332,370**	**97,787**	**430,157**
Impairment losses			
Balances at 1 January 2016	**(173,155)**	**(12,955)**	**(186,110)**
Transfer charged to profit for the year	(3,472)	(229)	(3,701)
Recovered amount credited to profits	21	-	21
Applications and other movements	3,055	-	3,055
Balances as of 31 December 2016	**(173,551)**	**(13,184)**	**(186,735)**
Transfer charged to profit for the year	(18,393)	(101)	(18,494)
Recovered amount credited to profits	44	-	44
Applications and other movements	579	-	579
Balances as of 31 December 2017	**(191,321)**	**(13,285)**	**(204,606)**
Net inventories			
Balances at 31 December 2016	**160,311**	**84,339**	**244,650**
Balances at 31 December 2017	**141,049**	**84,502**	**225,551**

In inventories, all foreclosed assets consist of real estate.

The valuations of the above assets have been restated principally in the last year. The 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. The appraisals of these properties were performed out by appraisers approved by the Group: TINSA, Sociedad de Tasación, Tasvalor, UVE Valoraciones, General de Valoraciones, S.A., Gesvalt, Tecnitasa, Eurovaloraciones and ARCO Valoraciones.

Note 18 sets out the criteria applied to determine the fair value of these assets.

The breakdown of the inventory-related expenses for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Costs to sell inventories sold during the year	6,139	4,441
Impairment losses on inventories (Note 40)	18,450	3,680
Impairment write-downs	18,494	3,701
Reversals of impairment write-downs	(44)	(21)
Total net amount	**24,589**	**8,121**

18. Non-current assets and disposal groups classified as held for sale

At 31 December 2017 and 2016, this consolidated balance sheet item breaks down as follows:

	Thousands of euros	
	2017	2016
Foreclosed assets	**752,681**	**848,219**
Residential	630,093	743,495
Industrial	106,554	91,605
Agricultural	16,034	13,119
Other assets	**81,699**	**71,839**
Residential	45,418	46,035
Industrial	20,329	22,673
Agricultural	3,131	3,131
Other	12,821	-
Total gross amount	**834,380**	**920,058**
(Impairment losses)	(281,624)	(263,127)
Total net amount	**552,756**	**656,931**

The heading "Other assets" as at 31 December 2017 includes the stake in CAI Seguros Generales de Seguros y Reaseguros, S.A. On 14 December 2017 Ibercaja Banco, S.A. entered into an agreement for the sale of all its stake in CAI Seguros Generales de Seguros y Reaseguros, S.A. In any event, the agreement is conditioned to the relevant administrative authorisations Being obtained, still pending as at the reporting date.

Movements in this consolidated balance sheet heading in 2017 and 2016 are as follows:

	Thousands of euros		
	Foreclosed assets	Other assets	Total
Cost			
Balances at 1 January 2016	**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 as of 31 December 2016	**848,219**	**71,839**	**920,058**
Additions	107,495	310	107,805
Disposals due to sales or through other means	(215,027)	(1,165)	(216,192)
Other transfers and other movements	11,994	10,715	22,709
Balances as of 31 December 2017	**752,681**	**81,699**	**834,380**
Impairment losses			
Balances at 1 January 2016	**(291,504)**	**(1,479)**	**(292,983)**
Transfer charged to profit for the year	(46,579)	-	(46,579)
Recovered amount credited to profits	23,266	-	23,266
Applications and other movements	53,169	-	53,169
Balances as of 31 December 2016	**(261,648)**	**(1,479)**	**(263,127)**
Transfer charged to profit for the year	(92,278)	(1,836)	(94,114)
Recovered amount credited to profits	28,901	-	28,901
Applications and other movements	46,716	-	46,716
Balances as of 31 December 2017	**(278,309)**	**(3,315)**	**(281,624)**
Net non-current assets held for sale			
Balances at 31 December 2016	**586,571**	**70,360**	**656,931**
Balances at 31 December 2017	**474,372**	**78,384**	**552,756**

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 €89,023 thousand (€62,843 thousand at 31 December 2016) and the accumulated amount of loans granted is €459,871 thousand (€370,848 thousand at 31 December 2016).

At 31 December 2017, the average sales percentage financed for the purchaser was 95.36% (95.07% at 31 December 2016).

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 appraiser is indicated.

	Thousands of euros			
	Carrying amount		**Of which: appraised by an independent appraiser**	
	2017	**2016**	**2017**	**2016**
Non-current assets held for sale	**834,380**	**920,058**	**772,452**	**870,738**
Residential	675,511	789,530	641,997	756,623
Industrial	126,883	114,278	112,151	98,726
Agricultural	19,165	16,250	18,304	15,389
Other	12,821	-	-	-

The fair value calculated by independent appraisals for the assets amounts to €756,155 thousand at 31 December 2017 (€990,584 thousand at 31 December 2016).

The valuations are on Level 2 in the fair value hierarchy.

The valuations of foreclosed assets were practically all performed in the last year 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 valuations were carried out by appraisers approved by the Group: TINSA, Sociedad de Tasación, Tasvalor, UVE Valoraciones, General de Valoraciones, S.A., Gesvalt, Tecnitasa, Eurovaloraciones and ARCO Valoraciones.

Different valuation methods have been used to calculate the market value of the assets acquired depending on the type of asset involved. Generally speaking, the residual method has been used to value land, the discounted cash flow method for assets for rent and the comparison method for finished buildings and elements thereof. 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 heading at 31 December 2017 and 2016 are as follows:

	Thousands of euros	
	2017	**2016**
Deposits	**39,666,819**	**43,499,051**
Central banks (Note 19.1)	3,353,508	3,366,566
Credit institutions (Note 19.2)	1,236,216	3,127,312
Customers (Note 19.3)	35,077,095	37,005,173
Debt securities issued (Note 19.4)	**1,827,266**	**2,147,252**
Other financial liabilities (Note 19.5)	**776,810**	**706,432**
	42,270,895	**46,352,735**

19.1 Deposits - Central Banks

The breakdown, by transaction type, of the balances of this item in the accompanying consolidated balance sheets at 31 December 2017 and 2016 is shown below:

	Thousands of euros	
	2017	**2016**
European Central Bank	3,372,460	3,372,460
Valuation adjustments	(18,952)	(5,894)
	3,353,508	**3,366,566**

At 31 December 2017, 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 2017 was -0.51% (0.22% at 31 December 2016).

19.2 Deposits - Credit institutions

The breakdown, by transaction type, of the balances of this item in the accompanying consolidated balance sheets at 31 December 2017 and 2016 is shown below:

	Thousands of euros	
	2017	2016
Demand	**44,880**	**28,229**
Other accounts	44,880	28,229
Time or at notice	**1,188,632**	**3,097,431**
Fixed-term deposits	663,891	718,030
Assets sold under repurchase agreements	513,046	2,358,496
Other accounts	11,695	20,905
Valuation adjustments	**2,704**	**1,652**
	1,236,216	**3,127,312**

The average effective interest rate on debt instruments classified in this caption during 2017 was 0.04% (0.16% during 2016).

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 reverse repos.

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 not fulfilled. The carrying value of financial instruments covered by these agreements and deposits payable and receivable generated with the counterparties are as follows:

	Thousands of euros	
	Instruments subject to offset arrangements.	
	2017	2016
Assets under repos	337	2,692
Liabilities under repos	7,912	4,164

	Thousands of euros	
	Deposits subject to repo offset arrangements.	
	2017	2016
Deposits recognised under assets	7,360	3,078
Deposits recognised under liabilities	-	1,505

19.3 Deposits - Customer

The breakdown of the balance under this heading in the consolidated balance sheets at 31 December 2017 and 2016, based on the geographical location, nature and counterparties of the transaction concerned, is indicated below:

	Thousands of euros	
	2017	**2016**
Geographic location		
Spain	34,916,023	36,856,149
Rest of the world	161,072	149,024
	35,077,095	**37,005,173**
By nature		
Demand deposits	24,629,205	21,064,530
Current Accounts	*18,206,323*	*15,470,485*
Savings accounts	*6,360,804*	*5,538,960*
Other demand deposits	*62,078*	*55,085*
Term deposits	9,261,903	13,535,365
Fixed-term deposits	*6,014,942*	*8,811,157*
Non-marketable mortgage covered bonds and bonds issued (Note 44.1)	*2,693,384*	*3,363,384*
Hybrid deposits	*483,108*	*1,288,633*
Other term deposits	*70,469*	*72,191*
Assets sold under repurchase agreements	858,894	1,966,941
Valuation adjustments	327,093	438,337
	35,077,095	**37,005,173**
By counterparties		
Resident public administrations	1,047,912	845,994
Other resident sectors	33,868,111	36,010,155
Non-resident public administrations	10	16
Other non-resident sectors	161,062	149,008
	35,077,095	**37,005,173**

The average effective interest rate on debt instruments classified in this caption during 2017 was 0.19% (0.37% during 2016).

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 €2,693,384 thousand (€3,363,384 thousand at 31 December 2016). 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 2017 and 2016 breaks down as follows:

	Thousands of euros	
	2017	**2016**
Nominal value of mortgage covered bonds (Note 44.1)	4,650,000	3,150,000
Treasury shares	(4,067,352)	(2,567,809)
Nominal value of other securities linked to transferred financial assets	606,083	694,657
Nominal value of preferred shares	5,000	5,000
Nominal value of subordinated bonds	618,233	619,257
Contingent convertible bonds (Note 1.10.1.4)	-	223,600
Valuation adjustments	15,302	22,547
	1,827,266	**2,147,252**

On 22 September 2017, Ibercaja Banco issued mortgage-covered bonds for €1,500 million. The breakdown of the bonds issued are as follows:

				Thousands of euros
Issue	**Nominal interest**	**Issuance date**	**Maturity date**	**Nominal value of issue**
Ibercaja September 2017 I	3M Euribor + 0.40%	22.09,2017	22.09,2022	750,000
Ibercaja September 2017 II	3M Euribor + 0.60%	22.09,2017	22.09,2024	750,000
				1,500,000

A breakdown of the security issues associated with financial assets transferred is as follows:

					Thousands of euros	
					Amount subscribed	
Type	**Nominal interest**	**Issuance date**	**Maturity date**	**Nominal value of issue**	**2017**	**2016**
TDA2 securitisation bonds	Variable	13.10,2005	(*)	904,500	99,865	114,427
TDA3 securitisation bonds	Variable	12.05,2006	(*)	1,007,000	117,935	133,239
TDA4 securitisation bonds	Variable	18.10,2006	(*)	1,410,500	125,372	146,460
TDA5 securitisation bonds	Variable	11.05,2007	(*)	1,207,000	132,801	150,871
TDA6 securitisation bonds	Variable	25.06,2008	(*)	1,521,000	18,540	20,274
TDA ICO-FTVPO securitisation bonds	Variable	15.07,2009	(*)	447,200	111,570	129,386
					606,083	**694,657**

(*) These bonds are redeemed as the mortgage loans that have been assigned to the relevant securitisation fund are repaid.

The average effective interest rate on debt instruments classified in this caption during 2017 was 0.31% (1.31% during 2016).

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 basis points.

Details regarding each issue of subordinated bonds are as follows:

			Thousands of euros	
			Nominal amount	
Issue	**Nominal interest**	**Maturity**	**2017**	**2016**
20 April 2006	Variable	20 April 2018 (*)	45,414	45,414
25 April 2007	Variable	25 April 2019 (*)	72,789	73,813
15 June 2007	Mixed	15 June 2022	30	30
28 July 2015	Fixed	28 July 2025 (**)	500,000	500,000
			618,233	**619,257**

(*) 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.

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 €30,955 thousand at 31 December 2017 (€63,834 thousand at 31 December 2016).

The average effective interest rate on debt instruments classified in this caption during 2017 was 4.73% (6.40% during 2016).

Below follows a reconciliation of the carrying value of the liabilities originating from financing activities according to changes that generate cash flows and those that do not:

	Thousands of euros	
	2017	2016
Opening balance	**857,260**	**1,047,035**
Cash flows	(224,624)	(189,370)
Redemption of subordinate bonds issued by Ibercaja Banco, S.A.	*(1,024)*	*(5,970)*
Redemption of contingent convertible bonds (Note 1.10.1.4)	*(223,600)*	*(183,400)*
No impact on cash flows	(885)	(405)
Valuation adjustments	*(885)*	*(405)*
Closing balance	**631,751**	**857,260**

19.5 Other financial liabilities

This heading in the consolidated balance sheets at 31 December 2017 and 2016 breaks down as follows:

	Thousands of euros	
	2017	2016
Bonds payable	75,194	49,532
Guarantees received	4,545	3,887
Collection accounts	376,604	373,436
Special accounts	64,920	52,558
Financial guarantees	2,814	2,070
Other items	252,733	224,949
	776,810	**706,432**

19.6 Information on average payment period for suppliers. Additional Provision Three. "Disclosure requirement" of Law 15/2010 of 5 July

Pursuant to Final Provision Two of Law 31/2014, of 3 December, amending Additional Provision Three of Law 15/2010, of 5 July, amending Law 3/2004, of 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 financial statements 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 2017 and 2016 is as follows:

	2017	2016
	Days	
Average supplier payment period	21	20
Ratio of settled transactions	20	20
Ratio of transactions pending payment	61	26
	Thousands of euros	
Total payments made	518,334	479,597
Total payments outstanding	14,155	23,674

20. Liabilities under insurance or reinsurance contracts

At 31 December 2017 and 2016, the balances in this consolidated balance sheet heading were as follows:

	Thousands of euros	
	2017	**2016**
Technical reserves for:		
Unearned premium reserves (non-life)	-	-
Life insurance:	6,877,284	6,703,357
Unearned premium reserve	*20,917*	*19,298*
Mathematical reserves	*6,856,367*	*6,684,059*
Benefits pending payment	62,504	58,396
Profit sharing and returned premiums	10,845	10,889
Life insurance in which the investment risk is borne by the policyholders	68,571	86,265
	7,019,204	**6,858,907**

There is no accepted reinsurance at 31 December 2017 or 31 December 2016.

The reconciliation between the opening and closing balances under this heading in 2016 and 2017 is as follows:

	Thousands of euros
Balances as of 31 December 2015	**6,382,222**
Transfers	527,190
Other movements	(50,505)
Balances as of 31 December 2016	**6,858,907**
Transfers	240,487
Other movements	(80,190)
Balances as of 31 December 2017	**7,019,204**

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 abovementioned 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, etc.) 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 monthly monitoring of the claim rate 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 claim 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 3 October 2000 of the Directorate General for Insurance and Pension Funds, which conforms to number 5 of Transitional Provision Two 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**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Portfolio at 31 December (number of contract)	439,386	441,456	59,577	57,347	6,262	7,277	396,142	380,805	901,367	886,885
No. claims expected	1,802	1,856	2,524	2,393	53	58	594	557	4,973	4,864
No. actual claims	992	971	2,244	1,922	43	54	425	427	3,704	3,374
Percentage (actual/expected)	55.05%	52.32%	88.91%	80.32%	81.13%	93.10%	71.55%	76.66%	74.48%	69.37%

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. Since the entry into force of Solvency II, the Actuarial Function established by this regulation has been implemented in Ibercaja Vida, one of its tasks being the validation of the company's reinsurance and underwriting policies. This Actuarial Function submits a report to the Board of Directors.

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 treaty reinsurance to mitigate the risk of concentration or accumulation of guarantees above the maximum acceptance levels.

Set out below are the premiums issued classified based on their characteristics:

	Thousands of euros	
	2017	**2016**
Life insurance premiums	69,852	64,327
Savings insurance premiums	1,077,396	1,263,390
	1,147,248	**1,327,717**
Premiums under individual policies	1,141,909	1,322,936
Premiums under group policies	5,339	4,781
	1,147,248	**1,327,717**
Regular premiums	403,259	387,758
Single premiums	743,989	939,959
	1,147,248	**1,327,717**
Premiums for policies with no profit-sharing	1,141,426	1,321,574
Premiums for policies with profit-sharing	4,391	4,468
Premiums for policies where the investment risk is assumed by the policyholder	1,431	1,675
	1,147,248	**1,327,717**

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 €1,150,124 thousand at 31 December 2017 (€1,330,367 thousand at 31 December 2016). This heading also reflects income from reinsurance amounting to €2,876 thousand at 31 December 2017 (€2,650 thousand at 31 December 2016).

According to the Directorate General of Insurance, individual insurance policies are those in which, despite a group policy being formalised, the premium payment obligations and inherent rights pertain to the insured. All insurance policies were arranged in Spanish territory.

Expenses under insurance and reinsurance contracts recognised in the income statement for 2017 amounting to €1,150,414 thousand (€1,330,667 thousand in 2016) 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 2017, 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 2.35% in the value of the asset and 1.77% in the value of the liability.
- A parallel fall of 50 base points in the discount curve entails an increase of 2.16% in the value of the asset and 1.84% 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

The breakdown of movements in 2017 and 2016 indicating the purpose of the provisions recognised in the consolidated balance sheet at 31 December 2017 and 2016, is as follows:

	Thousands of euros				
	Pensions and other post-employment defined benefit obligations	**Other long term employee remuneration**	**Lawsuits and litigation for outstanding taxes**	**Commitments and guarantees given**	**Other provisions**
Balances at 1 January 2016	**140,627**	**6,562**	**10,340**	**24,834**	**134,633**
Allowances charged to income statement					
Interest expense	45	37	-	-	-
Allowances to provisions and other	-	555	-	23,900	94,500
Reversal of provisions credited to profits	-	(19)	-	(14,203)	(8,714)
Provisions utilised	(321)	(2,136)	-	(69)	(548)
Other movements	(531)	-	1,200	866	(229)
Balances as of 31 December 2016	**139,820**	**4,999**	**11,540**	**35,328**	**219,642**
Allowances charged to income statement					
Interest expense	5	-	-	-	-
Allowances to provisions and other	2	878	-	12,712	69,190
Staff costs (Note 38)	-	-	-	-	71,860
Reversal of provisions credited to profits	-	(105)	-	(16,387)	(68,918)
Provisions utilised	(318)	(1,909)	-	(35)	(87,177)
Other movements	(18,758)	-	1,274	38	(902)
Balances as of 31 December 2017	**120,751**	**3,863**	**12,814**	**31,656**	**203,695**

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 Company.

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, 2015 and 2017 pending payment (€65,701 thousand and €50,950 thousand at 31 December 2017 and 2016, respectively).

- With regard to the possible impact of the refund of the amounts perceived as a result of the application of the so-called floor clauses, either as a result of the hypothetical cancellation by the courts of the floor clauses, either through the application of Royal Decree Law 1/2017, of 20 January, on measures to protect consumers regarding floor clauses, the Company has reserves to cover a hypothetical legal risk deriving from the potential elimination of the floor clauses in mortgages which would cover, where applicable, the maximum estimated amount of €62 million.

  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 2017 and 2016, are analysed below:

	Thousands of euros	
	2017	**2016**
Liabilities		
Early retirement agreement	198	316
Externalised post-employment benefits	114,530	132,807
Non-externalised post-employment benefits	6,221	7,013
Fund for labour-related costs of the restructuring plan (Notes 1.10.1.2 and 38.2):	3,665	4,683
	124,614	**144,819**

The balance in net liabilities in the balance sheet for defined benefit plans breaks down as follows:

	Thousands of euros	
	2017	**2016**
Commitments relating to:		
Post-employment benefits (Note 38.2)	(10,621)	(23,764)
Other long-term remuneration - pre-retirement (Note 38.3)	(3,863)	(4,999)
(Shortfall)/Surplus	**(14,484)**	**(28,763)**
Impact of limit on assets	(386)	(235)
Net asset (liability) on balance sheet:	**(14,870)**	**(28,998)**
Assets linked to pensions (*)	105,483	112,416
Net pension assets (**)	4,261	3,405
Net pension (provision)	(124,614)	(144,819)

(*) 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:

	Thousands of euros	
	2017	**2016**
Defined benefit plans	(2,862)	(3,131)
Contributions to defined contribution plans	(17,346)	(16,396)
interest expense and similar charges (net)	59	115
Transfers to provisions (*)	(595)	(330)
Actuarial gains (-) losses on long-term employee benefits	(180)	(206)
	(20,924)	**(19,948)**

(*) Includes annual provision for training, educational assistance for children, etc.

The amounts recognised in the statement of changes in equity are as follows:

	Thousands of euros	
	2017	**2016**
Actuarial gains/(losses) on post-employment benefits	14,653	(6,458)
Limitation on assets	(152)	1,806
	14,501	**(4,652)**

The main financial and actuarial assumptions used in measuring the commitments are as follows:

	2017	**2016**
Technical interest rate	0.00% - 2.36%	0.00% - 1.38%
Expected return on assets	1.14% - 2.36%	1.14% - 1.38%
Annual pension revision rate	0.00% - 2.00%	0.00% - 2.00%
Annual salary increase rate	2.00%	2.00%
Growth in Social Security contribution bases	1.00%	1.00%
Retirement age	63 - 67 years	63 - 67 years
Mortality tables	PER 2000P - PER 2000C	PER 2000P - PER 2000C
Life expectancy		
Employees retiring in FY 2017/2016		
Men	22.30	22.18
Women	26.79	26.67
Employees retiring in FY 2037/2036		
Men	24.52	24.51
Women	28.93	28.84

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 10.27 years and the weighted average discount rate was 1.68%.

22. Other liabilities

This heading in the consolidated balance sheets at 31 December 2017 and 2016 breaks down as follows:

	Thousands of euros	
	2017	**2016**
Personnel expense apportionment	12,955	10,986
Transactions in transit	3,493	2,310
Contribution to Deposit Guarantee Fund (Note 1.8.2)	42,038	37,984
Other	69,626	69,540
	128,112	**120,820**

23. Shareholders' funds and non-controlling interests

23.1 Shareholders' equity

The breakdown of shareholders' equity at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Capital	2,144,276	2,144,276
Retained earnings	418,783	311,648
Legal reserve	*23,668*	*4,687*
Goodwill reserve	*12,807*	*12,807*
Voluntary reserves	*382,308*	*294,154*
Revaluation reserves	3,321	3,329
Other reserves	150,168	150,973
Legal reserve	*214,428*	*214,428*
Accumulated reserves or losses on investments in jointly-controlled entities and associates	*(64,260)*	*(63,455)*
Profit/(loss) for the year	138,367	142,897
Total	**2,854,915**	**2,753,123**

23.1.1 Capital

Share capital at 31 December 2017 consists of 2,144,275,998 shares (2,144,275,998 shares at 31 December 2016) 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:

	Thousands of euros	
	31/12/2017	31/12/2016
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 de Badajoz	3.90%	3.90%

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 consolidated text of the Corporate Enterprises 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. The legal reserve may not be used to offset losses unless it exceeds the aforementioned limit and no other sufficient reserves are available for such purpose.

The legal reserve may be used to increase the share capital provided that the remaining reserve balance does not fall below 10% of the balance of share capital after the increase.

23.1.2.2 Goodwill reserve

At 31 December 2016, the goodwill reserve is recognised pursuant to Article 273.4 of the Corporate Enterprises Act, (eliminated in financial statements for periods commencing on or after 1 January 2016) and is not available for distribution. Law 22/2015 of 20 July on the Auditing of Accounts 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.

23.1.2.3 Revaluation reserves

The revaluation reserves 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, this being understood as 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.

23.2 Non-controlling interests

Movements in non-controlling interests in 2017 and 2016 are set out below for each subsidiary included in the balance:

Movements in 2017:

	Thousands of euros					
Entity	**Balance at 01.01.17**	**Increases in shareholding**	**Decreases in shareholding**	**Attributed profit/(loss)**	**Other changes in equity**	**Balance at 31.12.17**
Dopar, S.L.	91	-	-	(33)	2	60
Enclama, S.L.	216	-	-	24	-	240
Total	**307**	**-**	**-**	**(9)**	**2**	**300**

Movements in 2016:

	Thousands of euros					
Entity	**Balance at 01.01.16**	**Increases in shareholding**	**Decreases in shareholding**	**Attributed profit/(loss)**	**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**

The financial highlights of the companies included in non-controlling interests are set out below at 31 December 2017:

	Thousands of euros			
Entity	**Assets**	**Liabilities**	**Profit/(loss) after tax**	**Cash flow**
Dopar, S.L.	219	91	(107)	22
Enclama, S.L.	781	196	57	129

The financial highlights of the companies included in non-controlling interests are set out below at 31 December 2016:

	Thousands of euros			
Entity	**Assets**	**Liabilities**	**Profit/(loss) after tax**	**Cash flow**
Dopar, S.L.	336	101	5	150
Enclama, S.L.	704	175	63	276

24. Accumulated other comprehensive income

24.1 Actuarial gains/(losses) on defined benefit pension plans

At 31 December 2017, cumulative actuarial losses on defined benefit pension plans amount to €11,607 thousand (€21,758 thousand at 31 December 2016).

24.2 Hedging derivatives. Cash flow hedges (effective portion)

At 31 December 2017, the amount of losses taken to equity for cash flow hedges amounted to €1,169 thousand.

24.3 Available-for-sale financial assets

This heading 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:

	Thousands of euros				
	2017				
	Valuation adjustments	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Listed equity instruments	(5,441)	92,193	92,193	-	-
Unlisted equity instruments	76,822	157,363	-	-	157,363
Listed fixed income	85,822	10,524,245	10,138,231	386,014	-
Total	**157,203**	**10,773,801**	**10,230,424**	**386,014**	**157,363**

	Thousands of euros				
	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**

25. Tax position

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 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 inspection

The Group and its companies are subject to inspection by the tax authorities for corporate income tax for 2013 and subsequent years; in terms of other taxes, they are subject to inspection for periods from December 2013 onwards.

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 2017 and 2016 and corporate income tax expense is as follows:

	Thousands of euros	
	2017	**2016**
Consolidated profit(loss) before tax	**182,731**	**70,770**
Corporate income tax at the 30% tax rate	54,819	21,231
Effect of permanent differences	2,228	2,792
Other adjustments on consolidation	(391)	(3,511)
Tax deductions and tax credits	(835)	(941)
Tax adjustments, Banco Grupo Cajatres business combination	-	(126,190)
Write-off of deferred tax assets	-	34,873
Corporate income tax expense for the year	**55,821**	**(71,746)**
Adjustments to prior-year tax expense	(11,448)	(546)
Total corporate income tax expense	**44,373**	**(72,292)**

The item "Effect of permanent differences" includes 7,866 million euros (3,157 million euros 31 December 2016) 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 of 2 December.

In 2017, pursuant to the provisions of Transitional Provision 16 of the Corporate Income Tax Law, in line with the wording used in Royal Law Decree 3/2016 of 2 December, which adopts tax measures that pursue the consolidation of public finances and other urgent social matters, the Bank has included 29,190 million euros in its taxable base to reverse impairment losses on debt securities in the equity of entities that were tax deductible from the Corporate Income Tax base during the tax periods prior to 1 January 2013. Furthermore, as a result of the sale and settlement of Companies during the year, it will no longer be necessary to include income of 6,209 million euros. The amount pending inclusion in the taxable base at the end of the year and for the aforementioned holdings comes to approximately 87,081 million euros.

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 consolidated text 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 euros, which has caused a reduction of 118 million euros 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” at 31 December 2016 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 decreased by 41,469 million euros in 2017 due to the deferred taxes related to the origination and reversal of temporary differences (increase of 127,602 million euros in 2016).

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:

	Thousands of euros	
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 2017 and 2016 are as follows:

	Thousands of euros	
	Deferred tax liabilities	Deferred tax assets
Balance at 1 January 2016	**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**
Prior-year restatement and other	(25,742)	(1)
Generated during the year	86,411	960
Applied during the year	(117,056)	(3,478)
Change in deferred tax assets and liabilities applied to equity	(2,856)	(39,423)
Balance at 31 December 2017	**1,313,418**	**188,478**

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 2016 is due mainly to the allocation of the taxable merger difference arising from the share exchange and merger by absorption of Banco Grupo Cajatres (Note 25.3).

Below follows a breakdown of the Group's deferred tax assets and liabilities by type of temporary difference and tax credit:

	Thousands of euros			
	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Impairment of financial assets	698,830	688,400	1,444	2,246
Pension commitments and other provisions	70,186	81,833	-	-
Fixed assets	-	-	110,134	107,338
Foreclosed assets	31,596	17,647	-	-
Other adjustments	47,106	20,888	32,835	37,348
Total temporary differences with a balancing item in income statement	**847,718**	**808,768**	**144,413**	**146,932**
Temporary differences with a balancing item in equity	**10,767**	**13,623**	**44,065**	**83,488**
Tax credit for tax-loss carryforwards	447,855	541,887	-	-
Tax credit for deductions pending application	7,078	8,383	-	-
Total tax credits	**454,933**	**550,270**	**-**	**-**
	1,313,418	**1,372,661**	**188,478**	**230,420**

Below follows a breakdown of income tax relating to each item included in the statement of recognised income and expense:

	Thousands of euros	
	2017	**2016**
Actuarial losses and gains on defined benefit pension plans	(4,350)	1,396
Items that will not be reclassified to profit or loss	**(4,350)**	**1,396**
Available-for-sale financial assets	40,416	(20,204)
Valuation gains/(losses)	2,851	(64,172)
Amounts transferred to income statement	37,565	43,968
Reversal of deferred tax liabilities	-	-
Cash flow hedges	501	-
Other recognised income and expenses	-	-
Items that may be reclassified to profit or loss	**40,917**	**(20,204)**
	36,567	**(18,808)**

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 those 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 of 2 December on tax measures to consolidate public finances and other urgent social measures, which was published on 3 December 2016, introduced a number of amendments into Law 27/2014 on Corporate Income Tax.

The following amendments should be noted:

<u>With effect for tax periods beginning on or after 1 January 2016</u>

- 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.

<u>With effect for tax periods beginning on or after 1 January 2017</u>

- 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 2017, the net amount of deferred tax assets and liabilities related to temporary differences amounted to 670,007 million euros (591,971 million euros at 31 December 2016). 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. As of 31 December 2017, deferred tax assets amounted to 661 million euros (647 million euros at 31 December 2016).

In addition, at 31 December 2017 there are deferred tax assets for tax-loss carryforwards and for unused tax credits amounting to 454,933 million euros (550,270 million euros at 31 December 2016). 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 2017, sufficient future taxable profits will be generated to enable the recovery of these deferred tax assets and therefore the Company 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 Company.

According to the business plan estimates referred to above, in 2017 the estimated period for recovering these deferred tax assets is no more than 15 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 2017 and 2016 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):

	Thousands of euros				
	2017				
	Total balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash and cash balances at central banks and other demand deposits	3,512,477	3,512,477	-	3,512,477	-
Financial assets held for trading	9,378	9,378	304	7,800	1,274
Financial assets at fair value through profit or loss	52,247	52,247	52,247	-	-
Available-for-sale financial assets	10,849,926	10,773,801	10,230,424	386,014	157,363
Loans and receivables	35,019,799	37,653,858	-	3,870,038	33,783,820
Held-to-maturity investments	-	-	-	-	-
Of which: Sovereign risk	-	-	-	-	-
Derivatives - Hedge accounting	187,456	187,456	-	187,456	-
Total financial assets	**49,631,283**	**52,189,217**	**10,282,975**	**7,963,785**	**33,942,457**
Financial liabilities held for trading	7,301	7,301	-	4,843	2,458
Financial liabilities at amortised cost	42,270,895	42,449,778	-	42,449,778	-
Derivatives - Hedge accounting	106,702	106,702	-	106,702	-
Total financial liabilities	**42,384,898**	**42,563,781**	**-**	**42,561,323**	**2,458**

	Thousands of euros				
	2016				
	Total balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash and 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*	-
Derivatives - Hedge accounting	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	-
Derivatives - Hedge accounting	176,172	176,172	-	176,172	-
Total financial liabilities	**46,560,162**	**47,144,627**	**-**	**47,137,716**	**6,911**

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 or 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 of 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 €76,125 thousand at 31 December 2017 (€99,935 thousand 31 December 2016). 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 1.06% 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 Group 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 2017 and 2016 there were no financial instruments no longer measured using level 2 and 3 criteria and which have been measured with level 1 criteria.

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:

	Thousands of euros	
	2017	**2016**
Level 1	572	237
Level 2	2,827	15,719
Level 3	(317)	377
	3,082	**16,333**

Set out below in the fair value hierarchy of Level 3 fair value, there is a reconciliation of opening balances to closing balances, separately revealing changes during the year attributable to the following:

	Thousands of euros		
	Financial assets held for trading	**Available-for-sale financial assets**	**Financial liabilities held for trading**
Balance at 1 January 2016	**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**
Profit/(loss) recognised in the income statement and/or statement of recognised income and expense	(409)	5,318	(659)
Purchases	387	-	355
Sales	-	(7,037)	-
Issues	-	-	-
Settlements and maturities	(4,151)	-	(4,149)
Transfers from or to Level 3 in or outside the portfolios described	-	-	-
Balance at 31 December 2017	**1,274**	**157,363**	**2,458**

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 Company 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 forecasts to 2021, a residual value being calculated for the remaining period taking into account a distributable cash flow of €84 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, at a rate of 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 Company 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 2017 and 2016 in accordance with the maximum risk assumed by the Group:

	Thousands of euros	
	2017	**2016**
Guarantees and other sureties	**714,262**	**607,267**
Financial guarantees	92,717	82,613
Guarantees and other sureties	621,545	524,654
Irrevocable letters of credit	**28,331**	**31,978**
Irrevocable documents issued	28,331	31,978
Irrevocable documents confirmed	-	-
Assets associated with third-party obligations	**234**	**929**
	742,827	**640,174**

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 headings “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 heading “Provisions - Commitments and guarantees given” in the balance sheet (Note 21).

At 31 December 2017 and 2016, the Group had not identified any contingent liability.

27.2 Assets loaned or pledged

The breakdown of these assets is as follows:

	Thousands of euros	
	2017	2016
Securitised assets (net of valuation adjustments)	3,402,205	3,754,363
Assets under repos	1,178,963	4,064,566
Assets associated with Bank of Spain policy (*)	2,870,741	3,143,415
Other	97,675	204,296
	7,549,584	**11,166,640**

(*) There is an additional 5,566,763 million euros (4,446,659 million euros in 2016) 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.

27.3 Contingent commitments

At 31 December 2017 and 2016, the limits on financing contracts granted and the undrawn balances were as follows:

	Thousands of euros			
	2017		2016	
	Limit granted	Undrawn balance	Limit granted	Undrawn balance
Drawable by third parties	**5,734,077**	**2,951,517**	**6,145,988**	**2,950,250**
Available immediately	2,727,383	2,061,324	3,146,477	2,179,479
Available subject to conditions	3,006,694	890,193	2,999,511	770,771
Securities subscribed pending disbursement	**-**	**3,544**	**-**	**4,129**
Documents in clearing houses	**-**	**133,643**	**-**	**236,405**
	5,734,077	**3,088,704**	**6,145,988**	**3,190,784**

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 2017 and 2016 are indicated in the following table:

	Thousands of euros	
	2017	2016
Collective Investment Institutions	13,308,470	11,387,297
Pension funds	5,202,212	4,977,723
Insurance products	148,058	160,671
Discretionary portfolio management (*)	6,987,667	5,190,959
	25,646,407	**21,716,650**
Of which: managed by the Group	25,126,384	21,188,367

(*) Mainly includes discretionary managed Collective Investment Institutions.

Set out below is a breakdown of the securities deposited by third parties with the Group at 31 December 2017 and 2016:

	Thousands of euros	
	2017	2016
Fixed Income	7,882,302	7,765,362
Equity	5,165,006	5,060,850
	13,047,308	**12,826,212**

27.5 Securitisation of assets

The Group performed an operation to securitise assets before 1 January 2004, which were derecognised from the consolidated balance sheet (Note 2.8). Securitised assets outstanding at 31 December 2017 and 2016 are analysed below:

	Thousands of euros	
	2017	2016
Assets transferred to TDA Ibercaja 1, FTA in 2003	75,714	90,948
	75,714	**90,948**

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 Company 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:

	Thousands of euros	
	2017	2016
Assets transferred to TDA Ibercaja 2, FTA in 2005	219,017	251,227
Assets transferred to TDA Ibercaja 3, FTA in 2006	294,806	329,527
Assets transferred to TDA Ibercaja 4, FTA in 2006	446,348	497,684
Assets transferred to TDA Ibercaja 5, FTA in 2007	446,462	494,336
Assets transferred to TDA Ibercaja 6, FTA in 2008	675,234	737,523
Assets transferred to TDA Ibercaja ICO-FTVPO, FTH in 2009	164,139	192,015
Assets transferred to TDA Ibercaja 7, FTA in 2009	1,183,089	1,277,709
	3,429,095	**3,780,021**

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 2017 and 2016, which are backed by the transferred assets mentioned above, is as follows:

	Thousands of euros	
	2017	2016
Liabilities issued by TDA Ibercaja 2, FTA in 2005	217,257	240,274
Liabilities issued by TDA Ibercaja 3, FTA in 2006	287,418	309,095
Liabilities issued by TDA Ibercaja 4, FTA in 2006	436,151	476,585
Liabilities issued by TDA Ibercaja 5, FTA in 2007	425,546	466,776
Liabilities issued by TDA Ibercaja 6, FTA in 2008	655,720	702,860
Liabilities issued by TDA Ibercaja ICO-FTVPO, FTH in 2009	159,625	184,718
Liabilities issued by TDA Ibercaja 7, FTA in 2009	1,083,709	1,158,244
	3,265,426	**3,538,552**

27.6 Assets received under guarantees

Assets received under guarantees at 31 December 2017 amount to €11,398 thousand (€10,198 thousand at 31 December 2016).

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 2017, the gross investment totals €398,342 thousand (€325,809 thousand at 31 December 2016).
- 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) at 31 December 2017 is €93,000 thousand within one year, €202,926 thousand in one to five years and €30,904 after more than five years.
- Unaccrued financial income totals €23,630 thousand in 2017 (€21,831 thousand in 2016).
- The residual value of these leases amounts to €27,526 thousand at 31 December 2017 (€16,746 thousand at 31 December 2016).
- Impairment adjustments to finance leases amount to €9,983 thousand at 31 December 2017 (€9,257 thousand at 31 December 2016).

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 2017, there are 100 leases in force (56 concluded in 2012, 26 in 2013 and 18 in 2014) which were entered into at the same time as 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 €3,009 thousand within one year, €12,305 thousand within one to five years and €16,817 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 2017 totals €24,192 thousand (€23,514 thousand in 2016).

Refurbishing expenses and capital investment relating to leased assets for which the Group is the lessee, net of depreciation, total €46,356 thousand at 31 December 2017 (€49,145 thousand at 31 December 2016).

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 2017 and 2016, 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 of its activities are not examined on an independent 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 activity 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.

	Thousands of euros			
	Ordinary revenue from third-party customers		**Gross margin excl. gains on financial assets and liabilities**	
	2017	**2016**	**2017**	**2016**
Banking	1,184,414	1,205,573	894,301	838,924
Insurance	1,358,668	1,596,901	119,481	119,884
Other	5,284	10,439	(2,092)	1,439
	2,548,366	**2,812,913**	**1,011,690**	**960,247**

28. Interest income

The breakdown of the balance under this consolidated income statement heading in 2017 and 2016, based on the financial instrument portfolios from which the income originates, is as follows:

	Thousands of euros	
	2017	**2016**
Financial assets held for trading	15	24
Financial assets at fair value through profit or loss	1,732	687
Available-for-sale financial assets	185,917	283,105
Loans and receivables	482,716	516,888
Held-to-maturity investments	41,656	56,859
Interest rate hedging derivatives	(39,839)	(47,001)
Other assets	755	217
Interest income from liabilities	23,031	22,088
	695,983	**832,867**

29. Interest expense

The breakdown of the balance under this consolidated income statement heading in 2017 and 2016, based on the financial instrument portfolios from which the income originates, is as follows:

	Thousands of euros	
	2017	**2016**
Financial liabilities at amortised cost	193,752	314,999
Interest rate hedging derivatives	(95,481)	(97,546)
Insurance contracts	26,299	45,229
Other liabilities	6,275	2,641
Interest expense from assets	3,982	341
	134,827	**265,664**

30. Income from dividends

The amount recorded under this heading relates in full to dividends from equity instruments in the available for sale assets portfolio amounting to €12,797 thousand at 31 December 2017 (€10,913 thousand at 31 December 2016).

31. Share of profit/(loss) of equity-accounted entities

Appendix II provides a breakdown of the balance under this consolidated income statement heading in 2017 and 2016 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 2017 and 2016, classified in accordance with the item generating the fees, is reflected in the following table:

	Thousands of euros	
	2017	**2016**
Contingent risk fees	8,508	7,511
Contingent commitment fees	4,086	3,685
Foreign currency exchange fees	317	307
Collection and payment services fees	112,325	113,699
Securities service fees	14,574	12,601
Non-bank financial product marketing fees	207,654	178,054
Other fees	32,503	33,911
	379,967	**349,768**

33. Fee and commission expenses

Expenses for fees accrued in 2017 and 2016, classified in accordance with the item generating the fees, are reflected in the following table:

	Thousands of euros	
	2017	**2016**
Fees and commissions assigned to other entities	6,426	6,085
Fees for securities transactions	2,030	1,873
Other fees	6,476	3,011
	14,932	**10,969**

34. Gains/(losses) on financial transactions

The breakdown of the balance under this consolidated income statement heading in 2017 and 2016, based on the financial instrument portfolios from which the balances originate, is as follows:

	Thousands of euros	
	2017	**2016**
Net gains or losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss.	**148,273**	**152,621**
Available-for-sale financial assets	125,217	146,559
Loans and receivables	(41,426)	4,440
Held-to-maturity investments	62,455	-
Financial liabilities at amortised cost	1,833	944
Other	194	678
Net gains/(losses) on financial assets and liabilities held for trading	**971**	**15,148**
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	**1,169**	**573**
Net gain/(loss) from hedge accounting	**2,111**	**1,185**
Adjustments to hedged instruments (fair value hedge)	14,101	182,982
Hedge derivative (fair value hedge)	(11,990)	(181,797)
	152,524	**169,527**

35. Exchange differences

This consolidated income statement heading is analysed below for 2017 and 2016:

	Thousands of euros	
	2017	2016
Translation into euro of monetary items denominated in foreign currency	1,612	(413)
Foreign currency trading	(278)	1,672
	1,334	**1,259**

No gain or loss was obtained on the cancellation of exchange differences recorded in equity, in accordance with the provisions of Note 2.5.3.

36. Other operating income

The breakdown of this heading in the income statements for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Income from investment property (Note 15.2)	11,298	11,628
Income from other operating leases	6,465	5,605
Sales and income from provision of services	11,415	16,644
Financial fees and commissions offsetting direct costs	11,291	10,387
Other items	115,168	73,948
	155,637	**118,212**

In December 2017, and with the intermediation of Ibercaja Banco, Ibercaja Gestión, S.G.I.I.C., S.A. (Ibercaja Gestión) and Ibercaja Pensión, E.G.F.P., S.A. (Ibercaja Pensión), an agreement was made with Cecabank, S.A. in which the latter would remain as depositary, until 31 December 2027, of 80% of the equity of the investment funds, SICAV funds and pension funds of the individual system managed by Ibercaja Gestión and Ibercaja Pensión, respectively, and with regard to the remaining 20%, Cecabank would remain as depositary until 31 December 2022.

As at 31 December 2017, the heading "Other items" mostly included the payment of €80 million, received by Ibercaja Banco for its role as intermediary, as well as the receipt of 18 million euros for the fulfilment of the business plan objectives established in the agreement signed with an insurance company in 2012, establishing a framework under which the company collaborates in the promotion, distribution and sale of general insurance of the aforementioned insurance company through the Ibercaja Banco network.

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 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. This transaction, amounting to €70 million, generated a capital gain of approximately the same amount (before taxes) that is recognised in "Other items" at 31 December 2016.

37. Other operating expenses

The breakdown of this heading in the income statements for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Operating expenses on investment properties (Note 15.2)	2,503	2,985
Contribution to National Resolution Fund (Note 1.8.1)	11,809	13,768
Contribution to Deposit Guarantee Fund (Note 1.8.2)	49,071	45,024
Other items	21,899	25,763
	85,282	**87,540**

At 31 December 2017, “Other items” includes the charge of €3,605 thousand (€6,120 thousand at 31 December 2016) for converting deferred tax assets into debt claims against the Spanish tax administration (Note 25.4).

38. Staff costs

This consolidated income statement heading is analysed below for 2017 and 2016:

	Thousands of euros	
	2017	2016
Wages and salaries	292,109	288,453
Social security contributions	71,627	71,403
Contributions to pension funds and insurance policies	20,208	19,527
Severance payments	71,860	2,704
Other staff costs	2,784	2,871
	458,588	**384,958**

In May, the Management of Ibercaja and to the representatives of the employees, as part of redundancy programme, reached an agreement in which 590 employees may opt for voluntary redundancy due to age of the closure of the work centre.

The exit of up to a maximum of 65% of these employees has occurred gradually up until December 2017. The remainder of the redundancies, up to the maximum number indicated, shall take place during the first six months of 2018, depending on business requirements and in accordance with the evolution of the restructuring process, subject to the approval of the governing bodies at that time.

This plan has incurred staff costs of €71,860 thousand in the income statement for 2017, with a balancing entry under "provisions" on the liability side of the balance sheet (Note 21).

38.1 Number of employees

The distribution by category and gender of the Group's employees at 31 December 2017 and 2016 is as follows:

	31/12/2017		31/12/2016	
	Men	Women	Men	Women
GR. 1 Senior Management	9	3	9	3
GR. 1 Levels I to V	1,426	696	1,516	692
GR. 1 Levels VI to X	1,310	1,611	1,366	1,641
GR. 1 Levels XI to VIII	198	298	272	355
GR. 2 and Cleaning service	26	4	35	6
	2,969	**2,612**	**3,198**	**2,697**

At 31 December 2017 and 2016, the entire workforce is based in Spain.

The average number of Group employees in 2017 and 2016 is as follows:

	2017	2016
GR 1 Senior Management	12	12
GR. 1 Levels I to V	2,234	2,195
GR. 1 Levels VI to X	3,024	2,995
GR. 1 Levels XI to VIII	587	760
GR. 2 and Cleaning service	35	40
	5,892	**6,002**

At 31 December 2017, the average number of Group employees with a disability of 33% or more is 44 (54 employees at 31 December 2016).

38.2 Staff costs - post-employment benefits

Net figures recognised in the balance sheet for defined benefit post-employment plans at 31 December 2017 and 2016 are as follows:

	Thousands of euros	
	2017	2016
Present value of obligations financed	(264,016)	(294,053)
Fair value of plan assets	253,395	270,289
(Shortfall)/Surplus	**(10,621)**	**(23,764)**
Impact of limit on assets	(386)	(235)
Net asset (liability) on balance sheet:	**(11,007)**	**(23,999)**
Assets linked to pensions (*)	105,483	112,416
Net pension assets (**)	4,261	3,405
Net pension (provision)	(120,751)	(139,820)

(*) 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 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Initial value of obligations financed	**(294,053)**	**(301,251)**
Cost of services for the current year	(2,829)	(3,069)
Interest expense	(664)	(2,200)
Past service cost	-	-
Gains/(losses) on plan settlements and reductions	-	-
Recalculation of values:		
Gains/(losses) on changes in demographic assumptions	-	-
Gains/(losses) on changes in financial assumptions	17,190	(2,186)
Gains/(losses) due to experience	(2,923)	(8,078)
Benefits paid	19,263	22,731
Transfers and other	-	-
Final present value of obligations	**(264,016)**	**(294,053)**

The reconciliation of opening and closing balances reflecting the present value of post-employment defined benefit plan assets during 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Initial fair value of plan assets	**270,054**	**283,805**
Interest income	675	2,323
Gains/(losses) on plan settlements and reductions	-	-
Recalculation of values:		
Yield on plan assets excluding interest (expense)/income	-	-
Gains/(losses) on changes in financial assumptions	(4,806)	(1,834)
Gains/(losses) due to experience	5,189	5,628
Change in asset limit, excluding interest expense	(149)	1,818
Employer contributions	991	725
Member contributions	-	-
Benefits paid	(18,945)	(22,411)
Transfers and other	-	-
Final fair value of plan assets	**253,009**	**270,054**

The breakdown of the main types of plan assets at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Shares	10.96%	8.43%
Debt instruments	51.64%	53.63%
Constructions	-	-
Demand deposits	37.40%	37.94%
Other assets	-	-
Total	**100.00%**	**100.00%**

The analysis of the expected termination of non-discounted post-employment benefits in the coming 10 years is as follows:

	Thousands of euros					
	2018	2019	2020	2021	2022	2023-2027
Probable post-employment benefits	18,919	18,427	17,897	17,365	16,768	73,836

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 detailed below:

	Change in bps	Increase in assumptions	Decrease in assumptions
Discount rate	50 bp	(4.96%)	5.45%
Pension increase rate	50 bp	5.12%	(4.86%)
Salary increase rate	50 bp	0.11%	(0.10%)

The sensitivity analysis relates to individual changes in each assumption while the remainder remain constant.

The value of the obligation and the fair value of the assets for the purposes of the post-employment defined benefit plan for the current year and the previous four are as follows:

	2017	2016	2015	2014	2013
Present value of obligations financed	(264,016)	(294,053)	(301,251)	(325,877)	(297,009)
Fair value of plan assets	253,395	270,289	283,805	288,036	299,488
Surplus/(Shortfall)	**(10,621)**	**(23,764)**	**(17,446)**	**(37,841)**	**2,479**
Impact of limit on assets	(386)	(235)	(2,058)	(2,041)	-
Net asset (liability) on balance sheet:	**(11,007)**	**(23,999)**	**(19,504)**	**(39,882)**	**2,479**
Insurance contracts related to pensions	105,483	112,416	114,827	119,569	124,285
Net pension assets	4,261	3,405	6,296	4,205	9,897
Net pension assets (Provision)	(120,751)	(139,820)	(140,627)	(163,656)	(131,703)

38.3 Staff costs - 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 2017 and 2016 are as follows:

	Thousands of euros	
	2017	2016
Present value of obligations financed	(3,863)	(4,999)
Fair value of plan assets	-	-
Net liability on balance sheet:	(3,863)	(4,999)
Assets linked to pensions	-	-
Net pension assets	-	-
Net pension (provision)	(3,863)	(4,999)

The reconciliation of opening and closing balances reflecting the present value of obligations under defined benefit plans for early retirees during 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Initial value of obligations financed	**(4,999)**	**(6,562)**
Cost of services for the current year	-	-
Interest expense	-	(37)
Past service cost	(295)	-
Gains/(losses) on plan settlements and reductions	-	-
Recalculation of values:	-	-
Gains/(losses) on changes in demographic assumptions	-	-
Gains/(losses) on changes in financial assumptions	(2)	(14)
Gains/(losses) due to experience	(178)	(193)
Benefits paid	1,611	1,807
Transfers	-	-
Final present value of obligations	**(3,863)**	**(4,999)**

The analysis of the expected termination of other non-discounted long-term employee remuneration in the coming 10 years is as follows:

	Thousands of euros					
	2018	2019	2020	2021	2022	2023-2027
Probable long-term staff obligations	1,340	1,303	922	300	-	-

Changes in the main assumptions will give rise to changes in the calculation of the obligations. The sensitivity of the obligations due to other long-term early retiree remuneration in the event of changes in the main assumptions is detailed below:

	Change in bps	Increase in assumptions	Decrease in assumptions
Discount rate	50 bp	(0.78%)	0.80%
Pension increase rate	50 bp	1.02%	(1.01%)

The sensitivity analysis relates to individual changes in each assumption while the remainder remain constant.

39. Other administration expenses

This consolidated income statement heading is analysed below for 2017 and 2016:

	Thousands of euros	
	2017	**2016**
Buildings, installations and office equipment	47,880	49,572
Equipment maintenance, licences, works and computer software	17,113	16,743
Communications	18,253	18,852
Advertising and publicity	7,384	9,043
Charges and taxes	23,573	25,037
Other management and administration expenses	95,403	95,653
	209,606	**214,900**

The item "Charges and taxes" includes the Tax on Deposits in Credit Institutions amounting to €9,211 thousand at 31 December 2017 (€9,249 thousand in 2016).

- Other information

Fees payable to PricewaterhouseCoopers Auditores, S.L. for auditing the 2017 annual accounts of Ibercaja Bank and its group companies (including securitisation funds) amount to €878 thousand (€690 thousand in 2016). In addition, the audit firm received fees amounting to €323 thousand (€371 thousand in 2016) for other audit work and €269 thousand (€59 thousand in 2016) for other services.

The main services provided to the Group by type are detailed below:

- Advice on the degree of suitability of certain regulatory requirements detailed in the supervising Guidelines.
- Annual auditor's report on Customer Asset Protection.
- Auditor's report on information related to the Internal Control over Financial Reporting (ICFR) system.
- Audit reports on the Balance Sheet.
- Special Report on the Review of the Report on the Financial Situation and Solvency of insurance companies.
- Limited quarterly reviews of the consolidated income statement.
- Limited review of the biannual financial statements.
- Verification of the Prudential Relevance Report.
- Verification of the Corporate Social Responsibility Report.

In 2017 no services have been provided by other companies that use the PricewaterhouseCoopers brand (the amount of fees for other services total €11,000 in 2016, not including the same fiscal advisory services).

40. Impairment and reversal of impairment in non-financial assets

This consolidated income statement heading is analysed below for 2017 and 2016:

	Thousands of euros	
	2017	**2016**
Tangible assets	**(2,375)**	**(728)**
Property, plant and equipment	1,649	1,240
Investment property	(4,024)	(1,968)
Intangible assets	**-**	**189**
Goodwill	-	-
Other intangible assets	-	189
Other	**18,450**	**3,680**
	16,075	**3,141**

41. Net gains/(losses) on non-financial assets and shareholdings

This consolidated income statement heading is analysed below for 2017 and 2016:

	Thousands of euros	
	2017	**2016**
Gains (losses) on disposal of assets not classified as non-current assets held for sale	1,290	(578)
Gains/(losses) on disposal of shareholdings	6,858	6,070
Other gains/(losses)	(80)	(160)
	8,068	**5,332**

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 heading is analysed below for 2017 and 2016:

	Thousands of euros	
	2017	**2016**
Impairment gains/(losses) on other non-current assets for sale	(65,213)	(23,313)
Gains/(losses) on disposal of other non-current assets for sale	(6,573)	1,005
	(71,786)	**(22,308)**

43. Related parties

The balances recorded on the consolidated balance sheets at 31 December 2017 and 2016 and in the consolidated income statements for 2017 and 2016 are as follows:

	Thousands of euros									
	2017					2016				
	Shareholder	Associates	Jointly cont. entities	Other related parties (*)	Related individuals (**)	Shareholder	Associates	Jointly cont. entities	Other related parties (*)	Related individuals (**)
ASSETS										
Loans and receivables	263,172	15,935	10,019	-	9,149	309,288	21,213	18,013	-	11,227
Counterparties under insurance contracts	-	-	-	-	-	-	-	-	-	-
LIABILITIES										
Deposits	272,406	20,712	1,991	342,055	17,171	301,332	23,534	572	583,497	18,585
Liabilities under insurance contracts linked to pensions	-	-	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-	-	-
PROFIT / (LOSS)										
Expenses										
Interest cost	204	10	3	284	16	293	24	1	3,075	50
Fees, commissions and other expenses	914	-	-	-	1	926	-	-	-	1
Income										
Interest income	1	65	159	-	94	3	74	490	-	165
Fees, commissions and other income	369	1	-	-	7	361	1	-	-	3
Dividends	35,725	-	-	-	-	20,000	-	-	-	-
OTHER										
Contingent liabilities	5	11,593	200	-	392	-	13,307	-	-	394
Commitments	-	268	6,424	-	418	-	586	6,279	-	825

(*) 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 disclosure requirements

44.1 Information on the mortgage market

In accordance with Royal Decree 716/2009, of 24 April, whereby certain aspects of Law 2/1981, of 25 March, governing the mortgage market and other rules on the financial mortgage system were developed, and Bank of Spain Circular 3/2010, of 29 June, the Board of Directors approved the "Loan and discount risk management policy and procedure manual" drawn up by the Company 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 Company'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 2017, the figure was 42.36% (36.93% at 31 December 2016).

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 236.09% at 31 December 2017 (270.75% at 31 December 2016).

At that date 99.35% of transactions in the mortgage portfolio have been formalised through loans (99.28% at 31 December 2016). Of these, instalments are collected on a monthly basis for 96.77% (95.86% at 31 December 2016). The operations formalised at variable interest rates are 99.52% of the total (99.50% at 31 December 2016) and of these, 84.05% are tied to Euribor (84.78% at 31 December 2016).

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):

	Thousands of euros	
	Nominal value	
	2017	2016
Total loans	**25,608,203**	**26,884,783**
Mortgage participations issued	**1,521,181**	**1,712,758**
Of which: loans recognised on asset side of balance sheet	1,471,143	1,651,995
Mortgage transfer certificates issued	**1,983,627**	**2,158,213**
Of which: loans recognised on asset side of balance sheet	1,957,952	2,128,028
Mortgage loans pledged in guarantee for financing received	-	-
Loans backing mortgage bonds issues and covered bond issues	**22,103,395**	**23,013,812**
Non-eligible loans	4,713,590	5,328,508
Fulfil requirements to be eligible except for limit under Article 5.1 of Royal Decree 716/2009	3,936,299	4,404,620
Other non-eligible loans	777,291	923,888
Eligible loans	17,389,805	17,685,304
Loans backing mortgage bond issues	-	-
Loans suitable for backing mortgage bond issues	17,389,805	17,685,304
Non-computable amounts	52,787	50,271
Computable amounts	17,337,018	17,635,033
Memorandum items	**Updated value**	
Loans backing mortgage bond issues	-	-

Note 3.1.4 sets out the carrying amount of mortgage backed loans and its reconciliation with mortgage market information.

- Information on eligible loans and mortgages:

	Thousands of euros				
	2017				
	Loan to value (LTV) ratio				
	Less than or equal to 40%	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80%**	**Total**
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					**17,389,805**
Residential	4,307,725	6,455,014	5,177,090	11,150	15,950,979
Other properties	771,195	585,757	81,874		1,438,826

	Thousands of euros				
	2016				
	Loan to value (LTV) ratio				
	Less than or equal to 40%	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80%**	**Total**
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					**17,685,304**
Residential	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

- Information concerning the issue of mortgage covered bonds. breakdown of mortgage loans pending repayment:

	Thousands of euros			
	2017		2016	
	Loans backing mortgage bonds issues and covered bond issues	Of which: Eligible loans	Loans backing mortgage bonds issues and covered bond issues	Of which: Eligible loans
Total	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Origin of operations	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Originated by the Entity	14,530,219	10,830,569	14,900,375	10,724,219
Subrogated from other entities	488,539	474,913	529,256	509,319
Other	7,084,637	6,084,323	7,584,181	6,451,766
Currency	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Euro	22,100,970	17,389,805	23,010,867	17,685,304
Other currencies	2,425	-	2,945	-
Payment status	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Payment normality	20,053,610	16,743,051	20,513,607	16,920,496
Other situations	2,049,785	646,754	2,500,205	764,808
Average residual period to maturity	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Up to 10 years	3,682,877	2,175,527	3,922,135	2,128,481
More than 10 years and up to 20 years	7,665,958	6,333,859	7,693,326	6,292,333
More than 20 years and up to 30 years	8,610,033	7,087,321	8,481,908	6,915,172
More than 30 years	2,144,527	1,793,098	2,916,443	2,349,318
Interest rate	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Fixed interest rate	286,707	62,787	307,197	60,197
Variable interest rate	20,217,876	16,013,490	21,310,330	16,578,510
Mixed interest rate	1,598,812	1,313,528	1,396,285	1,046,597
Holders	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Legal entities and individual entrepreneurs (business activities)	4,285,738	2,186,413	4,812,063	2,261,034
Of which: real estate construction and development (including land)	*1,919,102*	*740,435*	*2,257,712*	*776,828*
Other households	*17,817,657*	*15,203,392*	18,201,749	15,424,270
Type of collateral	**22,103,395**	**17,389,805**	**23,013,812**	**17,685,304**
Finished assets/buildings	20,183,286	16,735,659	21,111,646	17,162,560
Homes	18,815,831	15,834,020	19,966,381	16,412,581
of which: state-subsidised housing	*1,748,549*	*1,640,273*	*1,939,514*	*1,832,887*
Offices and commercial premises	531,319	352,133	587,786	385,362
Other buildings and constructions	836,136	549,506	557,479	364,617
Assets/buildings under construction	850,369	426,484	592,835	271,334
Homes	837,639	419,124	219,685	37,207
of which: state-subsidised housing	*2,500*	*1,562*	*3,808*	*2,724*
Offices and commercial premises	795	345	1,531	-
Other buildings and constructions	11,935	7,015	371,619	234,127
Land	1,069,740	227,662	1,309,331	251,410
Consolidated urban land	713,828	12,248	917,413	13,473
Other land	355,912	215,414	391,918	237,937

- Nominal value of mortgage covered bonds issued by the Company:

	Thousands of euros	
	Nominal value	
	2017	2016
Mortgage covered bonds (Note 19.4)	**4,650,000**	**3,150,000**
Ibercaja April II 2010	100,000	100,000
Ibercaja December 2011	1,000,000	1,000,000
Ibercaja March 2012 II	750,000	750,000
Ibercaja September 2012	800,000	800,000
Ibercaja October 2023	500,000	500,000
Ibercaja September 2017 I	750,000	-
Ibercaja September 2017 II	750,000	-
AYT mortgage covered bonds (Note 19.3)	**1,593,384**	**1,863,384**
AYT 5 Single Covered Bond (15 years)	101,613	101,613
AYT 8 Single Covered Bond (15 years)	104,634	104,634
AYT 9 Single Covered Bond (15 years)	216,667	216,667
AYT 10 Single Covered Bond (20 years)	341,026	341,026
AYT Global 2021 Single Covered Bond	225,000	225,000
AYT Global 2017 Single Covered Bond	-	150,000
AYT Global 2018 Single Covered Bond	270,000	270,000
AYT Global 2022 Single Covered Bond Series III	19,444	19,444
AYT Cajas Global 2018 Covered Bond Series IV	50,000	50,000
AYT Cajas Global 2023 Covered Bond Series X	75,000	75,000
AYT Cajas Global 2027 Covered Bond Series XIII	165,000	165,000
AYT Cajas Global 2019 Covered Bond Series XIV	25,000	25,000
AYT Cajas Global 2017 Covered Bond Series XVI	-	120,000
TDA mortgage covered bonds (Note 19.3)	**1,100,000**	**1,500,000**
TDA 5 Single Covered Bond	300,000	300,000
TDA 6 Single Covered Bond	250,000	250,000
TDA 7 Single Covered Bond	-	400,000
TDA 6 Single Covered Bond (Extension)	250,000	250,000
TDA Single Covered Bond Series A4	300,000	300,000

- Information on the residual maturity of mortgage market securities:

	Thousands of euros			
	2017		2016	
	Nominal value	**Average res. mat. (months)**	**Nominal value**	**Average res. mat. (months)**
Mortgage bonds issued	-	-	**-**	**-**
Of which: recognised under liabilities	-	-	-	-
Mortgage covered bonds issued	**7,343,384**	**-**	**6,513,384**	**-**
of which: recognised under liabilities	*3,293,384*	-	*3,963,384*	-
Debt securities. Issued through public offering	-	-	-	-
Debt securities. Other issues	4,650,000	-	3,150,000	-
Residual maturity up to one year	1,000,000	-	-	-
Residual maturity greater than one year and up to two years	1,550,000	-	1,000,000	-
Residual maturity greater than two years and up to three years	600,000	-	1,550,000	-
Residual maturity greater than three years and up to five years	750,000	-	600,000	-
Residual maturity greater than five years and up to ten years	750,000	-	-	-
Residual maturity greater than ten years	-	-	-	-
Deposits	2,693,384	-	3,363,384	-
Residual maturity up to one year	421,613	-	670,000	-
Residual maturity greater than one year and up to two years	429,634	-	421,613	-
Residual maturity greater than two years and up to three years	216,667	-	429,634	-
Residual maturity greater than three years and up to five years	544,444	-	741,667	-
Residual maturity greater than five years and up to ten years	1,081,026	-	935,470	-
Residual maturity greater than ten years	-	-	165,000	-
Mortgage participations issued	**1,471,143**	**101**	**1,651,995**	**104**
Issued through public offering	-	-	-	-
Other issues	1,471,143	101	1,651,995	104
Mortgage transfer certificates issued	**1,957,952**	**117**	**2,128,028**	**120**
Issued through public offering	-	-	-	-
Other issues	1,957,952	117	2,128,028	120

None of the issues has been made through a public offering and all are denominated in euros. The Company does not issue mortgage bonds and nor does it have replacement assets assigned to them.

- Information on mortgage loans backing the issue of mortgage bonds (bonos hipotectarios) and secured mortgage covered bonds (cédulas hipotecarias) (eligible and non-eligible):

	Thousands of euros			
	2017		2016	
	Eligible loans	**Non-eligible loans**	**Eligible loans**	**Non-eligible loans**
Opening balance	**17,685,304**	**5,328,508**	**18,045,952**	**5,803,141**
Write-offs in the year	**1,586,686**	**948,106**	**1,466,258**	**815,551**
Due principal received in cash	1,084,381	509,090	1,113,840	662,526
Repaid early	300,870	136,292	255,052	76,014
Subrogated by other entities	4,488	666	8,944	403
Other write-offs	196,947	302,058	88,422	76,608
Additions in the year	**1,291,187**	**333,188**	**1,105,610**	**340,918**
Originated by the Entity	1,063,971	283,460	866,763	263,404
Subrogated from other entities	12,262	359	19,234	889
Other additions	214,954	49,369	219,613	76,625
Closing balance	**17,389,805**	**4,713,590**	**17,685,304**	**5,328,508**

- Information on mortgage loans backing the issue of mortgage bonds (bonos hipotectarios) and secured mortgage covered bonds (cédulas hipotecarias). Available balances:

	Thousands of euros	
	2017	2016
Total	**166,929**	**146,102**
Potentially eligible	128,456	100,552
Non-eligible	38,473	45,550

At 31 December 2017 and 2016, the Company had no replacement assets in connection with issues of secured mortgage covered bonds and mortgage bonds.

44.2 Customer service

Within the framework of the protection measures intended for customers of financial institutions enshrined in Act 44 of 22 November 2002, on measures to reform the financial system and with the double objective of preserving and improving customer trust, the Board of Directors of Ibercaja Banco, S.A., at a meeting held on 22 September 2011, approved the Customer Defence Regulations governing the activity of the Ibercaja Group's Customer Service. The aim of these regulations is to address and resolve complaints and grievances relating to their interests and legally recognised rights concerning transactions, contracts or financial services rendered by Group companies.

These Regulations can be viewed at any Ibercaja Group branch and on the website www.ibercaja.es. Users can also visit any branch or access the website to lodge complaints or claims and find out how to do so.

For the purposes of this report, the Ibercaja Group comprises Ibercaja Banco, S.A. and the following companies: Ibercaja Leasing y Financiación, S.A., Establecimiento Financiero de Crédito; 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 regulations and law just discussed, the Customer Service at the 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 reaching these decisions and the recommendations or suggestions made to improve the Group’s actions. A summary of this information is included below:

a) Claims processed

In 2017, the Customer Care Service (CCS) of the Ibercaja Group managed a total of 34,680 cases, which can be classified into three groups:

- Claims and grievances regarding mortgage arrangement costs and other clauses included in mortgage loan contracts: 25,939.
- Other claims, grievances and suggestions (4,731 claims, 2,008 grievances and 119 suggestions).
- A total of 1,803 requests relating to data protection (57 requesting the erasure of their personal data and 1,746 seeking to exercise other rights, such as blocking, rectification and access).

b) Special out-of-court procedure for resolving claims relating to floor clauses under the terms of Royal Legislative Decree 1 of 20 January 2017

Pursuant to Additional Provision One of Royal Decree-Law 1 of 20 January 2017, on urgent measures to protect consumers in connection with floor clauses, a new unit was set up on 10 February 2017 through the Customer Care Service (CCS) and is tasked with resolving this particular type of claim. This service is voluntary for consumer borrowers but obligatory for institutions. Consumer customers that pursue proceedings through the courts without first exhausting this internal procedure forfeit their right to have their legal costs covered if Ibercaja agrees to settle their claim before replying to the lawsuit. The maximum term for resolving this type of claim is three months and ends if the consumer's request is expressly rejected; if the three-month term ends without any response to the claimant consumer; if the consumer disagrees with the calculation of the amount to be returned or refuses the amount offered; or if, once the three-month term has run its course, the amount being offered has not been effectively made available to the consumer. A total of 14,259 claims were processed in 2017 under the framework of this Royal Decree-Law.

The average term for resolving complaints and claims in 2017 was 28 days for the CCS and some 54 days for the special floor clause service. Both terms are within the legal limit (two months, as per the terms of Order ECO 734 of 11 March 2004 and of Ibercaja's own Regulations on the Defence of Consumers; and three months as per the terms of Royal Decree-Law 1 of 20 January 2017).

General criteria contained in the decisions

The decisions have been issued with the utmost regard for good corporate governance and banking practices, transparency and consumer protection, taking into account the views formally expressed by customers and the reports issued by the branches, departments and Group companies concerned. Moreover, all decisions were reached on the basis of the contractual documents signed with the customers.

45. Financial statements of Ibercaja Banco, S.A. for the years ended 31 December 2017 and 2016

Set out below are the balance sheets at 31 December 2017 and 2016, together with the income statements, statements of recognised income and expense, total statements of changes in equity and statements of cash flow of the parent entity for the years ended 31 December 2017 and 2016, all such statements drawn up in accordance with Bank of Spain Circular 4/2004, as discussed in Note 1.2 to the individual annual accounts of Ibercaja Banco at 31 December 2017.

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Thousands of euros)

ASSETS	31/12/2017	31/12/2016 (*)
Cash and cash balances at central banks and other demand deposits	**3,308,717**	**793,859**
Financial assets held for trading	**9,378**	**32,022**
Derivatives	9,054	31,333
Debt securities	324	689
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	-	-
Financial assets at fair value through profit or loss	**-**	**-**
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	-	-
Available-for-sale financial assets	**4,752,989**	**5,320,318**
Equity instruments	320,239	412,618
Debt securities	4,432,750	4,907,700
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	*2,825,533*	*2,865,272*
Loans and receivables	**35,353,321**	**36,368,239**
Debt securities	2,094,340	2,355,303
Loans and advances	33,258,981	34,012,936
Credit institutions	*338,073*	*294,002*
Customers	*32,920,908*	*33,718,934*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	*5,399,359*	*6,064,814*
Held-to-maturity investments	**-**	**4,545,574**
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	-	*2,520,964*
Derivatives - Hedge accounting	**185,552**	**284,009**
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**-**	**-**
Investments in subsidiaries, joint ventures and associates	**753,792**	**814,437**
Group companies	653,573	700,139
Jointly-controlled entities	38,226	38,357
Associates	61,993	75,941
Tangible assets	**788,358**	**835,231**
Property, plant and equipment	513,411	532,402
For own use	*513,411*	*532,402*
Assigned under operating lease	-	-
Investment property	274,947	302,829
of which: assigned under operating lease	*104,761*	*134,681*
Memorandum items: acquired under finance lease	-	-
Intangible assets	**131,225**	**142,653**
Goodwill	76,839	89,646
Other intangible assets	54,386	53,007
Tax assets	**1,405,771**	**1,406,977**
Current tax assets	6,094	6,673
Deferred tax assets	1,399,677	1,400,304
Other assets	**215,541**	**233,814**
Insurance contracts linked to pensions	104,690	115,720
Inventories	1,599	1,027
Other assets	109,252	117,067
Non-current assets and disposal groups classified as held for sale	**114,605**	**123,357**
TOTAL ASSETS	**47,019,249**	**50,900,490**

(*) Presented for comparison purposes only (Note 1.4).

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Thousands of euros)

LIABILITIES	31/12/2017	31/12/2016 (*)
Financial liabilities held for trading	**7,301**	**31,255**
Derivatives	7,301	31,255
Financial liabilities at fair value through profit or loss	**-**	**-**
Memorandum items: subordinated liabilities	-	-
Financial liabilities at amortised cost	**43,477,733**	**47,206,870**
Deposits	41,519,151	45,070,348
Central banks	*3,353,508*	*3,366,566*
Credit institutions	*1,228,568*	*3,113,344*
Customers	*36,937,075*	*38,590,438*
Debt securities issued	1,242,260	1,474,087
Other financial liabilities	716,322	662,435
Memorandum items: subordinated liabilities	*635,755*	*861,264*
Derivatives - Hedge accounting	**103,370**	**175,359**
Fair value changes of the hedged items in portfolio hedges of interest rate risk	**11,054**	**16,022**
Provisions	**365,713**	**399,219**
Pensions and other post-employment defined benefit obligations	108,033	119,855
Other long-term employee remuneration	3,863	4,999
Lawsuits and litigation for outstanding taxes	10,222	10,150
Commitments and guarantees given	31,724	35,577
Other provisions	211,871	228,638
Tax liabilities	**160,974**	**187,258**
Current tax liabilities	-	-
Deferred tax liabilities	160,974	187,258
Other liabilities	**154,925**	**156,208**
Liabilities included in disposal groups of items classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**44,281,070**	**48,172,191**

(*) Presented for comparison purposes only (Note 1.4).

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Thousands of euros)

EQUITY	31/12/2017	31/12/2016 (*)
Shareholders' equity	**2,624,629**	**2,558,498**
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	187,357	33,272
Revaluation reserves	2,327	2,327
Other reserves	190,981	188,814
(Treasury shares)	-	-
Profit/(loss) for the year	99,688	189,809
(Interim dividends)	-	-
Other accumulated comprehensive income	**113,550**	**169,801**
Items that will not be reclassified to profit or loss	5,188	5,146
Actuarial gains/(losses) on defined benefit pension plans	*5,188*	*5,146*
Non-current assets and disposal groups classified as held	-	-
for sale	-	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	108,362	164,655
Hedging of net investments in foreign transactions (effective portion)	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges (effective portion)	*(1,169)*	-
Available-for-sale financial assets	*109,531*	*164,655*
Debt instruments	*38,456*	*91,486*
Equity instruments	*71,075*	*73,169*
Non-current assets and disposal groups classified as held for sale	-	-
TOTAL EQUITY	**2,738,179**	**2,728,299**
TOTAL EQUITY AND LIABILITIES	**47,019,249**	**50,900,490**
Memorandum items: off-balance sheet exposures		
Guarantees granted	755,712	654,931
Contingent commitments granted	3,515,243	3,603,441

(*) Presented for comparison purposes only (Note 1.4).

IBERCAJA BANCO, S.A.

INCOME STATEMENTS FOR
THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

	2017	2016 (*)
Interest income	**565,617**	**699,472**
(Interest costs)	**129,150**	**249,555**
(Expenses on share capital repayable on demand)	**-**	**-**
NET INTEREST INCOME	**436,467**	**449,917**
Dividend income	**213,512**	**396,888**
Fee and commission income	**280,671**	**259,758**
(Fee and commission expenses)	**9,965**	**9,477**
Gains/(losses) on financial transactions (net)		
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	77,418	50,627
Gains/(losses) on financial assets and liabilities held for trading, net	1,036	15,587
Gains/(losses) on financial assets and liabilities at fair value through profit or loss, net	-	-
Gains/(losses) from hedge accounting, net	2,111	1,185
Net exchange differences	**1,334**	**1,259**
Other operating income	**104,888**	**37,299**
(Other operating expenses)	**75,720**	**77,621**
GROSS INCOME	**1,031,752**	**1,125,422**
(Administration expenses)	**625,449**	**554,238**
(Staff expenses)	444,556	367,281
(Other administration expenses)	180,893	186,957
(Amortisation and depreciation)	**54,255**	**55,075**
(Provisions or (-) reversal of provisions)	**(3,736)**	**98,826**
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	**167,372**	**276,746**
(Financial assets measured at cost)	11,770	12,051
(Available-for-sale financial assets)	468	6,033
(Loans and receivables)	155,140	258,656
(Held-to-maturity investments)	(6)	6
INCOME FROM OPERATING ACTIVITIES	**188,412**	**140,537**
(Impairment or (-) reversal of impairment on investments in subsidiaries, joint ventures and associates)	**89,273**	**30,289**
(Impairment or (-) reversal of impairment on non-financial assets)	**(4,041)**	**1,666**
(Tangible assets)	(4,046)	1,499
(Intangible assets)	-	-
(Other)	5	167
Gains/(losses) on derecognition of non-financial assets and shareholdings, net	**4,250**	**6,011**
of which: investments in subsidiaries, joint ventures and associates	*(6,485)*	*2,088*
Negative goodwill recognised in profit or loss	**-**	**-**
Gains/(losses) on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	**(2,393)**	**182**
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**105,037**	**114,775**
Expense or (-) income from taxes on income from continuing operations	**5,349**	**(75,034)**
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**99,688**	**189,809**
Profit/(loss) after tax from discontinued operations	**-**	**-**
PROFIT FOR THE YEAR	**99,688**	**189,809**

(*) Presented for comparison purposes only (Note 1.4).

IBERCAJA BANCO, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

	2017	2016 (*)
PROFIT FOR THE YEAR	**99,688**	**189,809**
OTHER COMPREHENSIVE INCOME	**(56,251)**	**50,031**
B.1) Items that will not be reclassified to profit or loss	**42**	**1,342**
Actuarial gains/(losses) on defined benefit pension plans	**60**	**1,918**
Non-current assets and disposal groups of items held for sale	**-**	**-**
Other valuation adjustments	**-**	**-**
Income tax relating to items not to be reclassified	**(18)**	**(576)**
B.2) Items that may be reclassified to profit or loss	**(56,293)**	**48,689**
Hedging of net investments 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)	**(1,670)**	**-**
Valuation gains/(losses) taken to equity	(1,670)	-
Transferred to the income statement	-	-
Transferred to initial carrying amount of hedge items		
Other reclassifications	-	-
Available-for-sale financial assets	**(81,260)**	**64,023**
Valuation gains/(losses) taken to equity	(26,377)	108,510
Transferred to the income statement	(54,883)	(44,487)
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	-	-
Income tax relating to items that may be reclassified profit or loss	**26,637**	**(15,334)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**43,437**	**239,840**

(*) Presented for comparison purposes only (Note 1.4).

IBERCAJA BANCO, S.A.

STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(Thousands of euros)

	Thousands of euros											
	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 dividends)**	**Other accumulated comprehensive income**	**Total**
I. Closing balance at 31/12/2016	**2,144,276**	**-**	**-**	**-**	**33,272**	**2,327**	**188,814**	**-**	**189,809**	**-**	**169,801**	**2,728,299**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**33,272**	**2,327**	**188,814**	**-**	**189,809**	**-**	**169,801**	**2,728,299**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**99,688**	**-**	**(56,251)**	**43,437**
Other changes in equity	**-**	**-**	**-**	**-**	**154,085**	**-**	**2,167**	-	**(189,809)**	-	**-**	**(33,557)**
Issuance of common 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)	-	-	-	-	(35,725)	-	-	-	-	-	-	(35,725)
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	-	-	-	-	189,809	-	-	-	(189,809)	-	-	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	2,167	-	-	-	-	2,167
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	1	-	-	-	-	-	-	1
III. Closing balance at 31/12/2017	**2,144,276**	-	-	-	**187,357**	**2,327**	**190,981**	-	**99,688**	**-**	**113,550**	**2,738,179**

IBERCAJA BANCO, S.A.

STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR

ENDED 31 DECEMBER 2016
(Thousands of euros)

	Thousands of euros											
	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 dividends)**	**Other accumulated comprehensive income**	**Total**
I. Closing 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 common 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. Closing balance at 31/12/2016	**2,144,276**	**-**	**-**	**-**	**33,272**	**2,327**	**188,814**	**-**	**189,809**	**-**	**169,801**	**2,728,299**

(*) Presented for comparison purposes only (Note 1.4).

IBERCAJA BANCO, S.A.

STATEMENTS OF CASH FLOWS FOR THE
THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

	2017	2016 (*)
H)CASH FLOWS FROM OPERATING ACTIVITIES	**(516,911)**	**(1,318,859)**
Profit/(loss) for the year	**99,688**	**189,809**
Adjustments to obtain cash flows from operating activities	**287,669**	**404,157**
Amortisation and depreciation	54,255	55,075
Other adjustments	233,414	349,082
Net increase/decrease in operating assets	**2,594,632**	**809,883**
Financial assets held for trading	22,644	7,847
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	1,752,708	751,206
Loans and receivables	692,894	(45,870)
Other operating assets	126,386	96,700
Net increase/(decrease) in operating liabilities	**(3,586,282)**	**(2,704,738)**
Financial liabilities held for trading	(23,954)	(4,715)
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(3,457,897)	(2,544,486)
Other operating liabilities	(104,431)	(155,537)
Income tax credit/(payments)	**87,382**	**(17,970)**
I) CASH FLOWS FROM INVESTING ACTIVITIES	**3,275,466**	**1,703,392**
Payments	**(57,252)**	**(56,764)**
Tangible assets	(15,460)	(17,420)
Intangible assets	(14,383)	(7,943)
Investments in subsidiaries, joint ventures and associates	-	(30,048)
Other business units	-	-
Non-current assets and liabilities classified as held for sale	(1,409)	(1,353)
Held-to-maturity investments	(26,000)	-
Other payments related to investing activities	-	-
Receipts	**3,332,718**	**1,760,156**
Tangible assets	46,332	14,317
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	11,732	9,801
Other business units	-	-
Non-current assets and liabilities classified as held for sale	21,476	23,635
Held-to-maturity investments	3,253,178	1,712,403
Other receipts related to investing activities	-	-
J) CASH FLOWS FROM FINANCING ACTIVITIES	**(260,349)**	**(209,369)**
Payments	**(260,349)**	**(209,369)**
Dividends	(35,725)	(20,000)
Subordinated liabilities	(224,624)	(189,369)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	-	-
Receipts	**-**	**-**
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other receipts related to financing activities	-	-
K)EFFECT OF EXCHANGE RATE FLUCTUATIONS	**-**	**-**
L) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**2,498,206**	**175,164**
M) CASH AND CASH EQUIVALENTS AT START OF PERIOD	**765,631**	**590,467**
N)CASH AND CASH EQUIVALENTS AT END OF PERIOD	**3,263,837**	**765,631**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	212,457	207,755
Cash equivalents at central banks	3,068,476	551,538
Other financial assets	-	6,338
Less: bank overdrafts repayable on demand	(17,096)	-

(*) Presented for comparison purposes only (Note 1.4).

APPENDIX I

INFORMATION ON INVESTMENTS IN SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Group companies:

Entity	Address	Country of residence	Shareholding (%) 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect
AnexaCapital, S.A.U.	Pº Constitución 4, 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%	-
Cajaragón, S.L.	Pza. Basilio Paraíso, 2, Zaragoza	Spain	-	-	75.00%	25.00%
Cartera de Inversiones Lusitania, S.L.	Pº Fluvial, 15, Badajoz	Spain	-	-	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. (in liquidation)	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%
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 Participaciones Empresariales, S.A.	Pº Constitución, 4, 4ª planta, Zaragoza	Spain	-	-	100.00%	-
Ibercaja Patrimonios, S.A.	Pº Constitución, 4, 3ª planta, Zaragoza	Spain	-	-	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.U.	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%	-
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%	-

Jointly-controlled entities:

Entity	Address	Country of residence	Shareholding (%) 2017 Direct	2017 Indirect	2016 Direct	2016 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%	-
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:

Entity	Address	Country of residence	Shareholding (%) 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect
Araven, S.L.	Pol. Ind. Malpica, C/ E, nº7, Zaragoza	Spain	-	-	-	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, Seg. y Reaseg., 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%	-
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%	-
Liderazgo Inmobiliario de Aragón, S.A. (in liquidation)	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%	-
Nuevos Materiales de Construcción, S.A.	C/ San Norberto, 26, Madrid	Spain	21.93%	-	21.93%	-
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%	-
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%
Viacajas, S.L.	C/ Alcalá, 27, Madrid	Spain	15.87%	-	19.30%	-

(*) At 31 December 2017, the investment was recognised under "Non-current assets and disposal groups of items classified as held for sale" on the balance sheet (Note 16).

APPENDIX II

FINANCIAL INFORMATION ON INVESTMENTS IN SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Group companies:

Entity	Date of financial statements	Contribution to consolidated earnings		Contribution to consolidated reserves		Non-controlling interests	
		2017	2016	2017	2016	2017	2016
AnexaCapital, S.A.U.	Dec-17	11,884	51	-	(3,523)	-	-
Badajoz Siglo XXI	Dec-17	(1,408)	(1,955)	(13,858)	(12,490)	-	-
CAI Inmuebles, S.A. (in liquidation)	Dec-17	16,527	1,804	(175,266)	(176,848)	-	-
Caja Inmaculada Energía e Infraestructuras, S.A.	Dec-17	-	117	-	(175)	-	-
Cajaragón, S.L.	Dec-17	-	-	-	(2)	-	-
Cartera de Inversiones Lusitania, S.L.	Dec-17	(949)	(274)	-	(177)	-	-
Cerro Goya, S.L.	Dec-17	(1,871)	(1,352)	(737)	(7,865)	-	-
Cerro Murillo, S.A.	Dec-17	(79,651)	(38,435)	350,379	385,214	-	-
Dopar Servicios, S.L.	Dec-17	(43)	3	123	120	60	91
Enclama, S.L.	Dec-17	33	36	292	256	240	216
Espacio Industrial Cronos, S.A.	Dec-17	832	(111)	(10,171)	(10,061)	-	-
Gedeco Zona Centro, S.L.	Dec-17	(22)	(239)	(19,245)	(18,903)	-	-
Gestión de Inmuebles Salduvia, S.A.	Dec-17	-	(281)	-	281	-	-
Grupo Alimentario Naturiber, S.A.	Dec-17	-	102	-	(138)	-	-
Ibercaja, S.A.U.	Dec-17	130	(121)	(12,251)	(23,930)	-	-
Ibercaja Banco, S.A.	Dec-17	30,125	(3,527)	139,260	(31,188)	-	-
Ibercaja Gestión, S.A.	Dec-17	46,923	36,194	45,408	45,483	-	-
Ibercaja Gestión de Inmuebles, S.A.	Dec-17	(35)	47	315	44	-	-
Ibercaja Leasing y Financiación, S.A.	Dec-17	2,259	428	19,246	18,768	-	-
Ibercaja Mediación de Seguros, S.A.	Dec-17	46,153	22,050	39,354	39,390	-	-
Ibercaja Participaciones Empresariales, S.A.	Dec-17	-	62	-	55	-	-
Ibercaja Patrimonios, S.A.	Dec-17	-	2,200	-	2,189	-	-
Ibercaja Pensión, S.A.	Dec-17	12,991	11,304	24,380	24,400	-	-
Ibercaja Viajes, S.A.	Dec-17	78	34	511	480	-	-
Ibercaja Vida, S.A.	Dec-17	115,007	144,316	208,197	209,834	-	-
Iberprofin, S.L.	Dec-17	46	68	25	25	-	-
Inmobiliaria Impulso XXI, S.A.	Dec-17	(296)	(45)	(27,452)	(27,388)	-	-
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-17	763	1,345	33,067	31,816	-	-
Mantenimiento de Promociones Urbanas, S.A.	Dec-17	-	74	-	223	-	-
Residencial Murillo, S.A.	Dec-17	(62,252)	(42,153)	34,866	82,416	-	-
Servicios a Distancia, IBD S.L.	Dec-17	76	182	89	71	-	-
Tipo Línea, S.A.	Dec-17	(236)	(728)	-	1,028	-	-

Entity	Date of financial statements	Financial information 2017 Capital	Reserves and val. adj.	Profit/(loss)	2016 Capital	Reserves and val. adj.	Profit/(loss)
AnexaCapital, S.A.U.	Dec-17	-	(11,983)	11,983	18,293	558	941
Badajoz Siglo XXI	Dec-17	40,950	(208)	(1,407)	40,950	1,160	(1,955)
CAI Inmuebles, S.A. (in liquidation)	Dec-17	64	(196,148)	10,536	64	(203,711)	7,564
Caja Inmaculada Energía e Infraestructuras, S.A.	Dec-17	-	-	-	1,154	9,506	14
Cajaragón, S.L.	Dec-17	-	-	-	4	(2)	-
Cartera de Inversiones Lusitania, S.L.	Dec-17	-	3,788	(3,788)	16,814	(1,555)	(1,959)
Cerro Goya, S.L.	Dec-17	5,024	(2)	(1,349)	13,503	(4,013)	(4,468)
Cerro Murillo, S.A.	Dec-17	98,354	(75,649)	(64,003)	98,354	218	(75,836)
Dopar Servicios, S.L.	Dec-17	20	215	(107)	20	209	5
Enclama, S.L.	Dec-17	20	508	57	20	446	63
Espacio Industrial Cronos, S.A.	Dec-17	28	(9,337)	(3)	28	(9,340)	2
Gedeco Zona Centro, S.L.	Dec-17	7,185	(14,765)	(22)	7,185	(14,423)	(342)
Gestión de Inmuebles Salduvia, S.A.	Dec-17	-	-	-	-	281	(281)
Grupo Alimentario Naturiber, S.A.	Dec-17	-	-	-	-	(273)	273
Ibercaja, S.A.U.	Dec-17	73,715	(10,672)	713	73,715	(22,778)	(204)
Ibercaja Banco, S.A.	Dec-17	2,144,276	494,215	99,688	2,144,276	394,214	189,809
Ibercaja Gestión, S.A.	Dec-17	2,705	46,135	46,883	2,705	51,309	36,268
Ibercaja Gestión de Inmuebles, S.A.	Dec-17	120	92	(53)	120	44	47
Ibercaja Leasing y Financiación, S.A.	Dec-17	3,006	18,691	3,167	3,006	16,746	1,950
Ibercaja Mediación de Seguros, S.A.	Dec-17	60	39,396	46,129	60	39,347	22,086
Ibercaja Participaciones Empresariales, S.A.	Dec-17	-	-	-	150	55	89
Ibercaja Patrimonios, S.A.	Dec-17	-	-	-	4,417	2,612	2,204
Ibercaja Pensión, S.A.	Dec-17	11,010	25,961	12,983	11,010	26,138	11,324
Ibercaja Viajes, S.A.	Dec-17	94	513	79	94	480	34
Ibercaja Vida, S.A.	Dec-17	135,065	172,903	115,606	135,065	170,575	146,099
Iberprofin, S.L.	Dec-17	50	25	46	50	25	68
Inmobiliaria Impulso XXI, S.A.	Dec-17	18,000	(27,452)	(296)	18,000	(27,388)	(64)
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-17	40,051	26,938	607	40,051	25,998	1,044
Mantenimiento de Promociones Urbanas, S.A.	Dec-17	65	223	18	65	223	74
Residencial Murillo, S.A.	Dec-17	132,012	(117,879)	(61,685)	132,012	(99,724)	(18,155)
Servicios a Distancia, IBD S.L.	Dec-17	480	90	76	480	71	182
Tipo Línea, S.A.	Dec-17	-	244	(244)	120	1,028	(134)

Jointly-controlled entities:

ntity	Contribution to consolidated earnings		Contribution to consolidated reserves		Value of shareholding	
	2017	2016	2017	2016	2017	2016
Aramón Montañas de Aragón, S.A. (*)	(1,097)	(758)	(28,680)	(27,371)	27,382	29,029
Other companies	(123)	(379)	(19,059)	(19,079)	502	655

	Thousands of euros			
	Financial information			
	2017		2016	
Entity	Aramon, Montañas de Aragón, S.A. (*)	Other	Aramon, Montañas de Aragón, S.A. (*)	Other
Current assets	4,384	-	3,369	-
Non-current assets	130,834	-	142,554	-
Cash and cash equivalents	450	-	612	-
Current liabilities	12,733	-	9,822	-
Non-current liabilities	46,562	-	57,093	-
Current financial liabilities	4,660	-	5,279	-
Non-current financial liabilities	53,740	-	54,521	-
Ordinary income	47,942	-	36,659	-
Dividends paid	-	-	-	-
Total recognised income and expense	(3,076)	(369)	(2,628)	(1,109)
Profit/(loss) from ordinary activities	*(3,076)*	*(369)*	(2,599)	(1,109)
Profit/(loss) after tax from discontinued operations	-	-	-	-
Other recognised income and expense	-	-	(29)	-
Depreciation	1,785	-	1,171	-
Amortisation	12,190	-	12,169	-
Interest income	60	-	17	-
Interest expense	2,414	-	2,794	-
Income tax expense/(income)	69	-	77	-

(*) The financial information corresponding to these companies is based on the most recent data available (actual or estimated) at the time of preparation of the notes to these financial statements.

Associates:

Entity	Contribution to consolidated earnings		Contribution to consolidated reserves		Value of shareholding	
	2017	2016	2017	2016	2017	2016
Concessia Cartera y Gestión de Infraestructuras, S.A. (*)	(725)	(945)	1,256	2,202	13,286	14,012
Henneo (formerly Grupo Heraldo) (*)	(2,385)	173	4,154	5,126	33,121	36,651
Other companies	5,633	13,610	(21,931)	(24,333)	31,022	55,451

	Thousands of euros					
	Financial information					
	2017			2016		
Entity	Concessia Cartera y Gestión de Infra. , S.A. (*)	Henneo (formerly Grupo Heraldo)(*)	Other	Concessia Cartera y Gestión de Infra. , S.A. (*)	Henneo (formerly Grupo Heraldo) (*)	Other
Current assets	9,536	52,463	-	14,742	51,804	-
Non-current assets	38,410	55,662	-	41,872	66,035	-
Current liabilities	110	22,506	-	221	21,683	-
Non-current liabilities	1,000	20,125	-	1,000	22,964	-
Ordinary income	46	120,624	-	937	59,919	-
Dividends paid	-	-	-	-	-	-
Total recognised income and expense	(154)	(4,875)	5,553	485	956	62,816
Profit/(loss) from ordinary activities	*(154)*	*(4,875)*	*5,553*	485	956	62,816
Profit/(loss) after tax from discontinued operations	-	-	-	-	-	-
Other recognised income and expense	-	-	-	-	-	-

(*) The financial information corresponding to these companies is based on the most recent data available (actual or estimated) at the time of preparation of the notes to these financial statements.

APPENDIX III

ANNUAL BANKING REPORT

On 27 June 2014, the Official State Gazette published Act 10/2014 on the organisation, supervision and solvency of credit institutions, which transposed Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity 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 and Transitional Provision 12 of Act 10/2014, credit institutions are required to publish, as an appendix to their audited financial statements and for each 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 tax
e) Corporate income tax
f) Grants and public aid received

Accordingly, all this 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 filed at the Companies Registry of Zaragoza at volume 3865, book 0, sheet 1, page Z-52186, entry 1. It is also entered on the Bank of Spain Special Register under number 2085. Its corporate webpage (electronic headquarters) is www.ibercaja.es, where its bylaws and other public information can be viewed.

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 that, 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 individual 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 for these purposes means gross income, as shown on the Group's consolidated income statement at the end of 2017.

	Thousands of euros
	31/12/2017
Spain	1,164,214
	1,164,214

c) Number of equivalent full-time employees

Equivalent full time employees by country were as follows at year-end 2017:

	Thousands of euros
	31/12/2017
Spain	5,581
	5,581

d) Gross profit/(loss) before tax

	Thousands of euros
	31/12/2017
Spain	182,731
	182,731

e) Corporate income tax

	Thousands of euros
	31/12/2017
Spain	44,373
	44,373

f) Grants and public aid received

No grants or public aid were received by Ibercaja Banco, S.A. or any Group company in 2017.

Other information

The return on the Group's assets during the year, calculated as net profit divided by the total balance sheet, was 0.26%.

Ibercaja Banco, S.A.
and subsidiaries

Consolidated Directors' Report
for 2017

Ibercaja Banco, S.A. and subsidiaries

Consolidated Directors' Report for 2017

SECTION I: MANAGEMENT REPORT

Contents

1. The Ibercaja Group: current situation

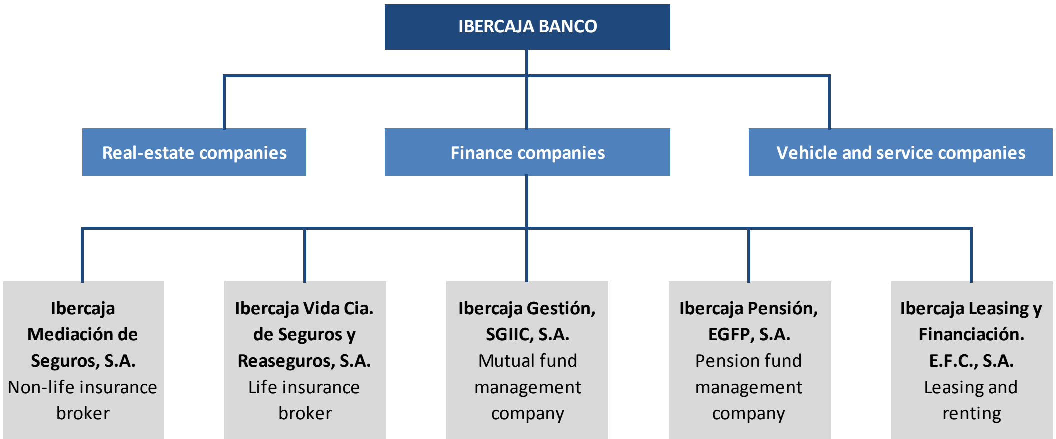
1.1. Description, shareholding and organisational structure

The Ibercaja Banco Group primarily engages in retail banking and carries out practically all of its business in Spain. Its corporate purpose extends to all manner of general banking activities, transactions, business, contracts and services permitted under prevailing law and regulations, including the provision of investment and auxiliary services.

The majority shareholder of Ibercaja Banco is Fundación Bancaria Ibercaja, which owns 87.60% of its capital. Following the acquisition in June 2013 of Banco Grupo Caja3, the following companies are also shareholders of Ibercaja: Fundación Caja Inmaculada (4.85%), Fundación Caja Badajoz (3.90%) and Fundación Bancaria Caja Círculo (3.45%).

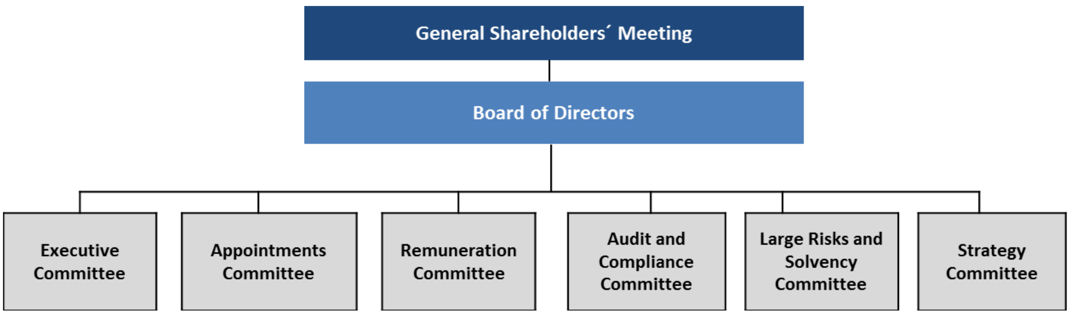
From an organisational standpoint, the Bank is the parent of a group of subsidiaries. Of these, the most notable -due to their wide range of banking products and high levels of profitability- belong to the Financial Group, which comprises companies specialising in investment funds, savings and pensions, bancassurance and leasings and rentals.

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 in turn has six committees.



The Ibercaja Group's governing bodies, along with their composition and their internal rules, are governed by the Bylaws and the Regulations of the Board of Directors, the contents of which are compliant with Act 10 of 26 June 2014, on the organisation, supervision and solvency of credit institutions, Royal Decree-Law 1 of 2 July 2010, enacting the revised Corporate Enterprises Act (as per the wording given in Act 31/2014) and the Unified Code of Good Governance.

The **General Shareholders**' Meeting is the most senior decision-making body at the Bank and its resolutions are binding on the Board of Directors. The General Meeting has the broadest of authorities to govern the Bank and may validly adopt resolutions regarding any matters submitted for deliberation, in accordance with applicable law and the Bank's own Bylaws.

Meanwhile, the **Board of Directors** has the broadest of authorities to manage, administer and represent the Bank and, except for those matters reserved for 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, the Bylaws or 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, making, together with shareholders at a general meeting, proposals for the nomination, re-election or removal of independent directors, reporting on motions to nominate or remove senior executives and key office holders, including the basic terms of their contracts, and examining and organising the succession of the Chairman and the CEO.

Compensation Committee

The Compensation Committee has the duty of reporting, advising and proposing matters regarding compensation for directors, general managers and similar personnel, as well as for the persons whose professional activity has a significant impact on the Bank's risk profile.

Audit and Compliance Committee

The committee's duties are expressly stipulated in the Regulations of the Board of Directors. In particular: to inform the general meeting regarding any matters raised by shareholders with respect to areas under its authority; to supervise the effectiveness of the Bank's internal control, internal audit and risk management systems, including tax risks; to supervise the process of preparing and presenting regulated financial information; to propose the designation or re-election of the financial auditor; to establish appropriate relations with the external auditor and to receive information regarding its independence; to receive annual information from the external auditor confirming its independence with respect to the Bank or its Group; and to 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 Bank and its Group, and the strategy in this respect. It also assists the Board with supervising the application of that strategy by the 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 reporting to the Board of Directors on the Company's strategic policy while ensuring there is specific organisation in place for implementing this strategy. In 2017, the committee regularly monitored the Strategic Plan approved by the Board of Directors, which is of great importance for the proper management of the Bank 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.

The composition and members of the different governing bodies, and of the management team, are described on the website of Ibercaja Banco under the section titled "Shareholders and investors - Corporate Governance and Remuneration Policy".

Control functions

The Group has an internal control system in place to oversee the financial and operational risks inherent in its business 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 that govern the Group's business activities. Ibercaja also has an Internal Audit Unit that reviews the proper functioning of the risk control systems, while verifying compliance with established policies, procedures and standards. The Audit and Compliance Committee supervises the effectiveness of internal audit and control and of the risk management systems.

The Memorandum on Rules of Conduct and Operational Security is aimed at all employees and contains a summary of the rules, activities and criteria that must be observed. The Audit and Compliance Committee is responsible for approving updates and improvements, and 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 €53,107 million in assets and it is the ninth largest entity by asset volume in the Spanish banking system. It primarily engages in retail banking, focusing on the financing of households and SMEs, savings management and other financial services. On a national scale, the Group has a market share of 2.8% in loans and of 3.5% in customer funds (2.9% in deposits and 4.6% in asset management and life insurance).

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 2017, the network comprised 1,151 branches, six of which are company business centres. The Group has a total of 5,581 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 households, companies and public and private institutions. It has set up specific channels and products tailored to each customer segment. Ibercaja complements its traditional banking services with products such as insurance, investment funds and pension plans, all marketed through its highly specialised Financial Group.

Under the 2015-2017 Strategic Plan, a number of significant milestones were reached during the year: the launch of territorial development plans to drive growth in the retail business; the project to bring about the Bank's digital transformation; returning to the debt markets with a Tier II issue to further improve the Group's financial strength; sales of portfolios and agreements with specialised operators to reduce exposure to problematic assets on the balance sheet,; implementing a new customer relations model; and the internal roll-out of the leadership and team management model.

The following were particular highlights in the year:

- Return of public aid. In March, the Bank carried out the early redemption of €224 million in contingent convertibles (CoCos) issued by Banco Grupo Caja3 as part of its restructuring process.

- Launch of a new Territorial Plan+ Catalonia. The initiative will be deployed over the coming four years and seeks to strengthen the Bank's presence in the autonomous region of Catalonia. Together, the four existing territorial plans (Madrid, Levante, Burgos and Catalonia) will increase funds and lending activity by more than €7,500 million through to 2020.

- Sale of loans and non-performing assets. In July, loans and credit facilities were sold to real estate development companies as part of the Fleta transaction. Most of these items are classified as non-performing and the nominal value of all of them combined comes to €490 million. Meanwhile in December the Servet and Faro deals were completed for the gross sum of €334 million, most of which relates to non-performing loans.

- Optimising efficiency. A workforce adjustment plan was signed with the workers' representatives in May. A total of 590 employees may adhere to the plan.

- The digital transformation process has seen a notable pick-up in terms of the number of both users and transactions. The launch of the mobile banking app has been welcomed by customers, who rate it highly.

Looking ahead to 2018, we must strive to make our business model more dynamic in response to the lingering climate of rock-bottom interest rates, fierce competition among banks, the arrival of new players from the technology sector, changing habits among the Spanish public and increased financial awareness among customers. Our model should focus on providing value-added services and be aligned with customers needs, while being less reliant on changes in interest rates. Banks must also seek to protect their profitability by improving margins and pushing forward with the digital transformation. After successfully attaining most of the targets contained in its 2015-2017 Strategic Plan, Ibercaja is now preparing a new plan for the coming three years with the aim of: growing, innovating and digitalising.

The Group has the following business lines:

Retail banking:

Retail banking is a fundamental pillar of the Group's business model. It has a total of 2.6 million customers, who account for 84% of business volume, including the family, personal and private banking segments.

Domestic economies represent the highest percentages of funds under management and of loans and receivables. The branch network focuses on capturing new customers and strengthening ties with existing customers by developing attractive value propositions 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, along with specific business centres, private banking centres, Branches+ and Agro. At 31 December 2017, the Bank had a total of 1,151 branches located across all of Spain. The strategic closure of 99 branches in the last twelve months was intended improve business continuity and customer proximity and maintain the Bank's presence in small towns and villages. The distribution of branches by autonomous regions is as follows: 407 points of sale in Aragon, 186 in the Community of Madrid, 107 in Extremadura, 100 in La Rioja, 81 in Castile and León, 90 in Catalonia, 64 in Castilla-La Mancha, 55 in the Community of Valencia, 30 in Andalusia and 31 in the other autonomous regions of Spain.

The Personal Banking segment is key to attaining the Bank's growth targets. This area serves over 200,000 customers with average levels of income, employing a model in which a personal manager offers financial planning and investment advice. The Financial Group plays a key role in product design, as well as training managers and advising on investments in the private banking area.

In March 2017, portfolio management company Ibercaja Patrimonios S.A. was merged and absorbed into Ibercaja Banco, with Ibercaja therefore taking over the company's private banking business. The private banking service offers investment advice to high-wealth customers by providing a premium, bespoke service.

Business banking

Business development for companies is one of the priorities under the Bank's “Plan+”. The purpose here is to make Ibercaja a benchmark institution for SMEs and other companies.

Milestones in the year included rising levels of business and the full deployment of actions under the “Plan+ Companies” initiative. As part of this process, a new specialised business centre was opened in Alcobendas (Madrid), which now joins the five existing centres in Zaragoza, Madrid, Valencia and Barcelona, all designed to manage high-turnover customers that require more specialised banking products and services. The Bank is planning to open another of these centres in Alicante in 2018.

Business Banking has a specific unit of 229 managers dedicated to companies with high levels of turnover and more complex operational structures. This unit is ably supported by the managers of branches that have a critical mass of SMEs among their customers.

Asset management

The Financial group was created in 1988 and is wholly owned by Ibercaja. It consists of companies specialising in investment funds, savings plans and pensions, bancassurance and leasing and renting. The Group's capacity to innovate and its range of specialised products and services make it a key player within the Spanish banking sector. Its products are marketed and sold through the branch network and supplement the Bank's extensive range of banking services.

CIU management

Ibercaja Gestión, SGIIC, S.A. is the company tasked with managing the Group’s collective investment undertakings (CIUs).

At year-end 2017, it managed assets totalling €12,367 million, up 18.88% on the previous year. This growth rate is the highest of the ten largest domestic investment fund managers and has allowed it to gain once place in the sector rankings to seventh. The Group’s market share when it comes to funds managed or sold now stands at 4.73%, having gained 27 basis points in the year.

The increase in assets under management can be put down to the Group's strategic commitment to asset management, the work carried out by the branch network, the healthy returns on its funds and the consolidation of portfolio management agreements as a means of diversifying its customers' savings.

Ibercaja Gestión has 54 investment funds tailored to each investor and capable of obtaining returns in any market situation. In the last twelve months, it has streamlined its range of funds in a bid to become more efficient internally and make its catalogue of funds more readily understandable for customers. The fund structure has taken on a more risk-oriented profile of late, with an increased weighting of equity and mixed-income funds at the expense of fixed income and dynamic equity funds. It also manages 13 sociétés d'investissement à capital variable (SICAVs), with a volume of assets just in excess of 72 million euros.

Pension plan management

Ibercaja Pensión, EGFP, S.A. is the Group company engaged in managing different kinds of pension plans.

Assets managed under employment or personal plans amounted to €6,363 million at year-end 2017, marking a year-on-year increase of €215 million (+3.50%). The company is ranked fifth in its sector in Spain, with a market share of 5.73%.

Savings managed under personal plans amounted to €2,257 million, up 7.85% to reach a market share of 3.03% (+6 basis points year on year). The company has risen two places to eighth in the sector ranking. Meanwhile, the number of fund investors gained 5.84% to reach 183,639.

Under employment plans, assets totalled €4,107 million, up 1.25% on 2016. The company is ranked third in the national table, with a market share of 11.47%. The 19 plans have 71,122 participants and beneficiaries working at companies and public administrations across all of Spain.

Insurance business

The Group carries out its insurance business through several companies that operate in the life and non-life insurance realms.

Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U. focuses on investment savings insurance and life insurance. It offers a wide range of products, which include systematic savings insurance, investment savings plans, annuity and temporary income insurance, individual systematic saving plans, long-term individual savings policies and insured pension plans. It also offers assurance of pension commitments externalised by various companies.

Technical reserves gained 3.65% in the period to reach €6,835 million and the market share was up 1 basis point to reach 3.72%. The insurance firm is ranked six in its sector. Premiums received amounted to €1,145 million while the number of policies came to 914,066.

Ibercaja Mediación de Seguros, S.A.U. is engaged in general insurance brokerage. It markets and sells risk and retirement savings insurance for individuals and companies through the Ibercaja branch network. Premiums on risk insurance activity gained 5% to €254 million, broken down into life risk (+7.6%) and non-life risk (4.1%). Policies arranged with Caser, the main source of business for this type of non-life insurance, were up 5.4% in the period. Growth comfortably outpaced the average growth reported by the wider system of 0.04% and 3.9%, respectively. The outperformers were Civil Liability (+27%), Health (+8.9%) and Auto (+8.1%). Meanwhile, the number of policies climbed to 1,095,217. This healthy performance can be put down to the strategy of diversification into types of insurance that meet customers' new needs, the distribution agreement reached with Caser and the deployment of the Risk Project in association with Ibercaja Vida to improve sales of life-risk insurance.

Other business lines

Business at the Group's capital markets area has focused on ensuring the availability of liquid funds on the balance sheet, managing portfolios of fixed-income and equity instruments, planning placements and buy-backs of instruments and hedging structured and other deposits.

The Group has business interests in several sectors, including tourism, real estate, media, logistics and services. Its equity investments are intended to support the nation's productive sectors (preferably SMEs) through projects that help to create wealth and employment across the Bank's areas of influence, support entrepreneurs and diversify the Group's sources of income.

Under the terms of its 2015-2017 Strategic Plan, the Group has continued to pursue a policy of selling holdings in non-strategic sectors and in businesses that fail to generate a suitable return based on the volume of capital they consume. It also seeks to divest in those business projects and ventures that have become sufficiently developed and mature and sees to it that the business remains in the capable hands of qualified managers. A total of 21 full divestments and 13 partial divestments from investees were completed in 2017, generating a capital gain and releasing equity in the process. Meanwhile, the Group invested in six business projects considered strategic or linked to the parafinancial business.

2. Business performance and results

2.1. Economic and financial environment

The global economy continued its bullish tone as its shook off the lingering uncertainties seen in early 2017. Growth has picked up and looks set to exceed 3.5%. This macroeconomic upturn has been felt by developed and emerging economies alike.

The Japanese economy has responded well to the BoJ's monetary stimulus measures. Growth of around 1.5% is being supported by the external sector, as well as improvements in private consumption following a lengthy period of weakness.

In the United States, GDP is estimated to have grown 2.3% year on year. This solid growth is being underpinned by buoyant levels of internal demand. Both private consumption and investment are growing rapidly in response to the healthy state of the labour market, which boasts full employment and rising wages.

Meanwhile, the European Commission expects growth in the euro area to reach 2.4% in 2017. The leading economies of Germany, France and Italy have all exceeded the levels of growth estimated in early 2017, while Spain continues to lead the charge among the more developed countries. Internal demand and especially private consumption remain the basis of the European recovery, bolstered by positive employment figures, an increase in household income, and more favourable borrowing conditions; a factor that is also attracting investors. The external sector has also made a positive contribution in response to the healthy state of the global economy and recovering levels of international trade.

The ECB kept its reference rate unchanged at 0% and the deposit facility rate at -0.40%. In October, it announced its plans to scale back its asset purchasing programme from 60 billion to 30 billion euros a month, starting 1 January 2018, and it reiterated its intention not to change interest rates until the asset buying programme has ended, with this due to last until September 2018 at the earliest. In December, the central bank ratified these measures, while admitting that its current approach may need to be changed as and when the economic recovery gains more momentum.

In the fixed income markets, yields on 10-year sovereign bonds were relatively stable in the period, with the 10-year US Treasury Note oscillating within a band of 2% to 2.5%, while in Europe the German bund performed within a 0.25% to 0.50% band.

The main stock indices made gains in unison on the back of solid macroeconomic figures and rising company profits. The US stock market hit an all-time high. The European markets also made sizeable, albeit more modest gains. The Spanish stock market gained 7.40%, somewhat off the pace of its European counterparts. Following an undeniably bullish first six months, the crisis at Banco Popular marked a turning point in this excellent run of form and matters were exacerbated in the final stretch of the year by the political tensions in Catalonia.

The Spanish economy has beaten its initial growth projections, with GDP growth of 3.2%. This sterling performance is the product of domestic demand and a positive showing from the external sector of the economy.

Internal demand remained buoyant in response to robust levels of private consumption, which gained some 2.6% year on year. This illustrates the solid performance of the labour market, the growth in financial and property wealth among families and easier access to borrowing. Investment in capital assets recovered significantly in the year to reach 5% and real estate activity is finally gaining steam.

The external sector also played a hand in the country's GDP growth. Exports are benefitting from growth across the wider euro area (the main customer of our companies) and from healthy global macroeconomic figures, which are allowing Spanish companies to sell their goods outside Europe.

Meanwhile, the recovery of the labour market has been picking up. The number of workers affiliated with the Social Security system gained more than 611,000 in the year, the best figure since 2005, bringing the total number of Social Security contributors to 18,500,000. The unemployment rate provided by the Survey of the Working Population came to 16.55%, down 2.08 percentage points year on year.

Inflation remains in check after climbing in the early months of the year in response to rising energy prices. The CPI change was 1.1%, while core inflation (excluding unprepared food and energy products) fell to 0.8%.

The deficit of the Spanish government shrunk to levels more compatible with the 3.1% target agreed upon with the European authorities. Assuming this target is reached, Spain will be released from the excessive deficit procedure in 2018. The increase in taxation stemming from the economic growth has been decisive in moving towards a fiscal balance.

The banking sector has been aided by the healthy performance of the Spanish economy, although the prevailing climate of rock-bottom interest rates is placing pressure on profits. In contrast to what was expected in early 2017, loans to households and companies ended the year in negative territory. However, we saw a more moderate decline of 2.02% year on year. While demand is picking up across all segments, it is still not enough to keep up with repayments on existing loans. Consumer lending was the only segment to post positive gains in the year (+13.77%).

Deposits within the system were up 3% year on year due to growth in the companies segment. The increase is compatible with the migration from savings towards off-balance sheet products, especially investment funds, given the relatively poor returns offered by traditional deposits and the efforts being made by banks to strengthen their range of personal and private banking services.

Turning to asset quality, non-performing loans continued to fall. The system's NPL ratio shed 133 basis points in the year to reach 7.85%. Real estate assets have fallen to a lesser extent than non-performing loans and are continuing to undermine business profits.

The ongoing restructuring of the banking system has led to a reduction in the number of players, following the completion of two significant mergers and attempts to streamline the branch network and the workforce in a bid to cut operating costs and gain efficiency.

In the regulatory realm, Bank of Spain Circular 4/2017 of 27 November was released in 2017, adapting the accounting criteria of Spanish banks to the new International Financial Reporting Standards (IFRS) due to take effect in 2018. The main changes ushered in by IFRS 9 affect the impairment of financial assets, which will now be based on expected losses rather than incurred losses, and the classification of portfolios of financial assets for measurement purposes. The initial adoption of these new criteria could impact the Bank's capital ratios for the coming year.

2.2. Highlights for the period at the Ibercaja Group

Against a backdrop of rock-bottom interest rates, business at Ibercaja has focused on protecting the profitability of the business by defending margins, containing operating costs, normalising the cost of risk, reducing unproductive assets on the balance sheet and ensuring the Bank's capital adequacy and solidity. On the commercial front, the Bank has continued to pursue the targets set out in its Strategic Plan by consolidating growth in the companies, personal and private banking segments, while strengthening the Group's position in the investment fund sector. Highlights in the period were essentially as follows:

- Ibercaja reported a phased-in CET1 ratio of 11.72%, after carrying out the early repayment in March of all the CoCos resulting from the restructuring of Caja3. Meanwhile the fully-loaded CET1 ratio was 11.04%, 87 basis points up on December 2016. Both ratios are comfortably clear of the SREP requirements for both 2017 and 2018.

- New lending to SMEs and individuals was up 4.59% year on year. In line with the aim of diversifying the composition of the portfolio, 57% of new transactions now relate to arrangements with companies and leases. Meanwhile, new loans for home purchases gained 18% in the year. The progress made across all types of lending is the product of intensive commercial efforts and the roll-out of specific territorial plans to expand the Bank's presence in its target markets.

- The performing loan portfolio fell by just 1.31%, with loans to finance non-real estate productive activities outperforming (+8.42%).

- Growth in retail funds is now more focused on off-balance sheet products, especially investment funds, where the Bank's assets under management exceed the system average. The steady migration from savings products towards assets under management, accompanied by an increase in demand savings, has generated a more profitable mix of retail funds.

- Non-performing loans were down 16.22% year on year thanks to steady levels of new defaults, sound management of debt collection and sales of loan portfolios. The NPL ratio shed 125 basis points to reach 7.68%. Meanwhile, the slowdown in the volume of real estate assets being foreclosed, coupled with healthy sales of real estate assets, allowed the Bank to reduce its exposure by 9.22%. Coverage of exposure to distressed assets (non-performing and foreclosed assets) came to 48.19%.

- The Group's liquid assets account for 19.45% of its balance sheet. The loan to retail deposits ratio (LTD) was below 100%, reflecting Ibercaja's retail-oriented business approach, in which lending activity is funded by the savings secured by the Bank. Customer deposits account for 76% of third-party financing.

- Recurring income (interest and fee and commission income) was up 2.23%, confirming the change of trend seen since early 2017. Driving this recovery was the fee and commission income obtained from asset management activity and the gradual stabilisation of net interest income.

- The increase in operating costs is a product of the workforce adjustment plan agreed upon with trade union representatives. The need to trim the workforce and streamline the branch network led to the closure of 99 branches during the year and will allow the Group to reduce expenses in the coming quarters while optimising efficiency.

- Profit before tax amounted to €183 million, up €112 million year on year, showcasing the Group's capacity to generate profit despite testing conditions for the banking sector.

Key indicators:

(millions of euros and %)	31/12/2017	31/12/2016	Change
BALANCE SHEET			
Total assets	53,107	57,176	(7.12)
Loans and advances to customers, gross	33,399	34,297	(2.62)
Total customer funds	62,582	62,537	0.07
Equity	2,999	2,977	0.76
RESULTS			
Net interest income	561	567	(1.07)
Gross income	1,164	1,130	3.05
Profit before write-downs	445	478	(6.77)
Profit attributed to the parent	138	143	(3.17)
EFFICIENCY AND PROFITABILITY			
Cost-to-income ratio (total operating expenses/gross income)	55.59	57.73	-2.14 p.p.
ROA (profit for the year before tax/average tax assets)	0.33	0.12	+0.21 p.p.
ROE (profit attributable to the parent company/average own funds)	4.98	5.35	-0.37 p.p.
RORWA (profit attributable to the parent company/APR)	0.62	0.62	-
ROTE (profit attributable to the parent company/average tangible own funds)	5.36	5.78	-0.42 p.p.
RISK MANAGEMENT			
Non-performing balances (loans and advances to customers)	2,565	3,061	(16.22)
Loan NPL ratio (%)	7.68	8.93	-1.25 p.p.
Coverage of total risks	1,125	1,388	(18.95)
Coverage of non-performing risks (%)	43.12	44.66	-1.53 p.p.
Coverage of exposure to distressed assets (%)	48.19	47.35	+0.84 p.p.
LIQUIDITY			
Available liquidity/total assets	19.45	16.60	+2.85 p.p.
Loan-to-deposit ratio (LtD)	96.34	97.76	-1.42 p.p.
SOLVENCY			
CET1, phase-in (%)	11.72	12.00	-0.28 p.p.
Solvency ratio, phase-in (%)	13.93	14.23	-0.30 p.p.
Leverage ratio, phase-in (%)	5.41	5.37	+0.04 p.p.
CET1, fully loaded (%)	11.04	10.17	+0.87 p.p.
ADDITIONAL INFORMATION			
No. Group employees	5,581	5,895	(5.33)
No. of offices	1,151	1,248	(7.77)

2.3. Analysis of the main balance sheet figures

Key figures on the consolidated balance sheet:

	€ million			Change (%)
	31/12/2017	31/12/2016	Change	
Cash and credit institutions	3,927	1,476	2,451	166.02
Loans and advances to customers, net	32,309	32,947	(638)	(1.94)
Securities portfolio	13,304	18,810	(5,506)	(29.27)
Tangible assets	1,029	1,092	(63)	(5.76)
Intangible assets	200	199	1	0.42
Other assets	2,338	2,652	(314)	(11.85)
Total assets	**53,107**	**57,176**	**(4,069)**	**(7.12)**
Deposits from credit institutions and central banks	4,590	6,494	(1,904)	(29.32)
Total on-balance sheet customer funds	43,923	46,011	(2,088)	(4.54)
Customer deposits	35,077	37,005	(1,928)	(5.21)
Debt securities issued	1,827	2,147	(320)	(14.90)
Liabilities under insurance contracts	7,019	6,859	160	2.34
Provisions	373	411	(38)	(9.37)
Other liabilities	1,222	1,283	(61)	(4.75)
Total liabilities	**50,108**	**54,199**	**(4,091)**	**(7.55)**
Equity	2,999	2,977	22	0.76
Total equity and liabilities	**53,107**	**57,176**	**(4,069)**	**(7.12)**

Assets on the consolidated balance sheet totalled €53,107 million, down 7.12% on the figure reported at year-end 2016. The decline was seen mainly in the securities portfolio, which was down €5,506 million.

Loans and advances to customers, gross, amounted to €33,399 million, down 2.62% in the year but below the decline reported by the banking system as a whole (-2.79%). Stripping out non-performing assets and reverse repurchase agreements, performing investments were down by just 1.31%.

Favourable macroeconomic and borrowing conditions prompted a 4.59% increase in new loans to reach €5,452 million, of which 57% was granted to the companies and leasing segments. Madrid and the Mediterranean Coast were the main drivers here, accounting for 50% of total new loans.

New financing for home purchases was up 18% in the year thanks to the success of the commercial campaigns targeting this segment. Meanwhile, consumer loans gained nearly 7%. Because of their relatively low weighting -accounting for just 4% of Ibercaja's total portfolio- they offer high growth potential, given increased demand for borrowing from households and rising levels of investment in capital and durable goods.

Breakdown of loans and advances to customers by purpose:

	€ million			Change (%)
	31/12/2017	31/12/2016	Change	
Loans to individuals	21,653	22,278	(625)	(2.81)
Mortgage loans	20,398	21,004	(606)	(2.89)
Consumer loans and other	1,255	1,274	(19)	(1.49)
Loans to companies	7,466	6,979	487	6.97
Real estate development	884	909	(25)	(2.69)
Non-real estate productive activities	6,582	6,070	512	8.42
Public sector and other	735	994	(259)	(26.09)
Normal loans and advances excluding reverse repurchase agreements	**29,854**	**30,251**	**(397)**	**(1.31)**
Reverse repurchase agreements	981	985	(4)	(0.41)
Impaired assets	2,565	3,061	(496)	(16.22)
Loans and advances to customers, gross	**33,399**	**34,297**	**(898)**	**(2.62)**

Performing loans used to finance non-real estate productive activities were up 8.42% year on year. This business now accounts for 22% of total investment, up 2 percentage points in the last twelve months. This improvement is a big step towards the target envisioned in the 2015-2017 Strategic Plan of achieving a more diversified lending portfolio; one that focuses growth on the most profitable segments. The Bank's market share in this segment is 1.53%, up 10 basis points in the last twelve months. Loans for home purchases and restorations were down 2.89%. The solid improvement in new loan production is still not enough to offset the natural decline in the outstanding portfolio due to scheduled and early repayments. Meanwhile, lending to real estate developers was down 2.69%. This moderate reduction when compared with previous periods is a product of the incipient reactivation of the real estate sector following years of depression.

On the subject of loan security, lending secured by collateral (i.e. secured by real property) -mainly first home mortgages granted to individuals- was down 2.91%. The slower pace of this decline is down to the increased volume of loan origination already discussed, which is in response to rising demand for homes. The strong growth in lending to companies can be seen in commercial lending (+17.27%), other term loans (+4.59%) and financial leases (+24.87%).

Breakdown of loans to customers by collateral:

	€ million			**Change (%)**
	31/12/2017	**31/12/2016**	**Change**	
Commercial loans	515	439	76	17.27
Loans secured with collateral	22,631	23,309	(678)	(2.91)
Other term loans	5,319	5,085	234	4.59
Finance leases	417	334	83	24.87
Receivables on demand and other	555	575	(20)	(3.40)
Impaired assets	2,565	3,061	(496)	(16.22)
Valuation adjustments	60	86	(26)	(30.47)
Reverse repurchase agreements	981	985	(4)	(0.41)
Other financial assets	357	423	(66)	(15.54)
Loans and advances to customers, gross	**33,399**	**34,297**	**(898)**	**(2.62)**

Asset quality indicators improved in the period. Non-performing loans were down 16.22% year on year to €2,565 million, thanks to steadying levels of new defaults, sound management of debt collection and sales of loan portfolios. The NPL ratio shed 125 basis points to reach 7.68%, roughly on par with the average improvement reported by all deposit entities (7.85% at December 2017). The NPL ratio in relation to loans for home purchases -the Group's largest exposure- is 4.20%.

Total provisions, including allowances for contingent risks and liabilities, amounted to €1,125 million, representing 43.12% coverage of non-performing loans; a high level in view of the risk profile of the exposure and the associated collateral. The entry into force of IFRS 9 on 1 January 2018 will generate an increase of €153 million in provisions. This will have an estimated impact on coverage of approximately 6 percentage points to bring it to 49%.

The Group's portfolio of real estate assets, whether foreclosed or acquired in payment of debt, was down 9.22% in the year to €1,566 million. Coverage of these real estate assets was up 4.42 percentage points to 56.63%, climbing to almost 65% in the case of land. The Bank reported a sharp reduction in new foreclosed assets (-15% vs. 2016), while sales were up 9.5%. Highlights included divestments of land and tertiary sector assets, representing more than 41% of the total. The release of provisions on sales has had a positive impact on the income statement.

Distressed assets, meaning NPLs and foreclosed real estate assets, were down 13.62%. The coverage ratio for this exposure was 48.19%, which will climb to approximately 52% following the application of IFRS 9.

Non-performing loans and coverage:

	€ million and %	
	31/12/2017	**31/12/2016**
Non-performing loans and advances to customers	2,565	3,061
Loans and advances to customers, gross	33,399	34,297
NPL ratio (%)	**7.68**	**8.93**
Total non-performing risks	2,609	3,109
Coverage of total risks	1,125	1,388
Coverage of non-performing risks (%)	**43.12**	**44.66**
Foreclosed assets (gross carrying amount)	1,566	1,725
Coverage of foreclosed assets	887	901
Coverage of foreclosed assets (%)	**56.63**	**52.21**

The main aim of the Group's refinancing and debt restructuring policy is to help borrowers experiencing temporary financial difficulties meet their obligations and also, where possible, to improve risk quality by securing additional collateral. Refinanced loans amounted to €2,500 million in 2017, down 14.76% on 2016 and representing 7.49% of gross lending. Meanwhile, coverage associated with non-performing risks and defaults reached 37.24%.

The portfolio of fixed income securities, shares and other equity interests in companies totalled €13,304 million, of which €6,383 million relate to the Group's insurance business. The reduction of €5,506 million is down to the Group's strategy of managing financial instruments in order to bring portfolios in line with the new requirements under IFRS 9 and sales with the aim of making unrealised capital gains.

According to the accounting classification, available-for-sale financial assets amounted to €10,850 million, accounting for 81.55% of the total. The volume of these assets fell by €626 million, mostly in the form of debt securities. A portion of the held-to-maturity investment portfolio was sold during the year as part of the process discussed previously of bringing portfolios in line with IFRS 9. The remaining positions were reclassified to the available-for-sale portfolio.

By type, fixed income (€12,832 million) accounted for 96.45% of the total. The reduction of €5,363 million was a product of asset sales and the fact that various issues matured in the year. Stripping out the insurance business, the fixed income portfolio managed by the parent comprises low-risk bonds (mainly Spanish sovereign debt) with an average term of 3.4 years and a yield of 1.4% excluding Sareb bonds. The objective here is to soundly manage balance sheet interest rate risk, generate recurring earnings to strengthen net interest income and help maintain comfortable levels of liquidity. Meanwhile, equities (€473 million) were down by €142 million in the period. This reduction extends to listed securities and, to a lesser extent, non-strategic equity interests.

The securities portfolio breaks down as follows:

	€ million			Change (%)
	31/12/2017	31/12/2016	Change	
Financial assets held for trading	0	1	0	(52.98)
Debt securities	0	1	0	(52.98)
Financial assets at fair value through profit or loss	53	49	4	6.63
Debt securities	11	5	6	130.11
Equity instruments	42	44	(3)	(6.20)
Available-for-sale financial assets	10,850	11,476	(626)	(5.46)
Debt securities	10,524	11,041	(517)	(4.68)
Equity instruments	326	435	(109)	(25.11)
Loans and receivables	2,297	2,602	(306)	(11.74)
Debt securities	2,297	2,602	(306)	(11.74)
Held-to-maturity investments	0	4,546	(4,546)	(100.00)
Investments in joint ventures and associates	105	136	(30)	(22.45)
Total securities portfolio	**13,304**	**18,810**	**(5,506)**	**(29.27)**
Fixed income	12,832	18,194	(5,363)	(29.47)
Equities	473	615	(142)	(23.16)
Investments in joint ventures and associates	105	136	(30)	(22.45)
Other equity instruments	367	479	(112)	(23.36)

Assets held at central banks and credit institutions and in cash amounted to €3,927 million in 2017, up €2,451 million and relating mainly to deposits held at central banks. Liabilities at credit institutions and central banks totalled €4,590 million, down €1,904 million on the balance at 31 December 2016. ECB funding in the amount of €3,354 million relates entirely to the TLTRO II programme maturing in 2020. Meanwhile, deposits at credit institutions were down €1,891 million in response to the drop in repurchase agreements.

Tangible assets came to €1,029 million, down 5.76% in the year, largely on account of the reduction in real estate investments and property, plant and equipment for own use. Intangible assets totalled €200 million, consisting mainly of goodwill, other items generated from the acquisition of Caja3 and computer software. The 0.42% change in the year can be explained by investments in software. Deferred tax assets amounted to €1,313 million, of which €661 are considered monetizable.

Total funds both on and off the balance sheet came to €62,582 million, remaining stable in the year. Balance sheet items, which include customer deposits, debt securities issued and liabilities under insurance contracts, totalled €43,924 million, down 4.54% due to the performance of funds linked to the wholesale business. Meanwhile, off-balance sheet funds were up 12.91% to €18,659 million, revealing the Bank's policy of shifting customer savings towards "under-management" products, given the relatively poor returns currently being offered by traditional term deposits.

Customer deposits were down 5.21% to €35,077 million following the reversal of the repurchase agreement (€1,108 million) and the maturity of single mortgage covered bonds (€670 million). Meanwhile, strictly customer deposits, which include demand and term accounts without mortgage covered bonds, remained flat in the period. As for the latter, and in line with the trend seen across the entire banking system, the most liquid deposits gained 17%, with part of this increase coming from term deposits, which were down 35%.

Debt securities issued (€1,827 million) were down €320 million following the redemption of the CoCos resulting from Caja3 and securitisation liabilities.

Liabilities under insurance or reinsurance contracts were up 2.34% to €7,019, following the increasing popularity of life insurance as a savings instrument due to the tax benefits it has to offer.

Off-balance sheet funds, investment funds, pension plans and insurance products all performed extremely well, especially investment funds under management, where assets were up by over 18%, and pension plans to a lesser extent. The Group's market share when it comes to assets under management and insurance was 4.60%, up 13 basis points on the close of 2016.

Customer funds:

	€ million			**Change (%)**
	31/12/2017	**31/12/2016**	**Change**	
On-balance sheet funds	43,923	46,011	(2,088)	(4.54)
Customer deposits	35,077	37,005	(1,928)	(5.21)
. Of which: strictly customer deposits	*31,330*	*31,430*	*(100)*	*(0.32)*
Debt securities issued	1,827	2,147	(320)	(14.90)
Liabilities under insurance or reinsurance contracts	7,019	6,859	160	2.34
Off-balance sheet funds	18,659	16,526	2,133	12.91
Total customer funds	**62,582**	**62,537**	**45**	**0.07**

Provisions for on-balance sheet liabilities (€373 million) comprise funds for pensions and similar commitments, outstanding labour costs and other provisions, which include those covering risks associated with floor clauses in mortgage loan agreements (€49.3 million). The use of balances from previous years and new allowances in 2017 triggered a reduction of €39 million in this heading.

Net assets amounted to €2,999 million, showing a change of €23 million in the year. Meanwhile, shareholders' equity (€2,855) gained €102 million due to the contribution made by earnings for the year. The heading Other accumulated comprehensive income was down €79 million due to the reduction in unrealised gains on fixed income assets classified as held for sale.

2.4. Income statement

Ibercaja posted net profit of €138 million in the period, demonstrating its ability to generate earnings against a backdrop of rock-bottom interest rates that have negatively impacted the financial margin. Recurring income was up, reversing the trend seen in recent periods, thanks to healthy levels of retail activity as the Bank seeks to defend differentials, focus on lending to SMEs and increase assets under management. The Bank was also successful at controlling ordinary costs and generating extraordinary profit, allowing it to improve its coverage.

Main headings of the income statement:

	€ million			**Change (%)**
	31/12/2017	**31/12/2016**	**Change**	
Net interest income	**561**	**567**	**(6)**	**(1.07)**
Net fees and commissions and exchange differences	366	340	26	7.74
Gains/(losses) on financial assets and liabilities	153	170	(17)	(10.03)
Other operating profit/(loss)	84	53	31	58.84
Other operating income/expense	70	30	40	130.69
Dividends	13	11	2	17.26
Earnings at equity-accounted entities	1	12	(10)	(88.86)
Gross income	**1,164**	**1,130**	**34**	**3.05**
Operating expenses	719	652	67	10.24
Profit/(loss) before write-downs	**445**	**478**	**(32)**	**(6.77)**
Provisions, impairment and other write-downs	264	413	(149)	(36.10)
Other gains/(losses)	1	6	(5)	(76.41)
Profit/(loss) before tax	**183**	**71**	**112**	**158.20**
Taxes	44	(72)	117	161.38
Consolidated profit/(loss) for the year	**138**	**143**	**(5)**	**(3.29)**
Profit attributed to the parent	**138**	**143**	**(5)**	**(3.17)**

Net interest income was €561 million, down 1.07% year on year but gradually stabilising. The change here was down to the lower interest rates, impacting yields on the fixed income portfolio above all else, but also loans and advances to a lesser extent.

Profits from retail activity were up by more than 8% in the year. The return on lending (1.44%) shed 7 basis points in the year in response to the repricing of the mortgage portfolio pegged to the Euribor; although this impact was offset by the positive contribution made by new loans. The drop in lending income has been offset by the parallel drop in the cost of retail borrowing, as the Bank's rates fall in line with prevailing market rates and as demand deposits steadily account for more and more of customer savings. The customer spread of 1.37% widened by 10 basis points in respect of 2016.

Net interest income contracted in the period due to the reduced contribution made by wholesale activity. The fixed income portfolio also made a smaller contribution due to the diminishing average balance and yield on the securities. The reduction in income was partially countered by the lower cost on wholesale financing, since the Caja3 CoCos were redeemed early and issuances were repriced at lower rates.

Net fee and commission income was up 7.74% year on year to €366 million. Income originating from asset management gained 16.62%, largely in response to the increase in income earned from the management and sale of investment funds (21.32%) –where assets under management saw sharp growth– and income from pension plans, which gained 10.97%.

Fees associated with banking services were down 2.03%. Account maintenance and administration fees were also down following the review of the commercial policy regulating services for loyal and engaged customers, and those fees arising from the Sareb bad bank, following the termination of the contract to administer the assets transferred from Caja3.

Net fees and commissions:

	€ million			Change (%)
	31/12/2017	31/12/2016	Change	
Fees for contingent liabilities and commitments	13	11	2	12.49
Collection and payment services fees	112	114	(2)	(1.21)
Securities service fees	15	13	2	15.66
Fees on sales of non-bank financial products	208	178	30	16.62
Other fees	33	34	(1)	(4.09)
Fees received	**381**	**350**	**31**	**8.63**
Fees paid	**15**	**11**	**4**	**36.13**
Exchange differences	**1**	**1**	**0**	**5.96**
Net fees and commissions and exchange differences	**366**	**340**	**26**	**7.74**
Non-banking fees and commissions	*208*	*178*	*30*	*16.62*
Banking fees and commissions	*159*	*162*	*(3)*	*(2.03)*

Recurring income (net interest income and fee and commission income) was up 2.23%, confirming the change of trend seen since early 2017. Driving this recovery was the fee and commission income obtained from asset management activity and the gradual stabilisation of net interest income.

Returns on equity instruments totalled €13 million, up 17.26% in response to the increase in dividend income received from investee companies. Meanwhile, earnings on financial transactions came to €153 million, down 10.03% on 2016 and relating almost entirely to the capital gains obtained from the rotation of the fixed income portfolio.

Share of profit or loss at entities accounted for using the equity method totalled €1.3 million. The task of comparing this year's figures with last year's is complicated somewhat by the profit generated in 2016 from the sale of the company's stake in Visa Europe.

The heading Other operating income and expense contributed €70 million to gross income, compared with €30 million in 2016. This heading includes €80 million in extraordinary income from the novation of the agreement to assign the investment fund and individual pension plan depositary business to Cecabank, and a further €18 million under the insurance distribution agreement signed with Caser. The most noteworthy expenses in the period were as follows: the contribution paid to the Deposit Guarantee Fund and to the National Resolution Fund (€49 million and €12 million, respectively) and the charge (€3.6 million) arising from the conversion of deferred tax assets into tax credit claimable from the Spanish tax authorities.

Gross income came to €1,164 million, up 3.05% year on year largely on the back of recurring income, which accounted for 80% of gross income, and also the generation of non-recurring income.

Operating expenses totalled 719 million euros, up 10.24% due to the expenses incurred from the workforce adjustment plan agreed upon with trade union representatives in May. Stripping out this impact, operating expense would be down 0.78%. Staff expenses stripping out non-recurring expenses were up 0.46%, while general administrative expenses and amortisation and depreciation were down 2.46% and 2.94%, respectively.

The cost-to-income ratio, meaning operating expenses to gross income, stood at 55.59%, down 2.14 percentage points. Driving this solid performance were the increase in income and the Bank's efforts to contain ordinary costs.

Breakdown of operating expenses:

	€ million			**Change (%)**
	31/12/2017	**31/12/2016**	**Change**	
Wages and salaries	292	288	4	1.27
Social security contributions	72	71	1	0.31
Pensions	20	20	0	3.49
Termination benefits	72	3	69	---
Other staff expenses	3	3	0	(3.03)
Personnel expenses	**459**	**385**	**74**	**19.13**
Property, plant and office equipment	48	50	(2)	(3.41)
Equipment maintenance, licences and computer work	17	17	0	2.21
Communications	18	19	(1)	(3.18)
Advertising and publicity	7	9	(2)	(18.35)
Charges and taxes	24	25	(1)	(5.85)
Other management and administrative expenses	95	96	(1)	(0.26)
Other general administrative expenses	**209**	**216**	**(7)**	**(2.46)**
Depreciation and amortisation	**51**	**52**	**(1)**	**(2.94)**
Operating expenses	**719**	**652**	**67**	**10.24**
Operating expenses without workforce adjustment costs	***647***	***652***	***(5)***	***(0.78)***

Profit before write-downs amounted to €445 million. Provisions and write-downs reported as losses on impairment of financial assets, non-financial assets, non-current assets held for sale and allowances for provisions totalled €264 million, down 36.10% on 2016. Meanwhile, write-downs on loans and real estate assets came to €243 million, down 16.36%. Extraordinary provisions were used to enhance coverage, bringing the Group's cost of risk, meaning the percentage of this impairment to risk exposure, came to 0.70%, exceeding the figure reported in the third quarter but marking a significant year-on-year improvement.

Other gains and losses contributed net income of €1 million, compared with €6 million in 2016. This heading shows proceeds from sales of property, plant and equipment and business holdings, as well as payment of fees on sales of foreclosed real estate assets.

Profit before tax was €183 million, up €112 million on 2016. After deducting corporate income tax expense and earnings relating to non-controlling interests, net profit attributable to the parent came to €138 million.

3. Funding and liquidity structure

Ibercaja has traditionally employed a conservative liquidity policy as it seeks to finance the growth of its lending activity with retail customer funds. The Bank prudently manages its liquidity and ensures that its sources of financing are balanced and well-diversified, anticipating needs so as to honour its obligations as these fall due without compromising its investment activity.

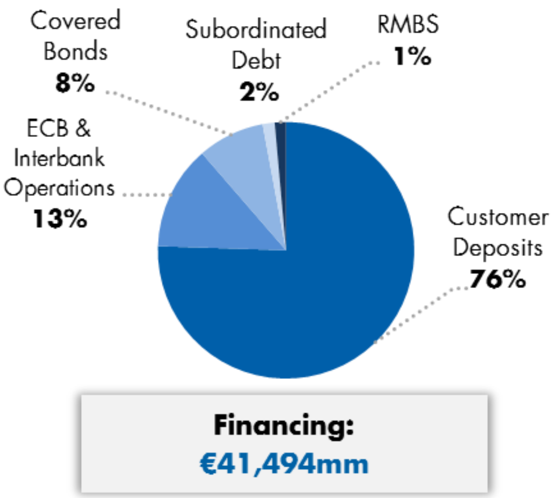
The basic principles governing this strategy are as follows: active management through a regular control system based on internal limits and indicators documented in the Liquidity Manual; establishing measures and actions to respond to crisis scenarios (contingency plan); harnessing the various alternatives offered by the market to diversify investments in relation to their duration and ensure a suitable mix of highly-liquid instruments; and maintaining a significant asset buffer to at the ECB to cover possible tensions.

Liquidity risk is measured by taking into account the estimated cash flows from assets and liabilities, as well as any additional collateral or instruments that may be needed so as to ensure alternative sources of liquidity. Short, medium and long-term outlooks are prepared in order to gauge financing needs and limit compliance. These forecasts take into account the latest macroeconomic trends because of their impact on the performance of the assets and liabilities shown on the balance sheet, as well as contingent liabilities and derivative products. Liquidity risk is also controlled by establishing exposure limits, thus keeping the Bank's exposure within ranges that are compatible with the approved policies.

Note 3.4. to the annual accounts for 2017 provides a more detailed explanation of the Bank's strategy and policies for managing liquidity risk, as well as the associated measurement and control procedures.

Retail customer deposits are the main source of outside funding, accounting for 76% of the total. Over 80% of the total is classified as stable, based on Bank of Spain regulations, which illustrates the engagement and trust our customers place in the Bank. The Bank's loan-to-deposit (LtD) ratio of 97.76% reflects the self-funding capacity of the retail business.

Breakdown of financing structure:



Liquid assets were up 8.80% to €10,328 million, representing 19.45% of total assets. Virtually all of these assets are eligible as collateral with the ECB. Meanwhile, the Bank's capacity to issue mortgage covered bonds and public sector covered bonds was €6,688 million, bringing total fund availability to €17,017 million.

The liquidity coverage ratio (LCR), which measures the level of high-quality liquid assets free of charges needed to overcome a liquidity stress scenario at 30 days, stands at 281.15%, well clear of the 80% requirement under Basel III for 2017. Meanwhile, the NSFR, applicable as from 2018, is 124.42%, This indicator shows the proportion of funding for one year covered by stable liabilities, the aim being to ensure an even balance sheet structure that limits excessive reliance on short-term wholesale funding.

Available funds under the ECB facility amounted to €5,065 million. Various placements of mortgage covered bonds worth €1,500 million were completed during the year. These are held on the balance sheet as collateral before the European Monetary Institute. Almost all of the Bank's other eligible assets not pledged under ECB facilities are Spanish public debt and would allow the Bank to obtain further liquidity immediately if needed.

The level of overcollateralisation, meaning the eligible portfolio to outstanding mortgage covered bonds, stood at 236.09%, well clear of the legal minimum of 125% and of the average level for financial institutions.

The Bank's maturities of wholesale market issuances present a staggered redemption schedule through to 2027. In 2018 and 2019, redemptions will total €467 million and €507 million, respectively, representing less than 1% of the Bank's assets. All these placements can be comfortably redeemed using available liquidity.

Liquidity Indicators:

	€ million and %	
	31/12/2017	**31/12/2016**
Cash and central banks	3,281	759
Balance drawable under facilities	5,065	4,218
Eligible assets not pledged to the policy	1,647	4,146
Other marketable assets not eligible by the central bank	335	370
Volume of liquid assets	10,328	9,493
Issuance capacity for mortgage covered and public sector covered bonds	6,688	7,847
Availability of liquid assets	**17,017**	**17,340**
Liquid assets / Total assets (%)	19.45	16.60
Loan-to-deposit ratio (LtD) (%)	96.34	97.76
LCR (%)	281.15	255.90
NSFR (%)	124.42	121.40

As regards expected liquidity trends and fluctuations, and judging by the business outlook, wholesale assets and liabilities are likely to be gradually 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 weighting of wholesale maturities, the stability of its retail deposits and the prevailing situation within the 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 self-assessed on a regular basis through processes to identify, measure and aggregate risks in order to determine the capital needed to cover them. Above and beyond minimum regulatory capital requirements, the Group sets itself a capital target that exceeds actual needs and it forecasts capital sources and consumption on the basis of business performance and expected results in the mid term.

Based on the expected changes in Ibercaja Banco's capital and solvency ratios, the Bank will be able to cope with potential stress scenarios. However, in the event that an extraordinarily adverse change in the macroeconomic climate, in applicable regulations or in the banking business requires the Group to resort to alternative capital sources in order to cover a possible shortfall, the Group, following European Banking Association (EBA) guidelines and recommendations, as well as the provisions of Law 11 of 18 June 2015, on the recovery and resolution of credit institutions and investment firms, has defined a recovery plan aimed at prevention and at guaranteeing its capacity to respond accordingly to any possible deterioration in its solvency or funding capacity. The ultimate aim here is to maintain sufficient capital and liquidity with which to absorb unexpected losses under severe stress situations.

The ECB announced the final results of the Supervisory Review and Evaluation Process (SREP), which determines each bank's individual capital needs for 2018 on the basis of its business model, capital risk, liquidity risk, governance and internal control. The decision requires Ibercaja to maintain a phased-in CET1 ratio of 8,125% and a total capital ratio of 11,625% (8.75% and 12.25%, respectively, fully-loaded). These ratios include the minimum required for Pillar 1 (4.5% CET1 and 8% total capital), the Pillar 2 requirement (1.75%) and the capital conservation buffer (1,875%). The Group's current capital ratios are above the ECB's regulatory requirements and as such the review process will not trigger any regulatory restriction or limitation.

Total eligible own funds came to €3,102 million, giving a solvency ratio of 13.93%. The phased-in CET1 ratio, which measures the relationship between Tier 1 capital and risk-weighted assets, was 11.72%, down 28 basis points in the year following the redemption of €224 million in contingent convertibles (CoCos) issued by Caja3 in 2013. The excess over the regulatory minimum (4.5%) was €1,608 million, while the excess over the ECB's requirement for 2017 (7.25%) was €996 million.

Applying the criteria envisaged for the end of the phase-in period prior to the full implementation of Basel III, the fully-loaded CET1 ratio, at 11.04%, is 87 basis points above the figure for 2016. The improvement here was down to organic generation of capital through earnings, a healthier and more streamlined balance sheet following the sale of non-strategic assets, and the reduction in non-performing loans. The entry into force of IFRS 9 on 1 January 2018 will have an estimated impact on solvency of 53 basis points, bringing the fully-loaded CET1 ratio to 10.51%.

At 31 December, the phased-in leverage ratio stood at 5.41%, above the minimum reference level of 3% set by the Basel Committee.

Key solvency indicators:

	€ million and %	
	31/12/2017	31/12/2016
Tier 1 capital	2,610	2,779
Common Equity Tier 1	2,610	2,779
Additional Tier 1 capital	---	---
Tier 2 capital	492	517
Eligible own funds	3,102	3,296
Risk-weighted assets	22,266	23,169
CET1, phase-in (%)	11.72	12.00
Tier 1, phase-in (%)	11.72	12.00
Tier 2 (%)	2.21	2.23
Solvency ratio, phase-in (%)	13.93	14.23
Leverage ratio, phase-in (%)	5.41	5.37
CET1, fully loaded (%)	11.04	10.17

5. Risk management

Global risk management is essential to preserving the Bank's solvency and capital adequacy. Its strategic priorities include the development of systems, tools and structures that will allow for the permanent measurement, monitoring and control of risk exposure levels, while assuring an adequate relationship with the Bank's own funds and responding to the requirements of regulators, supervisors and markets.

Risk is managed through the Risk Appetite Framework, which essentially provides a set of principles, procedures, controls and systems used 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 risk type and amount, and its level of tolerance.

While credit risk is the most significant threat to the Bank's business, risk management also covers counterparty, concentration, market, liquidity, interest rate, operational, business, reputational and insurance risks. The Bank also has a set of measures and procedures in place to minimise non-financial risks, including reputational, compliance and environmental risks.

Note 3 to the Ibercaja Banco Group’s 2017 consolidated annual accounts provides more extensive and detailed information on the management of each type of risk.

6. Research, development and technology

The Bank has focused on technological innovation in a bid to satisfy customer needs and expectations while responding to regulatory requirements. The most relevant actions, some of which are already operational while others are in progress, include the following:

- Two-year project to develop the new commercial system aimed at responding to customer needs proactively and increasing their satisfaction.
- Adapting to regulatory requirements the scope of which has changed, or will change, some of the Bank's main processes. Examples here include commercial activity involving investment and advisory products (MIFID II) and management of the complete credit risk cycle and its accounting treatment (IFRS 9).
- Ensuring compliance with the new European General Data Protection Regulation (GDPR), which will take effect in May 2018.

- Reviewing the business continuity plan to include initiatives relating to technological risk management and improving internal security policies.
- Falling in line with the last phase of the Securities Market Reform Law and the Insurance Distribution Directive; provisions that will change the face of the commercial relationship with customers and require organisations to possess enhanced management capacities and tools.
- On the subject of efficiency, the Bank has continued to review administrative processes and has rolled out various initiatives to concentrate administrative work at internal and specialised third-party service centres.
- Mobile banking has evolved in response to the ongoing digital transformation. In this realm, the Bank has added the “My Finances” module and improved the user experience across all environments, especially via the mobile banking app.

7. Non-financial report

On 24 November 2017, the Spanish Council of Ministers enacted Royal Decree-Law 18/2017, transposing into Spanish law Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information.

The non-financial statement shall contain a brief description of the Group's business model, the policies pursued and the outcome of those policies, the principal risks related to its business and non-financial key performance indicators on matters relating to the environment, social issues, employees, human rights and the fight against corruption and bribery.

Ibercaja has included all this information in this management report. Meanwhile, its annual report –which explains the Bank's social and environmental policies and its commitment and performance when it comes to corporate social responsibility– provides detailed information on the Bank's actions in relation to all the matters just described. This report was verified in 2017 by PricewaterhouseCoopers Auditores, S.L., an independent firm that audited the Group's financial statements in that year.

In drawing up the non-financial report, Ibercaja has relied mainly on the criteria of the Global Reporting Initiative (GRI) and on the Communication from the Commission of 5 July 2017 – Guidelines on non-financial reporting.

Ibercaja is committed to a universal banking model focused on the retail business, with customers at the heart of its strategy and with quality service and sound advice as its hallmarks. When carrying on its financial activity, it firmly believes that its plans and actions should help ensure well-balanced economic growth, social cohesion and environmental protection. Sustainable action is part and parcel of the Bank's internal management model and inspires all its business activities.

In November 2016, the Board of Directors approved the Corporate Social Responsibility Policy, which sets out the principles guiding the Bank's actions and responsible management and its commitments with stakeholders. CSR management is headed by the Chief Executive Officer. Stretching across the entire organisation, it forms an integral part of the Strategic Plan. The Reputation and Corporate Sustainability Committee reports to the Management Committee, which then reports to the Bank’s Board of Directors. Its remit includes the task of validating and supervising the Bank's corporate social responsibility policy and the programmes and initiatives in place to monitor and fulfil that policy.

Ibercaja has been a signatory to the UN Global Compact since 2006, thus ratifying that its activities are carried out in accordance with the principles enshrined in the Global Compact. The Annual Report describes the progress made in implementing the ten principles of the UN Global Compact when it comes to corporate social responsibility.

7.1. Matters relating to the environment

The Group is fully aware of the need to reconcile business growth with the need to protect and care for the environment. It has therefore drawn up a policy governing all its actions in this field. It is based on compliance with general law and regulations, preventing pollution and contamination from its own processes, ensuring proper waste management, raising employee awareness regarding the responsible use of natural resources and championing good practices among customers and suppliers.

Ibercaja encourages investments in sustainable projects with environmental value and in those companies with high levels of corporate social responsibility. The Bank invests in companies to develop renewable energies, increase energy efficiency or to implement environmental measures. It also maintains specific lines of financing for alternative and renewable energies that are granted directly and through agreements with official institutions.

Since 2007 the bank has held the Environmental Management System Certificate issued by AENOR, which certifies that the Central Services building meets the requirements of Standard UNE-EN ISO 14001:2015. The latest recertification took place in 2017.

The Environmental Management System has an Environmental Team that suggests initiatives to be taken in the area of environmental protection and drives their implementation. In 2017 the main lines of action were:

- **Waste Management:**
    - Employee sensitization and awareness of the selective collection of waste.
    - The fitting of two new waste centres in Burgos and Badajoz to increase the efficiency of waste management while minimizing collection travel.
    - Control and monitoring of the activities performed by waste managers.
    - Reuse of furnishings.
- **Energy efficiency:**
    - Use of more energy efficient lighting.
    - Installation of highly-energy efficient heating/cooling equipment during renovations and at new facilities.
    - Increased use of clean energy with the objective of all consumption at the head office be sourced from renewable energy.
- **Emissions:**
    - In the medium-term the Entity plans on joining the carbon footprint, compensation and carbon dioxide absorption project registry at the Ministry of Agriculture, Fishing, Food and Environment.
    - To reduce the volume of emissions by avoiding travel, video and audio conference meetings have increased.

Ibercaja believes that it substantially complies with environmental legislation and it maintains procedures to ensure and guarantee compliance. During 2017 no significant investments were made and no significant contingencies are deemed to exist with respect to the protection and improvement of the environment.

7.2. Social matters

Ibercaja contributes to the socioeconomic development of its areas of operation and is sensitive to the social and development needs in its environment. Commitments to society are summarized as follows:

- Contribute to the development of the territory by supporting the production network.
- Respond to social demands: employment, training, housing, through its financial activity.
- Support including marginalized groups in the financial system.
- Facilitate maximum accessibility to its products and services through physical or remote solutions.
- Encourage the financial education of society in general.
- Promote the participation of employees in volunteer initiatives.
- Collaborate with organizations that carry out socially responsible actions.
- Assume the commitments established by international organizations in the areas of sustainable development, human rights, good governance, ethical commitment and the fight against corruption.

7.3. Employee-related matters

The human team is a basic pillar for development at Ibercaja. Employee identification with corporate values, qualifications, professionalism and motivation notably contribute to the Entity's progress. The human resource policy focuses on individual development and is governed by strict respect of the law, equal opportunities, non-discrimination due to gender or any other circumstance, social dialogue and a commitment to the reconciliation of family and working lives.

Ibercaja Group has 5,581 employees, of which 5,265 work for the parent company. Indefinite employment contracts cover 96% of the payroll at Ibercaja Banco. Active personnel have an average length of service totalling 19 years and the average age is 45. Men make up 53% of employees while women make up the remaining 47%. Women make up 52% of employees that are 40 years of age or less.

University studies have been completed by 66% of employees, and degrees in Business, Economics, Business Management and Law predominate.

Cultivating talent

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.

The Entity encourages talent development through training programs and internal promotion for the highest number of employees possible. In 2017 897 employees received professional promotions through the application of the criteria defined in each of the professional career plans, length of service, unrestricted designations and office classifications.

There are professional career plans for all central service departments and for the strategic company and personal and private banking segments. There are a total of 1,168 professionals pertaining to these promotion plans.

Equality and reconciliation:

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.

Women received 51% of the promotions in 2017. The positioning of women in positions of responsibility is continually advancing. In 2017 around 30% of Bank Manager positions, 61% of Assistant Manager positions and 51% of Personal Banking Manager positions have been awarded to women.

Employees benefit from measures to reconcile working and family lives that expand or improve those set out in labour legislation and in the collective bargaining agreements. During the year 284 employees have taken advantage of leaves of absence, schedule reductions and maternity leaves in order to perform family care and training.

Remuneration policy

Employee salaries consist of fixed compensation as stipulated in the Collective bargaining agreement for each professional category and by the variable remuneration that employees working in the office network and certain groups with specific duties and responsibilities receive. The social benefits available to employees constitute an improvement of the coverage that is legally required.

Social dialogue

Labour relations are based on open and transparent dialogue with employee representatives. These relationships attempt to facilitate mutual implication and commitment, in order to make advances in the improvement of the employment conditions for the professionals that work at Ibercaja.

Occupational health and safety.

Ibercaja is committed to the safety and protection of its employees to ensure their well-being and occupational health, by minimizing risks and assigning the resources that are necessary to implement preventive actions.

The Entity has an In-House Prevention Service, an Occupational Health and Safety Committee and an Occupational Risk Prevention Plan.

7.4. Human rights matters

Ibercaja conducts its banking business responsibly, with the commitment to respecting and encouraging human rights in accordance with prevailing legislation and international standards: The UN's Universal Declaration of Human Rights, and the UN Global Compact.

One of the guiding principles of the Corporate Social Responsibility Policy is defending human rights, which covers the entire organisation and all its members. It also takes into consideration the social, environmental and human rights approaches and policies implemented by the suppliers it contracts. Ibercaja has a Code of Conduct that specifies the values that encourage responsible contracting, many of which are related to human rights. The preparation of a Ethics Code for the organization started in 2017 and it will be communicated and implemented throughout 2018.

7.5. Matters relating to the fight against corruption and bribery

The Entity has policies and procedures intended to avoid corruption and bribery in its business, which are understood to be the offer, promise, request or acceptance of an unjustified benefit or advantage of any nature as compensation for unduly favouring others in commercial relationships. The prohibition against such illegal practices is applicable to every member of the Entity. members of the Board of Directors, executives and employees. The procedures have also been included in the criminal risk prevention system, which was prepared to mitigate the risk of such action: in particular, procedure for approving suppliers, system for approving related-party transactions, etc. Furthermore, 95% of the Ibercaja Banco's current workforce has received criminal risk prevention training, including modules on corruption and bribery.

7.6. Matters relating to the diversity of the members of the Board of Directors

When selecting candidates to form part of the Board of Directors, Ibercaja takes into account the following principles for encouraging the diversity of its members:

- The candidate selection process starts with a prior analysis of the Entity's needs.
- It ensures that the number of independent directors is adequate in the context of the total number of directors, always bearing in mind regulatory requirements regarding the composition and positions to be held by this category of director on internal Board of Director committees.
- The selection criteria take into consideration the diversity of knowledge, training, professional experience, age and gender. These criteria lack any embedded biases that could give rise to any discrimination (particularly for reasons of gender, ethnic origin, age or disability).

This is all intended to encourage a diverse and balanced composition on the whole which, in addition to meeting the requirements established with respect to knowledge and experience, enrich the analysis, debate and taking of decisions.

8. Information regarding treasury shares

There have been no transactions involving Treasury shares in 2017.

9. Other information

9.1. Dividend policy

At the General Meeting held on 29 March 2017 shareholders approved the distribution of a dividend totalling €35.7 million by charging the profits obtained by the Entity in 2016, and the payment was effectively made on 4 April 2017.

The proposal to distribute dividends by charging 2017 profits that the Board of Directors will present for the approval of Shareholders at a General Meeting totals €17.5 million.

Taking into consideration the current trend towards business and profit normalization, 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.

9.2. Credit agency ratings

Based on the improvement in the financial risk in the sector, in February 2017 Standard & Poors raised the Entity's long-term rating to "BB +", maintaining a positive outlook and ratifying the short-term rating of "B". The rating is supported on Ibercaja's stable retail franchise, it's conservative management, a higher than average credit rating and the adequate financing and liquidity profile. The positive outlook indicates a possible raising of the rating associated with the short and medium-term improvement in the operating environment, the preservation of the value of the franchise and its profitability, within a context of higher consolidation and competition and maintaining a lower risk profile than its comparables.

The rating granted by Moody's for deposits is "Ba3", with a stable outlook. The increase from "B1" took place in May 2017 when the agency's assessment of Spain's macroeconomic profile changed to "Strong -", in line with the growth of the economy, the deleveraging of the private sector and the gradual recovery of the real estate market.

The credit rating agency Fitch ratified Ibercaja's long-term rating of "BB +" last April, noting the strength of its regional franchise, the adequate financing and liquidity position and the contribution of the insurance business as a source of diversification and generation of recurring revenue, within a context of profitability under pressure due to the low interest rates and business volumes that are still in a recovery stage. The rating also bears a positive outlook as a result of the favourable trend in the evolution of capital and asset quality, which could give rise to further improvements in the rating in the medium-term.

Credit agency ratings:

	Long-term	**Short-term**	**Outlook**
Standard & Poors	BB+	B	Positive
Moody’s (rating for deposits)	Ba3	NP	Stable
Fitch Ratings	BB+	B	Positive

9.3. Average supplier payment period

The average payment period for suppliers in 2017 was 21 days, well within the legal maximum of 60 days established by Law 15/2010 (5 July) that establishes measures to combat against late payments in commercial transactions.

10. <u>Business outlook and projections</u>

After four years of consecutive growth, early indications are that the favourable dynamics in Spain will be maintained in 2018 with GDP growth estimated at around 2.5% based on a market consensus. The moderation of growth is explained by the slower expansion of private spending due to the exhaustion of some driving factors in 2017, such as: The tax reduction in 2016, the decline in energy prices, the demand for durable goods that was deferred during the financial crisis and the fall in family savings rates. However, other expenditures support would move in the other direction such as: The strength of the job market, the recovery of real estate and financial wealth and the abundance of financing.

Foreign trade will maintain its notable contribution as a result of the growth expectations for our biggest commercial partners, increases in the competitiveness of Spanish companies, the growing diversification of export destinations and the increase in the flow of foreign tourists.

Domestically, political tensions due to the still uncertain outcome of the situation in Catalonia, together with the difficulty of approving the 2018 budget and, from a foreign perspective, the protectionist impulses in certain countries could put downward pressure on growth.

During the year Ibercaja has demonstrated its capacity to generate profits in a scenario of extremely low interest rates, which has a negative effect on financial margins. Recurring revenue has grown, unproductive assets have notably decreased and liquidity and solvency are more robust through the application of the prudence policy that has traditionally been in place at the Entity.

Work will continue in 2018 to further improve the Group's competitive position, improving profitability up to the levels required by the market and strengthen solvency ratios, with customer service excellence as a roadmap for management. The main levers to achieve these goals are:

- **Accelerate the growth of business:**
    - Improve the market share of retail resources, particularly in off-balance sheet products, with different strategies for each geographic region and type of customer.
    - Territorial plans will continue to be developed to support areas with the highest growth potential and actions will be implemented to improve in those where the Entity has a consolidated position.
    - The Corporate, Personal and Private Banking Plans will continue as these are the segments that generate the highest levels of profitability.
    - The loan portfolio will continue to be broadened and diversified, especially in the area of small and medium-sized businesses and consumer loans, while maintaining a notable presence in the residential mortgage business.
- **Maximize profitability:**
    - Adapt the loan and resource structure, together with the price-setting strategy, to optimize their contribution to results given the current situation and outlook for interest rates.
    - Supplement the retail margin with income from the wholesale business.
- **Quality of the balance sheet and reduction of unproductive assets:**
    - Minimize the impact of irregular assets in the income statement through ordinary management and extraordinary sales transactions.
    - Achieve the progressive normalization of the cost of risk, supported by the efforts already made through write-downs, the reduction of delinquencies as a result of the more benign macroeconomic environment and the prudent management of risk.
- **Efficiency and productivity:**
    - Maintain strict cost controls, receiving the positive effect of the measures adopted in previous years and implementing other actions that contribute to the improvement of efficiency and productivity.
    - Optimize the operating costs of the retail network and central services, taking into account the changes that are taking place in the consumer habits and the growing penetration of new technologies.

To take on the new phase that is now starting, Ibercaja is preparing a new Strategic Plan with a time horizon of 2020. Its objectives are summarized as follows: Prepare to compete in a rapidly changing scenario affecting consumer habits, technology, the economic and business context as well as the regulatory framework. The goal is for the Entity to occupy a relevant position within the Spanish banking system, providing it with the profitability and solvency that is necessary to attract capital and to successfully support its listing on the stock market.

11. Events after the reporting period

Between the year end date and the preparation of these annual accounts, no events have taken place that could have a significant effect on them.

12. Alternative Performance Measures

The Alternative Performance Measures (APR's) defined based on the recommendations set out in the European Securities and Markets Authority guidelines, ESMA, ESMA/2015/1415 es) and used in this report are set out below, together with their definition and reconciliation within the context of the balance sheet and income statement items used in their calculation:

Customer spread (%): difference between the average loan portfolio performance and the cost of retail resources.

	(%)	2017	2016
+	Yields from consumer loans *Ratio of interest revenue from the portfolio of loans granted to registered customers* *The average customer loan balance, using management criteria, during the year*	1.44	1.51
-	Cost of retail resources *Ratio of interest expense on retail resources recognized in the balance sheet* *the average retail resource balance, using management criteria, during the year*	0.07	0.24
=	**Customer spread**	**1.37**	**1.27**

Source: internal company information using management criteria

Net gains/(losses) on financial transactions: sum of gain/(losses) due to the write-offs in financial asset and liability accounts not measured at fair value through profit or loss, gain/(losses) on financial assets and liabilities held for trading, gain/(losses) on financial assets and liabilities measured at fair value through profit or loss and gain/(losses) from hedge accounting.

	(Thousands of euros)	31/12/2017	31/12/2016
+	Gains or losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss.	148,273	152,621
+	Gains/(losses) on financial assets and liabilities held for trading	971	15,148
+	Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	1,169	573
+	Gains/(losses) from hedge accounting	2,111	1,185
=	**Gains/(losses) on financial assets and liabilities**	**152,524**	**169,527**

Source: Public consolidated income statement

Other operating income and expense: sum of the net amount of other operating income and expenses and income and expenses on assets and liabilities covered by insurance or reinsurance contracts.

	(Thousands of euros)	31/12/2017	31/12/2016
+	Other operating income	155,637	118,212
-	Other operating expenses	85,282	87,540
+	Income from assets covered by insurance and reinsurance contracts	1,150,124	1,330,367
-	Liability expenses covered by insurance or reinsurance contracts	1,150,414	1,330,667
=	**Other operating income and expense**	**70,065**	**30,372**

Source: Public consolidated income statement

Operating expenses: sum of personnel expenses, other administration expenses and depreciation/amortisation.

	(Thousands of euros)	31/12/2017	31/12/2016
+	Personnel expenses	458,588	384,958
+	Other administration expenses	209,606	214,900
+	Amortisation	50,806	52,347
=	**Operating expenses**	**719,000**	**652,205**

Source: Public consolidated income statement

Efficiency ratio: quotient of total operating expenses/gross margin.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Operating expenses (excluding lay-off expenses*)	647,140	652,205
Denominator	Gross income	1,164,214	1,129,774
=	**Efficiency ratio (%)**	**55.59**	**57.73**

Source: public consolidated income statement and Note 38 consolidated financial statements (*€71,860 thousand)

Profit before write-downs: gross margin last operating expenses (administrative expenses and depreciation and amortisation).

	(Thousands of euros)	31/12/2017	31/12/2017
+	Gross income	1,164,214	1,129,774
-	Administrative expenses	668,194	599,858
-	Amortisation	50,806	52,347
=	**Profit before write-downs**	**445,214**	**477,569**

Source: Public consolidated income statement

Provisions, impairment and other write-downs: sum of provisions, impairment of financial assets not measured at fair value through profit or loss, impairment of investments in joint businesses or associates, impairment of non-financial assets and the portion of the heading "Gains/(losses) on non-current assets and disposal groups held for sale not eligible for classification as discontinued operations relating to losses due to the impairment of non-current assets for sale.

	(Thousands of euros)	31/12/2017	31/12/2016
+	Provisions or (-) reversal of provisions	(2,628)	96,019
+	impairment or (-) reversal of the impairment of financial assets not measured at fair value through profit or loss.	185,189	290,663
+	Impairment or (-) reversal of impairment on investments in joint businesses or associates	129	0
+	Impairment or (-) reversal of impairment of non-financial assets	16,075	3,141
+	Profit or (-) loss on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		
	Of which: impairment losses on non-current assets held for sale	65,213	23,313
=	**Provisions, impairment and other write-downs**	**263,978**	**413,136**

Source: public consolidated income statement and Note 42 consolidated financial statements

Cost of risk: percentage represented by the write-offs associated with exposure to credit risk and properties.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Write-downs of loans and properties	243,213	290,793
Denominator	Gross credit + Foreclosed properties	34,965,617	36,022,840
=	**Cost of risk (%)**	**0.70**	**0.81**

Source: internal company information using management criteria

Other gains/(losses): sum of gains/(losses) on the disposal non-financial assets and shareholdings and gains/(losses) on non-current assets and disposal groups held for sale not eligible for classification as discontinued operations (excluding impairment of non-current assets for sale recognised under provisions, impairment and other write-downs).

	(Thousands of euros)	31/12/2017	31/12/2016
+	Gains or (-) losses on the derecognition of net non-financial assets and shareholders	8,068	5,332
+	Profit or (-) loss on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		
	Of which: gains/(losses) on disposal of strategic shareholdings		
	Of which: Gains/(losses) on disposal of other non-current assets for sale	(6,573)	1,005
=	**Other gains/(losses)**	**1,495**	**6,337**

Source: public consolidated income statement and Note 42 consolidated financial statements

ROA: Quotient of profit before taxes and total average consolidated assets.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Pre-tax income	182,731	70,770
Denominator	Total average consolidated assets	55,158,351	58,055,617
=	**ROA (%)**	**0.33**	**0.12**

Source: Public consolidated balance sheet and income statement

ROE: Parent company profits divided by average consolidated shareholders' equity.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Profit attributed to the parent	138,367	142,897
Denominator	Average consolidated shareholders' equity.	2,778,296	2,668,850
=	**ROE (%)**	**4.98**	**5.35**

Source: Public consolidated balance sheet and income statement

ROTE: Parent company profits divided by average tangible consolidated shareholders' equity.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Profit attributed to the parent	138,367	142,897
Denominator	Average tangible consolidated shareholders' equity.	2,582,352	2,470,321
=	**ROE (%)**	**5.36**	**5.78**

Source: Public consolidated balance sheet and income statement

RORWA: Parent company profits divided by risk-weighted assets.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Profit attributed to the parent	138,367	142,897
Denominator	Risk-weighted assets	22,266,290	23,169,135
=	**ROE (%)**	**0.62**	**0.62**

Source: public consolidated income statement and Note 1.7.2 consolidated financial statements

NPL ratio: Non-performing balances of loans and advances to customers in the public consolidated balance sheet divided by total gross loans to customers.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Impaired loans and advances to customers	2,564,825	3,061,298
Denominator	Loans and advances to customers, gross	33,399,262	34,297,404
=	**NPL ratio (%)**	**7.68**	**8.93**

Source: Note 10.4 to the consolidated financial statements

NPL coverage ratio: ratio between total Impairment losses and provisions for contingent liabilities and commitments on non-performing assets.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Impairment of loans to customers	1,090,225	1,350,348
	Impairment of debt securities	3,212	2,533
	Provisions for commitments and guarantees granted	31,656	35,329
Denominator	Impaired loans and advances to customers	2,564,825	3,061,298
	Doubtful contingent liabilities and commitments	44,354	47,414
=	**NPL coverage ratio (%)**	**43.12**	**44.66**

Source: details of the consolidated balance sheet and memorandum accounts

Coverage of foreclosed assets: correction of foreclosed asset impairment divided by the gross value of foreclosed assets.

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Correction of the impairment of foreclosed assets	887,000	900,768
Denominator	Gross value of foreclosed assets	1,566,355	1,725,436
=	**Coverage of foreclosed assets (%)**	**56.63**	**52.21**

Source: Note 3.1.6.2 to the consolidated financial statements

Loan to deposit ratio (LTD): based on management criteria, this metric measures loans financed by retail deposits at the commercial network level. The ratio relates customer loans (net of securitisations held by third-parties) to the retail financing sources reflected in the balance sheet. More specifically, it is the quotient between net loans (excluding securitisation liabilities) customer deposits, promissory notes and subordinated liabilities (excluding unique mortgage bonds, assets under repurchase agreements, wholesale promissory notes, wholesale subordinated debt and preferred shares).

	(Thousands of euros)	31/12/2017	31/12/2016
Numerator	Net loans excluding commercial network securitizations	29,320,283	29,895,665
Denominator	Commercial network creditors	30,433,646	30,579,778
=	**LTD (%)**	**96.34**	**97.76**

Source: internal company information using management criteria

Total on and off-balance sheet customer funds: sum of on-balance sheet resources (customer deposits, debt securities issued and insurance contract liabilities) and off-balance sheet funds (investment funds and companies, pension plans and insurance products, excluding portfolios managed on a discretional basis).

	(Thousands of euros)	31/12/2017	31/12/2016
+	On-balance sheet funds	43,923,565	46,011,332
	Customer deposits	35,077,095	37,005,173
	Debt securities issued	1,827,266	2,147,252
	Liabilities under insurance or reinsurance contracts	7,019,204	6,858,907
+	Off-balance sheet funds	18,658,740	16,525,691
=	**Total on and off-balance sheet customer funds**	**62,582,305**	**62,537,023**

Source: public consolidated balance sheet and Note 27.4 consolidated financial statements

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 THE ISSUER

FINANCIAL YEAR END **31/12/2017**

TAX ID NO. (C.I.F.) **A-99319030**

Corporate name:

IBERCAJA BANCO, S.A.

Registered office:

Plaza de Basilio Paraíso, 2
50008 Zaragoza (Spain)

ANNUAL CORPORATE GOVERNANCE REPORT FOR ENTITIES OTHER THAN SAVINGS BANKS THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

A OWNERSHIP STRUCTURE

A.1 Details regarding shareholders or most significant members of the company at the year end:

Name or corporate name of significant shareholder or member	% 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 significant shareholdings or members 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 or members 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 share capital:

Yes ☑ No ☐

Description of the restrictions
There are no restrictions on the exercising of voting rights. The acquisition or transfer of significant interests in share capital are subject to the prior authorisation of the competent authorities in accordance with the industry regulations applicable to credit institutions. A significant interest is any indirect or direct interest of at least 10% of share capital or voting rights, or any interest below that figure that allows notable influence to be exercised. The same prior authorization process will be applicable when the holder of a significant interest intends to increase that interest, acquiring control over the entity or exceeding a 20%, 30% or 50% interest.

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 bylaws. Describe how this is different from the minimum system established by the Spanish Companies Act 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 administrators is not necessary.

B.2 Explain the rules governing the adoption of resolutions. Describe how this is different from the system established by the Spanish Companies Act 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 vote for each share that they possess or represent.

Once a resolution has been submitted to a vote and the votes have been counted, the Chairman 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 29 March 2017 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 2016 individual and consolidated annual accounts for Ibercaja Banco, S.A. that were prepared by the Board of Directors at the meeting held on 24 February 2017, (ii) approve the management of the Board of Directors and (iii) the application of the profit for the year.

At that same meeting Shareholders unanimously voted in favour of the Annual Compensation Report for the Entity's Directors. A resolution was adopted to amend Articles 20, 40, 47 and 48 of the bylaws in the terms set out in the relevant supporting report approved by the Board of Directors at a meeting held on 24 February.

I'm 30 August 2017 shareholders at an Extraordinary General Meeting unanimously adopted a resolution to appoint Mr. Luis Enrique Arrufat Guerra and Ms. Maria Pilar Segura Bas to the Board of Directors as a proprietary and other external director, respectively.

A unanimous resolution was also adopted to nullify the resolution adopted on 28 October 2016 that authorized the Board of Directors to issue debentures up to the amount of €2,000 million, while simultaneously authorizing the Board to issue debentures in the institutional and retail markets up to a maximum of €3,000 million, when market circumstances so advise.

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 https://www.ibercaja.com, under the section "Shareholders and Investors" https://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 2017 no meeting was held with the various syndicates of the holders of securities issued by Ibercaja Banco or Banco Grupo Cajatres.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board or governing body

C.1.1 State the maximum and minimum numbers of Directors stipulated in the bylaws:

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
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
Luis Enrique Arrufat Guerra		30/08/2017
Maria Pilar Segura Bas		30/08/2017

C.1.3 Name the Board or governing body 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 female Directors							
	2017 Number	%	2016 Number	%	2015 Number	%	2014 Number	%
Board of Directors	2	14.3%	1	7.69%	1	9%	1	11%
Executive Committee	1	14.3%	1	12.5%	1	12.5%	1	14.3%
Audit and Compliance Committee	1	20%	1	20%	1	25%	1	33%
Appointments Committee	-	-	-	-	-	-	-	-
Compensation Committee	-	-	-	-	-	-	-	-
Large Risk and Solvency Committee	1	20%	-	-	-	-	-	-
Strategy Committee	1	20%	1	25%	1	33%	-	-

C.1.5 Fill in the following table regarding aggregate compensation for Directors or members of the Governing Body that accrued during the year.

Compensation	Thousands of euros	
	Individual	**Group**
Fixed compensation	874	-
Variable remuneration	108	-
Attendance fees	328	-
Other compensation	129	-
TOTAL:	**1,439**	**-**

C.1.6 Identify the members of senior management who are not Executive Directors or members of the governing body and indicate the aggregate compensation accrued to them during the year:

Name or corporate name	Position
Francisco José Serrano Gill de Albornoz	Assistant General Manager-General Secretary
Luis Miguel Carrasco Miguel	Assistant General Director - Real Estate Director
José Palma Serrano	Deputy Director - Resources Director
Antonio Martínez Martínez	Deputy Director - Finance Director
Maria Raquel Martínez Cabañero	Deputy Director - Credit Risk Director
José Ignacio Oto Ribate	Deputy Director - Network Director
Rodrigo Galán Gallardo	Deputy Director - Group Finance Director
Angel Carlos Serrano Villavieja	Deputy Director - Director Internal Audit
Maria Teresa Fernández Fortún	Deputy Director - Director Human Resources
Ignacio Torre Solá	Director of Marketing and Digital Strategy
Ana Jesús Sangrós Orden	Director of Corporate Information and Management Analysis

Total remuneration received by senior management (thousands of euros)	2,261

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 number of years in office	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 bylaws and internal regulations 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.

The Entity has a policy to safeguard the independence of the auditor in accordance with the provisions of the Audit Act, and it is intended to establish a relationship between the external auditor, particularly with respect to the process of the selection and appointment of the auditor, the authorization of services other than the audit of the Ibercaja Banco accounts in accordance with the requirements established by the Audit Act, as well as the tasks attributed by the bylaws and the Regulations for the Board of Directors and the Audit and Compliance Committee in this respect.

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. This is intended to 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	Number of members
Executive Committee	7
Audit and Compliance Committee	5
Appointments Committee	4
Compensation Committee	4
Large Risk and Solvency Committee	5
Strategy Committee	5

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 in 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, appointments and compensation committees):

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Category
Mr. José Luis Aguirre Loaso	Chairman	Proprietary
Mr Víctor Iglesias Ruiz	Director	Executive
Mr Jesús Máximo Bueno Arrese	Director	Proprietary
Ms Gabriela González-Bueno Lillo	Director	Independent
Mr Vicente Cóndor López	Director	Independent
Mr. Juan María Pemán Gavín	Director	Proprietary
Mr Jesús Barreiro Sanz	Secretary	Proprietary

% of Executive Directors	14.3%
% of proprietary Directors	57.1%
% of independent Directors	28.6%
% of other external 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 Bylaws and the Regulations of the Board of Directors delegate the following Board of Directors authorities to the Delegate Committee:

- Hear and adopt resolutions regarding proposals to grant, modify, novate or cancel risk transactions which, that fall within its authority in accordance with the provisions of the Loan Risk Management Policies and Procedures Manual approved by the Board of Directors. It will also hear and adopt resolutions regarding proposals to acquire assets by the Entity in lieu of receivables that must be submitted to the Committee in accordance with the Asset Management Policies and Manuals.
- Hear and adopt resolutions regarding personnel matters (disciplinary cases, granting of leaves of absences, etc.) except in those cases in which the decision falls to the CEO or the full Board of Directors due to involving employees that directly report to the CEO.
- Hear and adopt resolutions regarding matters relating to the Entity's assets (properties, expenses, purchases, etc.) and investments and divestments in investee companies that must be submitted for its consideration in accordance with internal Policies and Manuals, except for those that must be decided by shareholders at a General Meeting in accordance with the law.
- When appropriate, grant the authority that is necessary or advisable to execute the resolutions adopted.

Its resolutions are valid and binding without the full board having to subsequently ratify the decision. However, In those cases in which, in the opinion of the Chairman, CEO 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 Cóndor López	Director	Independent
Mr. Juan María Pemán Gavín	Director	Proprietary
Mr Jesús Tejel Giménez	Director	Independent
Mr Jesús Barreiro Sanz	Secretary	Non-member

% of Executive Directors	-
% of proprietary Directors	40%
% of independent Directors	60%
% of other external Directors	-
Number of meetings	9

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's duties are expressly stipulated in the Regulations of the Board of Directors. In particular:

- Inform the Shareholders' Meeting about issues raised by shareholders regarding matters within its sphere of competence.
- Monitor the effectiveness of internal control: regulatory compliance and internal audit.
- 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 Chairman shall be an independent Director must be replaced every four years and may be re-elected once a period of one year from his departure has transpired. The Secretary to the committee will be the Secretary to the Board of Directors.

The 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 request 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.	3 years

NOMINATIONS COMMITTEE

Name	Position	Category
Mr Jesús Solchaga Loitegui	Chairman	Independent
Mr. Félix Santiago Longás Lafuente	Director	Independent
Mr José Ignacio Mijangos Linaza	Director	Proprietary
Mr Jesús Barreiro Sanz	Secretary	Proprietary

% of Executive Directors	-
% of proprietary Directors	50%
% of independent Directors	50%
% of other external 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 Nominations Committee is responsible for proposing nominations to the Board of Directors. It is specifically responsible for:

- Evaluating the suitability of the 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 Chairman and at least once per quarter. The Chairman (independent in any case) of the meeting will cast the deciding vote in the event of a tie.

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 appointment of new directors and the new members of the Entity's Management Committee.

COMPENSATION COMMITTEE

Name	Position	Category
Mr Jesús Solchaga Loitegui	Chairman	Independent
Mr. Félix Santiago Longás Lafuente	Director	Independent
Mr José Ignacio Mijangos Linaza	Director	Proprietary
Mr Jesús Barreiro Sanz	Secretary	Proprietary

% of Executive Directors	-
% of proprietary Directors	50%
% of independent Directors	50%
% of other external Directors	-
Number of meetings	2

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, general managers and similar personnel, as well as for the persons whose professional activity has a significant impact on the Bank'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, one of which will be the Chairman.

The Committee will be validly called to order with one-half plus one of the members present or represented. In case of a tie in the voting, the Chairman shall have the casting vote. 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 COMMITTE

Name	Position	Category
Mr Vicente Cóndor López	Chairman	Independent
Mr Jesús Máximo Bueno Arrese	Director	Proprietary
Mr Jesús Tejel Giménez	Director	Independent
Mr Jesús Solchaga Loitegui	Director	Independent
Ms Maria Pilar Segura Bas	Director	Other external directors
Mr Jesús Barreiro Sanz	Secretary	Non-member

% of Executive Directors	-
% of proprietary Directors	20%
% of independent Directors	60%
% of other external Directors	20%
Number of meetings	9

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, the 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 2016. 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 Enrique Arrufat Guerra	Director	Proprietary
Mr Jesús Barreiro Sanz	Secretary	Non-member

% of Executive Directors	-
% of proprietary Directors	60%
% of independent Directors	40%
% of other external 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 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 Chair 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 mandates set out in the Strategic Plan), reporting the conclusions obtained to the Board of Directors together with the advances made with respect to the new Strategic Plan.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

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 with Fundación Bancaria Ibercaja in the amount of €368,568; service agreement with Fundación Bancaria Ibercaja in the amount of €863,726.

The amount of profit for the year applied to dividends totalling €35,725 billion was distributed to shareholders in accordance with their interest in share capital.

D.2 List any transactions between the Company or group companies and directors or members of the governing body or company executives.

See the explanatory note. All transactions with members of the Board of Directors or executives fall within the Entity's ordinary business and have taken place under normal market conditions and are of little importance, in accordance with the criteria indicated in the explanatory note covering this section. The conditions of those financing transactions have been reported to the Bank of Spain in accordance with the provisions of 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 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 of the 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 report.

The Entity also has internal procedures to avoid the granting of loans, guarantees or other surety without the prior authorization of the competent governing bodies.

E RISK CONTROL AND 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 has 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. It must be oriented towards attaining the objectives of the strategic plan in accordance with the lines of action established therein.

Ibercaja Group also has a risk management policy and a 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 through the identification, measurement and aggregation of 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 and supervisory guidelines.

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 how the SSM performs continuous evaluations of entities.

The internal processes for evaluating the adequacy of capital and liquidity under Pillar II (known as ICAAP & ILAAP) in addition to the stress exercises organised by the European Banking Authority (EBA) and the ECB are key factor in the SREP.

Furthermore, the Ibercaja Group has a Recovery Plan, drawn up in line with the Directive for Bank Recovery and Resolution (Directive 2014/59, BRRD) and the guidelines and recommendations of the EBA that establishes the foundations for the process or restoring the Group's financial strength and viability, in the event of severe stress.

These management frameworks (RAF, ICAAP & ILAAP and the Recovery Plan) are consistent with one another, form part of the risk management processes in place and are revised and approved by the Bank's Board of Directors 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 Entity 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 Comprehensive 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.

- 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: 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: 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: 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.

E.4 State whether the entity has a risk tolerance level.

As is mentioned in section E.1, Group risk management is organised through the "Risk Appetite Framework". Ibercaja's RAF has 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. 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 a comprehensive 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 E.3.

During 2017 there have been no material events that have significantly affected the Entity's risk profile other than the class-action court proceedings regarding the refund of interest applied under floor clauses in mortgage loans. However, the amount of interest refunded during the year did not have an impact on profit for the year since provision had been made in prior years such that at 31 December 2017 these provisions total €49.38 million, which is considered to be sufficient to cover any future costs arising in the event that a court decision is unfavourable to the interests of Ibercaja Group. It is currently not possible to anticipate the outcome of this case.

Notable financial risks include the continuity of the current low interest rate scenario, which has a negative effect on margins and profitability, although the Entity's capacity to generate value in the medium and long-term is high.

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 Comprehensive 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 to exceed limits.

F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICRMS)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

F.1 Control environment at the Entity

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

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 IFRCS.

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 IFRCS.

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 Corporate Information and Management Analysis Department since it centralizes most of the activities intended to attain the adequate operation of the IFRCS.

Finally, the Audit and Compliance Committee, in accordance with the Board Regulations, has been delegated the following basic responsibilities relating to the information, internal control and financial 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. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity.**

  In accordance with the provisions of the Board regulations the Appointments Committee assists the Board with nominations, elections and the removal of directors and senior executives.

  The Organization Department at Ibercaja Banco is responsible for ensuring an efficient organizational structure at the Entity, 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, through the Talent Development Unit, 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. In turn, 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.
The process of preparing financial information is the responsibility of the Corporate Information and Management Analysis Department, which includes the General Accounting, Management Control, Management Information (SIG) and Supervisor Services and Technical Coordination units. The Corporate Information and Management Analysis 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 Corporate Information and Management Analysis 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, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

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.

- **‘Whistle-blowing’ channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organization, stating whether reports made through this channel are confidential.**

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 refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

The Entity has an annual training plan which is designed in accordance with the professional category and the department/unit to which the employee pertains. These training actions are given by external and internal personnel, both online and in a classroom setting.

It also 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 Resources Department through the Talent Development Unit, and keep records of the training given.

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 the Spanish Confederation of Savings Banks (CECA). Alerts are also received from various professional services firms providing technical updates.

The Paraninfo e-learning platform is a virtual training space housing courses and other training resources of very diverse types available to all employees and it allows training in essential areas for the development of the Bank's business. skills, products and services, financial regulations, banking business, financial platforms, etc.

The training regarding accounting, audit, internal control and risk management that has been provided throughout 2017 was particularly focused on internal training sessions at the Department level covered internal control, risk management and, in particular, 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 CECA covering specific training needs that may be identified, and they materialize in seminars or meetings with consultants or regulators.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating 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 the Corporate Information and Management Analysis Department, while supervision is the responsibility of the Audit and Compliance Committee.

- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

  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, disclosures, comparability 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.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.**

  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 defined accounting close procedures and the Preparation of the Consolidated Financial Statements, which are two of the four transversal processes at the Bank.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may 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, tax, reputational, environmental, etc.)

- **Finally, which of the entity's governing bodies is responsible for overseeing 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 2017 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

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations 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 Corporate Information and Management Analysis 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 financial statements. 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 and receivables: recognition and yields, performance and provisions.

- Payables: recognition and costs (on-demand and term accounts, including hedge accounting).

- Corporate issues of securities (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 business.

In general terms, the Corporate Information and Management Analysis 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 IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key processes regarding 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 Technological Services Unit, 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 information security measures and a policy for applying and maintaining proactive contact with the sector to obtain sufficient information regarding technological advances and regulatory compliance in the area of Information Systems Security and their application to 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 policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect 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 financial statements that are published in the stock market.

In accordance with the Board Regulations the Board cannot delegate the approval and review of outsourcing policy.

The policy currently includes supervision and review procedures for 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 IFRCS framework, in order to comply with the specifications of that system and best practices in the market.

The procedures carried out thus 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 externalize 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 externalized 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 2017 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.
- Measurement of the Ibercaja Group.

The service outsourcing policy was reviewed in 2017 by Internal Audit and its conclusions have been reported to the governing bodies.

F.4 Information and communications

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity's operating units.

The Corporate Information and Management Analysis Department, 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.

The Corporate Information and Management Analysis 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 in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

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 financial statements that are reported together with other financial information published in the market. The Corporate Information and Management Analysis 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 Corporate Information and Management Analysis 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 System Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The monitoring activities undertaken by the Audit Committee and whether the Entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the entity has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its 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 IFRCS 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 IFRCS.

The Internal Audit Operating Plan for 2017 specifically included several evaluation activities applied to the IFRCS 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 procedure for the preparation of the consolidated financial statements 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. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

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 quarterly, at which time any significant weakness that may have been detected can be reported. Any 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 Internal Audit Committee with respect to the action plans are included in the minutes that are presented to the CEO. 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 of note.

F.7 External auditor's report

Report from:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Group has submitted information regarding the "Financial Reporting Internal Control Systems" to the external auditor for review and is set out in section F of the ACGR for 2017. The scope of the auditor's review is in line with Circular E 14/2013 issued by the Audit Institute of Spain on 19 July 2013.

The resulting report will be included as an appendix to this Annual Corporate Governance Report.

G OTHER INFORMATION OF INTEREST

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company or groups companies that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the entity is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

Also state whether the entity voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, the entity will identify the Code in question and the date of adoption.

C. For the purposes established in Royal Decree-Law 18/2017, which is the transposition into Spanish law of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, amending Directive 2013/34/EU, regarding the disclosure of non-financial information and diverse city information, the Entity reports that when selecting candidates for positions on the Board of Directors it takes into account the following principles to encourage the diversity of its members:

- The candidate selection process starts with a prior analysis of the Entity's needs.

- It ensures that the number of independent directors is adequate in the context of the total number of directors, always bearing in mind regulatory requirements regarding the composition and positions to be held by this category of director on internal Board of Director committees.

- The selection criteria take into consideration the diversity of knowledge, training, professional experience, age and gender. These criteria lack any embedded biases that could give rise to any discrimination (particularly for reasons of gender, ethnic origin, age or disability).

This is all intended to encourage a diverse and balanced composition on the whole which, in addition to meeting the requirements established with respect to knowledge and experience, enrich the analysis, debate and taking of decisions.

C.1.2. Mr José Luis Aguirre Loaso was appointed Chairman on 24 February 2017 to replace Mr Amado Franco Lahoz, who resigned for personal reasons. On that same date Mr. Jesús Bueno Arrese was appointed Vice-Chairman 1 to replace Mr. José Luis Aguirre Loaso.

On 30 August 2017 shareholders at an Extraordinary General Meeting adopted a resolution to appoint Mr Luis Enrique Arrufat Guerra (external proprietary director representing) and Ms Maria Pilar Segura Bas (other external director) to the Board of Directors, after receiving a favourable report from the Appointments Committee.

C.1.5 “Fixed compensation" includes the amounts received by Directors, including life insurance premiums. "Other remuneration" indicates the compensation received by Directors for their membership on internal Board committees, other than the per diems received for attending meetings.

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. Contributions to pension funds are included. Furthermore, this section includes amounts paid as a consequence of the termination of the working relationship of the managerial personnel who were received in the redundancy programme (RP), Ms. Mª Pilar Segura Bas and Mr. Luis Fernando Allué Escobar.

C.1.8 Both the individual and consolidated financial statements, are considered to be “certified” when they are presented to the governing body with a statement signed by the persons certifying them 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**.**

Chief Executive Officer: 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.

Executive Committee: Following the changes to the bylaws made at the General Shareholders' Meeting of 29 March 2017, the Spanish name for "Executive Committee" was changed from “Comisión Ejecutiva” to “Comisión Delegada", with its powers limited to those set out in the corresponding section.

Audit and Compliance Committee: Ms. Gabriela González Bueno-Lillo was appointed Chairwoman 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 on producing the report, with respect to definitions, criteria and type of aggregation, the provisions of Order EHA/3050/2004 of 15 September on the obligatory disclosure of transactions with related parties by companies issuing shares traded on official secondary markets shall apply. As a result, transactions between group companies that have been eliminated from the consolidated financial statements 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.

ANNEX.- **External auditor's report**

Informe de auditor referido a la "Información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF)" de Ibercaja Banco, S.A. correspondiente al ejercicio 2017

Al Consejo de Administración de Ibercaja Banco, S.A.,

De acuerdo con la solicitud del Consejo de Administración de Ibercaja Banco, S.A. (en adelante, la Entidad) y con nuestra carta propuesta de fecha 12 de enero de 2018, hemos aplicado determinados procedimientos sobre la "Información relativa al SCIIF" adjunta incluida en el apartado "*F. Sistemas internos de control y gestión de riesgos en relación con el proceso de emisión de la información financiera (SCIIF)"* del Informe Anual de Gobierno Corporativo de Ibercaja Banco, S.A., correspondiente al ejercicio 2017, en el que se resumen los procedimientos de control interno de la Entidad en relación a la información financiera anual.

El Consejo de Administración es responsable de adoptar las medidas oportunas para garantizar razonablemente la implantación, mantenimiento y supervisión de un adecuado sistema de control interno así como del desarrollo de mejoras de dicho sistema y de la preparación y establecimiento del contenido de la Información relativa al SCIIF adjunta.

En este sentido, hay que tener en cuenta que, con independencia de la calidad del diseño y operatividad del sistema de control interno adoptado por la Entidad en relación a la información financiera anual, éste sólo puede permitir una seguridad razonable, pero no absoluta, en relación con los objetivos que persigue, debido a las limitaciones inherentes a todo sistema de control interno.

En el curso de nuestro trabajo de auditoría de las cuentas anuales y conforme a las Normas Técnicas de Auditoría, nuestra evaluación del control interno de la Entidad ha tenido como único propósito el permitirnos establecer el alcance, la naturaleza y el momento de realización de los procedimientos de auditoría de las cuentas anuales de la Entidad. Por consiguiente, nuestra evaluación del control interno, realizada a efectos de dicha auditoría de cuentas, no ha tenido la extensión suficiente para permitirnos emitir una opinión específica sobre la eficacia de dicho control interno sobre la información financiera anual regulada.

A los efectos de la emisión de este informe, hemos aplicado exclusivamente los procedimientos específicos descritos a continuación e indicados en la *Guía de Actuación sobre el Informe del auditor referido a la Información relativa al Sistema de Control Interno sobre la Información Financiera de las entidades cotizadas*, publicada por la Comisión Nacional del Mercado de Valores (en adelante, CNMV) en su página web, que establece el trabajo a realizar, el alcance mínimo del mismo, así como el contenido de este informe. Como el trabajo resultante de dichos procedimientos tiene, en cualquier caso, un alcance reducido y sustancialmente menor que el de una auditoría o una revisión sobre el sistema de control interno, no expresamos una opinión sobre la efectividad del mismo, ni sobre su diseño y su eficacia operativa, en relación a la información financiera anual de la Entidad correspondiente al ejercicio 2017 que se describe en la Información relativa al SCIIF adjunta. En consecuencia, si hubiéramos aplicado procedimientos adicionales a los determinados por la citada Guía o realizado una auditoría o una revisión sobre el sistema de control interno en relación a la información financiera anual regulada, se podrían haber puesto de manifiesto otros hechos o aspectos sobre los que les habríamos informado.

Asimismo, dado que este trabajo especial no constituye una auditoría de cuentas ni se encuentra sometido a la Ley de Auditoría de Cuentas, no expresamos una opinión de auditoría en los términos previstos en la citada normativa.

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Se relacionan a continuación los procedimientos aplicados:

1. Lectura y entendimiento de la información preparada por la Entidad en relación con el SCIIF – información de desglose incluida en el Informe de Gestión - y evaluación de si dicha información aborda la totalidad de la información requerida que seguirá el contenido mínimo descrito en el apartado F, relativo a la descripción del SCIIF, del modelo de IAGC según se establece en la Circular nº 7/2015 de la CNMV de fecha 22 de diciembre de 2015.

2. Preguntas al personal encargado de la elaboración de la información detallada en el punto 1 anterior con el fin de: (i) obtener un entendimiento del proceso seguido en su elaboración; (ii) obtener información que permita evaluar si la terminología utilizada se ajusta a las definiciones del marco de referencia; (iii) obtener información sobre si los procedimientos de control descritos están implantados y en funcionamiento en la Entidad.

3. Revisión de la documentación explicativa soporte de la información detallada en el punto 1 anterior, y que comprenderá, principalmente, aquella directamente puesta a disposición de los responsables de formular la información descriptiva del SCIIF. En este sentido, dicha documentación incluye informes preparados por la Función de Auditoría Interna, Alta Dirección y otros especialistas internos o externos en sus funciones de soporte a la Comisión de Auditoría y Cumplimiento.

4. Comparación de la información detallada en el punto 1 anterior con el conocimiento del SCIIF de la Entidad obtenido como resultado de la aplicación de los procedimientos realizados en el marco de los trabajos de la auditoría de cuentas anuales.

5. Lectura de actas de reuniones del Consejo de Administración, Comisión de Auditoría y Cumplimiento y otras comisiones de la Entidad a los efectos de evaluar la consistencia entre los asuntos en ellas abordados en relación al SCIIF y la información detallada en el punto 1 anterior.

6. Obtención de la carta de manifestaciones relativa al trabajo realizado adecuadamente firmada por los responsables de la preparación y formulación de la información detallada en el punto 1 anterior.

Como resultado de los procedimientos aplicados sobre la Información relativa al SCIIF no se han puesto de manifiesto inconsistencias o incidencias que puedan afectar a la misma.

Este informe ha sido preparado exclusivamente en el marco de los requerimientos establecidos por el artículo 540 del texto refundido la Ley de Sociedades de Capital y por la Circular nº 5/2013 de fecha 12 de junio de 2013 de la CNMV, modificada por la Circular nº 7/2015 de fecha 22 de diciembre de 2015, a los efectos de la descripción del SCIIF en los Informes Anuales de Gobierno Corporativo.

PricewaterhouseCoopers Auditores, S.L.

Raúl Ara Navarro

1 de marzo de 2018

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its Meeting on 1 March 2018.

List any Directors or members of the governing body that voted against, or abstained from voting on the adoption of this report.

None